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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**FORM 10-Q**

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**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended April 30, 2007

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-27022

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**OPTICAL CABLE CORPORATION**

(Exact name of registrant as specified in its charter)

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**Virginia**  
(State or other jurisdiction of  
incorporation or organization)

**54-1237042**  
(I.R.S. Employer  
Identification No.)

**5290 Concourse Drive**  
**Roanoke, Virginia 24019**  
(Address of principal executive offices, including zip code)

**(540) 265-0690**  
(Registrant's telephone number, including area code)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. (See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Act).

Large Accelerated Filer  Accelerated Filer  Non-accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of June 8, 2007, 6,203,869 shares of the registrant's Common Stock, no par value, were outstanding.

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OPTICAL CABLE CORPORATION  
Form 10-Q Index  
Six Months Ended April 30,2007

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**PART I. FINANCIAL INFORMATION**

Item 1. Financial Statements

**OPTICAL CABLE CORPORATION**  
Condensed Balance Sheets  
(Unaudited)

	April 30, 2007	October 31, 2006
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,887,996	\$ 555,272
Trade accounts receivable, net of allowance for doubtful accounts of \$158,186 at April 30, 2007 and \$238,455 at October 31, 2006	7,149,837	8,296,996
Other receivables	97,066	115,824
Inventories	7,081,446	8,614,871
Prepaid expenses and other assets	504,162	545,057
Deferred income taxes	641,088	619,047
Total current assets	17,361,595	18,747,067
Property and equipment, net	13,300,491	13,650,007
Note receivable	2,954,457	2,244,182
Other assets, net	7,577	149,853
Total assets	<u>\$ 33,624,120</u>	<u>\$ 34,791,109</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,690,900	\$ 1,999,536
Accrued compensation and payroll taxes	622,958	761,585
Income taxes payable	477,531	553,989
Note payable to bank	—	990,724
Total current liabilities	2,791,389	4,305,834
Deferred income taxes - noncurrent	73,564	50,335
Total liabilities	<u>2,864,953</u>	<u>4,356,169</u>
Shareholders' equity:		
Preferred stock, no par value, authorized 1,000,000 shares; none issued and outstanding	—	—
Common stock, no par value, authorized 50,000,000 shares; issued and outstanding 6,203,869 shares at April 30, 2007 and 6,008,016 at October 31, 2006	3,075,315	2,670,343
Retained earnings	27,683,852	27,764,597
Total shareholders' equity	30,759,167	30,434,940
Commitments and contingencies		
Total liabilities and shareholders' equity	<u>\$ 33,624,120</u>	<u>\$ 34,791,109</u>

See accompanying condensed notes to condensed financial statements.

**OPTICAL CABLE CORPORATION**  
Condensed Statements of Operations  
(Unaudited)

	Three Months Ended		Six Months Ended	
	April 30,		April 30,	
	2007	2006	2007	2006
Net sales	\$ 11,132,925	\$ 11,239,276	\$ 20,409,254	\$ 21,109,596
Cost of goods sold	7,334,288	7,838,611	13,341,392	14,412,556
Gross profit	3,798,637	3,400,665	7,067,862	6,697,040
Selling, general and administrative expenses	3,697,368	3,891,033	7,184,384	7,542,880
Income (loss) from operations	101,269	(490,368)	(116,522)	(845,840)
Other income (expense), net:				
Interest income	31,575	18,208	43,585	32,874
Interest expense	(31,491)	(5,465)	(54,323)	(5,465)
Other, net	(1,283)	(4,533)	1,917	(6,008)
Other income (expense), net	(1,199)	8,210	(8,821)	21,401
Income (loss) before income taxes	100,070	(482,158)	(125,343)	(824,439)
Income tax expense (benefit)	35,355	(172,948)	(44,598)	(295,716)
Net income (loss)	<u>\$ 64,715</u>	<u>\$ (309,210)</u>	<u>\$ (80,745)</u>	<u>\$ (528,723)</u>
Net income (loss) per share:				
Basic and diluted	<u>\$ 0.01</u>	<u>\$ (0.05)</u>	<u>\$ (0.01)</u>	<u>\$ (0.09)</u>

See accompanying condensed notes to condensed financial statements.

**OPTICAL CABLE CORPORATION**  
Condensed Statement of Shareholders' Equity  
(Unaudited)

	Six Months Ended April 30, 2007			Total Shareholders' Equity
	Common Stock		Retained Earnings	
	Shares	Amount		
Balances at October 31, 2006	6,008,016	\$ 2,670,343	\$ 27,764,597	\$ 30,434,940
Share-based compensation, net	194,521	398,472	—	398,472
Exercise of warrants (\$4.88 per share)	1,332	6,500	—	6,500
Net loss	—	—	(80,745)	(80,745)
Balances at April 30, 2007	<u>6,203,869</u>	<u>\$ 3,075,315</u>	<u>\$ 27,683,852</u>	<u>\$ 30,759,167</u>

See accompanying condensed notes to condensed financial statements.

**OPTICAL CABLE CORPORATION**  
Condensed Statements of Cash Flows  
(Unaudited)

	Six Months Ended	
	April 30,	
	2007	2006
Cash flows from operating activities:		
Net loss	\$ (80,745)	\$ (528,723)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	787,165	624,357
Bad debt recovery	(65,830)	(6,925)
Deferred income tax expense (benefit)	1,188	(225,426)
Share-based compensation expense	398,472	314,198
Loss on disposal of machinery and equipment	1,151	—
(Increase) decrease in:		
Trade accounts receivable	1,117,714	27,586
Other receivables	18,758	(155,374)
Inventories	1,533,425	(1,553,027)
Prepaid expenses and other assets	(11,746)	(15,230)
Other assets, net	136,376	140,051
Increase (decrease) in:		
Accounts payable and accrued expenses	(301,746)	753,055
Accrued compensation and payroll taxes	(138,627)	(1,301,689)
Income taxes payable	(76,458)	(72,989)
Net cash provided by (used in) operating activities	<u>3,319,097</u>	<u>(2,000,136)</u>
Cash flows from investing activities:		
Purchase of and deposits for the purchase of property and equipment	(387,149)	(1,162,445)
Investment in other assets	—	(32,355)
Note receivable	(615,000)	(500,000)
Net cash used in investing activities	<u>(1,002,149)</u>	<u>(1,694,800)</u>
Cash flows from financing activities:		
Proceeds from note payable to bank, net	—	426,832
Repayment of note payable to bank	(990,724)	—
Payments for financing costs	—	(21,728)
Proceeds from exercise of warrants	6,500	2,268
Net cash provided by (used in) financing activities	<u>(984,224)</u>	<u>407,372</u>
Net increase (decrease) in cash and cash equivalents	1,332,724	(3,287,564)
Cash and cash equivalents at beginning of period	555,272	3,290,133
Cash and cash equivalents at end of period	<u>\$ 1,887,996</u>	<u>\$ 2,569</u>

See accompanying condensed notes to condensed financial statements.

**OPTICAL CABLE CORPORATION**

Condensed Notes to Condensed Financial Statements

Three Months and Six Months Ended April 30, 2007

(Unaudited)

**(1) General**

The accompanying unaudited condensed financial statements of Optical Cable Corporation (the "Company") have been prepared in accordance with U.S. generally accepted accounting principles for interim financial reporting information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all material adjustments considered necessary for a fair presentation have been included. Operating results for the six months ended April 30, 2007 are not necessarily indicative of the results for the fiscal year ending October 31, 2007 because the following items, among other things, may impact those results: changes in market conditions, seasonality, changes in technology, competitive conditions, ability of management to execute its business plans, as well as other variables and contingencies set forth as risks in the Company's Annual Report on Form 10-K for the fiscal year ended October 31, 2006 or as otherwise identified in other filings by the Company as risks possibly affecting future results. The unaudited condensed financial statements and condensed notes are presented as permitted by Form 10-Q and do not contain certain information included in the Company's annual financial statements and notes. For further information, refer to the financial statements and notes thereto included in the Company's annual report on Form 10-K for the fiscal year ended October 31, 2006.

**(2) Stock Option Plan and Other Stock-Based Compensation**

Optical Cable Corporation uses stock incentives to increase the personal financial interest key employees have in the future success of the Company, thereby aligning their interests with those of the shareholders and strengthening their desire to remain with the Company.

The Company authorized, reserved and registered 750,000 shares of common stock for issuance pursuant to the Optical Cable Corporation 1996 Stock Incentive Plan (the "1996 Plan"). The 1996 Plan terminated in accordance with the terms of the plan document on March 1, 2006. Options outstanding under the 1996 Plan may continue to be exercised until such time that the options expire or are forfeited under the terms of individual awards. Restricted stock awards granted under the 1996 Plan will continue to vest unless otherwise forfeited under the terms of individual awards. No further awards will be made under the 1996 Plan.

In March of 2005, the Company's shareholders approved the Optical Cable Corporation 2005 Stock Incentive Plan (the "2005 Plan"). The 2005 Plan is the successor of the 1996 Plan. The Company has authorized, reserved and registered 1,000,000 shares of common stock for issuance pursuant to the 2005 Plan. As of April 30, 2007, there were approximately 585,000 remaining shares available for grant under the 2005 Plan.

Share-based compensation expense (including the expense for both stock option awards granted prior to July 2002 and restricted stock awards) recognized in the condensed statements of operations for the three months and six months ended April 30, 2007 and 2006 was as follows:

	Three Months Ended April 30,		Six Months Ended April 30,	
	2007	2006	2007	2006
Share-based compensation expense	\$ 250,511	195,728	\$ 452,325	\$ 325,645
Less income tax benefit	90,184	70,462	162,837	117,232
Share-based compensation expense, net	<u>\$ 160,327</u>	<u>\$ 125,266</u>	<u>\$ 289,488</u>	<u>\$ 208,413</u>

**OPTICAL CABLE CORPORATION**

Condensed Notes to Condensed Financial Statements

Three Months and Six Months Ended April 30, 2007

(Unaudited)

The estimated fair value of the Company's share-based awards, less estimated forfeitures, is amortized over the awards' vesting period on a straight-line basis.

Under the 1996 Plan, employees and outside contractors were issued options to purchase common stock, all of which were issued prior to July 2002. The exercise price equaled the market price of the Company's common stock on the date of grant. Options issued under the 1996 Plan generally vest incrementally over one to five years, and remain exercisable for ten years from the date of grant.

During 2002, non-employee members of the Company's Board of Directors were granted options to purchase a total of 3,123 shares of the Company's common stock at an exercise price of \$7.12 per share, the closing price at the date of grant. These options were not granted pursuant to a plan. Options issued to non-employee directors vested monthly over one year.

The fair value of options granted prior to November 1, 2005 was estimated using the Black-Scholes option pricing model and the assumptions noted in the table below. Expected volatility was based on historical volatility of the Company's stock over a period at least as long as the options' expected term. The expected term represents the period of time that the options granted are expected to be outstanding based on the simplified method provided in Staff Accounting Bulletin No. 107 ("SAB 107"), which averages an award's weighted average vesting period and its contractual term for 'plain vanilla' share options. The risk-free rate is based on the available zero-coupon U.S. Treasury instruments with remaining terms equal to the expected term of the share options.

**Stock Options Assumptions**

Volatility	80.88%
Dividend yields	—
Expected Term (in years)	3.96 - 6.31
Risk-free rate	5.14% - 5.58%



**OPTICAL CABLE CORPORATION**

Condensed Notes to Condensed Financial Statements

Three Months and Six Months Ended April 30, 2007

(Unaudited)

Stock option activity during the six months ended April 30, 2007 is as follows:

	Number of options	Weighted- average exercise price	Weighted- average remaining contractual term (in yrs)
Outstanding at October 31, 2006	235,589	\$ 7.68	5.27
Forfeited	(9,878)	\$ 7.20	—
Outstanding at April 30, 2007	<u>225,711</u>	\$ 7.70	4.77
Exercisable at April 30, 2007	<u>225,711</u>	\$ 7.70	4.77

Aggregate intrinsic value of options outstanding and options exercisable at April 30, 2007 was \$3,150. Aggregate intrinsic value represents the positive difference between the Company's closing stock price on the last trading day of the fiscal period, which was \$5.27 as of April 30, 2007, and the exercise price multiplied by the number of options outstanding.

As of April 30, 2007, all compensation cost related to stock options granted to employees prior to July 2002 under the 1996 Plan has been recognized. As of April 30, 2007, the maximum amount of compensation cost related to unvested equity-based compensation awards in the form of service-based, market-condition based, and operational performance-based shares that the Company will have to recognize over a 3.2 year weighted-average period is \$2.4 million.

The Company had granted restricted stock awards under the 1996 Plan. A portion of the restricted stock awards granted under the 1996 Plan vest based on the passage of time and the remainder vest over time if certain performance criteria are met. The Company records compensation expense ratably over the vesting periods equal to the number of shares multiplied by the closing price of the Company's common stock on the date of grant. The Compensation Committee of the Board of Directors approved restricted stock awards under the 1996 Plan in December 2004 and 2003 in the amount of 191,000 and 149,000 shares, respectively.

The Company has granted, and anticipates granting from time to time, restricted stock awards under the 2005 Plan pursuant to approval by the Compensation Committee of the Board of Directors. A portion of the restricted stock awards granted under the 2005 Plan vest based on the passage of time and the remainder vest over time if certain market condition-based or operational performance-based criteria are met. Failure to meet the criteria required for vesting—whether for the market condition-based shares or for the operational performance-based shares—will result in a portion or all of the shares being forfeited. The Company recognizes expense on the service-based and market condition-based shares each quarter based on the actual number of shares vested during the quarter multiplied by the grant date fair value. The Company recognizes expense on the operational performance-based shares each quarter using an estimate of the shares expected to vest multiplied by the closing price of the Company's common stock on the date of grant. U.S. generally accepted accounting principles requires that any previously recognized compensation cost shall not be reversed if the shares are forfeited as a result of not meeting the market condition.

**OPTICAL CABLE CORPORATION**

Condensed Notes to Condensed Financial Statements

Three Months and Six Months Ended April 30, 2007

(Unaudited)

The Compensation Committee of the Board of Directors approved restricted stock awards under the 2005 Plan in January 2006, July 2006, and April 2007 in the amount of 220,000, 10,000 and 191,071 shares, respectively.

On April 2, 2007, restricted stock awards under the 2005 Plan totaling 191,071 shares were approved by the Compensation Committee of the Board of Directors of the Company. Of the restricted stock awards granted, 95,540 shares are service-based shares which vest quarterly over four years with the first vesting date occurring on July 31, 2007; and 95,531 shares are operational performance-based shares vesting over approximately three years beginning on January 31, 2008 based on the achievement of certain operational performance goals.

The Company recorded compensation expense related to its restricted stock awards totaling \$176,645 and \$351,101, respectively, during the three months and six months ended April 30, 2007 and \$152,085 and \$261,241, respectively, during the three months and six months ended April 30, 2006.

During the three months ended April 30, 2007, restricted stock awards under the Non-employee Directors Stock Plan, as amended, totaling 13,764 shares were approved by the Board of Directors of the Company. The shares are part of the non-employee Directors' annual compensation for service on the Board of Directors, and the shares vested immediately upon grant. The Company recorded compensation expense equal to the number of shares multiplied by the closing price of the Company's common stock on the date of grant. The Company recorded compensation expense totaling \$72,261 during the three months and six months ended April 30, 2007.

In total, restricted stock award activity during the six months ended April 30, 2007 consisted of restricted share grants totaling 204,835 shares, and 10,314 restricted shares withheld for taxes.

**(3) Allowance for Doubtful Accounts for Trade Accounts Receivable**

Trade accounts receivable are recorded at the invoiced amount and do not typically bear interest. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. The Company reviews outstanding trade accounts receivable at the end of each quarter and records allowances for doubtful accounts as deemed appropriate for (i) certain individual customers and (ii) for all other trade accounts receivable in total. In determining the amount of allowance for doubtful accounts to be recorded for individual customers, the Company considers the age of the receivable, the financial stability of the customer, discussions that may have occurred with the customer and management's judgment as to the overall collectibility of the receivable from that customer. In addition, the Company establishes an allowance for all other receivables for which no specific allowances are deemed necessary. This portion of the allowance for doubtful accounts is based on a percentage of total trade accounts receivable with different percentages used based on different age categories of receivables. The percentages used are based on the Company's historical experience and management's current judgment regarding the state of the economy and the industry. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance-sheet credit exposure related to its customers. Also see note 11.

**OPTICAL CABLE CORPORATION**

Condensed Notes to Condensed Financial Statements

Three Months and Six Months Ended April 30, 2007

(Unaudited)

A summary of changes in the allowance for doubtful accounts for trade accounts receivable for the six months ended April 30, 2007 and 2006 follows:

	Six Months Ended April 30,	
	2007	2006
Balance at beginning of period	\$ 238,455	\$ 454,550
Bad debt expense (recovery)	(65,830)	(6,925)
Losses charged to allowance	(16,440)	—
Recoveries added to allowance	2,001	2,261
Balance at end of period	<u>\$ 158,186</u>	<u>\$ 449,886</u>

A prior distributor for the Company filed for protection from its creditors under bankruptcy laws in January 2001. The Company recognized recoveries totaling \$20,400 from the bankrupt estate of this prior distributor during the year ended October 31, 2006 and may recover additional amounts in the future. Subsequent recoveries, if any, from the bankrupt estate of this distributor will be recognized when payment is received, in accordance with U.S. generally accepted accounting principles.

**(4) Inventories**

Inventories as of April 30, 2007 and October 31, 2006 consist of the following:

	April 30, 2007	October 31, 2006
Finished goods	\$ 2,692,652	\$ 3,604,021
Work in process	1,574,318	1,583,952
Raw materials	2,551,411	3,248,907
Production supplies	263,065	177,991
Total	<u>\$ 7,081,446</u>	<u>\$ 8,614,871</u>

**(5) Note Receivable**

On April 22, 2005, the Company agreed to extend a loan to a start-up connector company, Applied Optical Systems, Inc. (the "Borrower"), specializing in the design, manufacture and sale of connectors and cable assemblies for certain niche markets. The Borrower offers complementary products to the Company's product offering and is still in the development stage. As a development stage company, the Borrower currently has limited revenues and assets and is incurring net losses. As of April 30, 2007, total assets of the Borrower, based on unaudited financial information, was equivalent to approximately 5.2% of the Company's total assets. Total revenue of the Borrower, based on unaudited financial information, was equivalent to approximately 4.7% and 6.9%, respectively, of the Company's net sales for the three month and the six month periods ended April 30, 2007.

This loan, and the related transactions described further herein, is part of a strategy designed to provide the Company with an option to expand its product line offering in certain market niches in which the Company currently sells its fiber optic cable products and to preserve channels to market for the Company's existing product line offering in those market niches over the longer term.

**OPTICAL CABLE CORPORATION**

Condensed Notes to Condensed Financial Statements

Three Months and Six Months Ended April 30, 2007

(Unaudited)

Through April 30, 2007, the Company had advanced a total of \$3,012,159, net (including some accrued interest and accounts receivable from certain product sales) to the Borrower. The note receivable, which matures July 31, 2008, is collateralized by all of the Borrower's tangible and intangible property and bears interest at six percent (6%) per annum. Two of the founders of the Borrower have also personally guaranteed amounts up to two-thirds of the principal balance outstanding on the note receivable plus two-thirds of any accrued interest related to the note receivable. In connection with the loan, the Company was issued a warrant by the Borrower which, as amended, gives the Company the right to purchase a fifty-six percent (56%) equity interest in the Borrower on a fully diluted, as converted basis, for a purchase price of \$1,500,000. In addition, the Company was granted the right to purchase all other outstanding equity of the Borrower at various times from 2009 through 2012, at a fixed multiple of trailing earnings before interest and taxes (EBIT), conditioned upon the Company's exercise of the warrant or the Borrower's failure to repay the loan when due. The note receivable is callable by the Company at any time. The Company's rights under the warrant terminate if the warrant is not exercised prior to the expiration date. Subsequent to April 30, 2007, the Company made additional advances to the Borrower totaling \$225,000.

The Company sold fiber optic cables to the Borrower totaling \$18,764 and \$120,654 during the three and six months ended April 30, 2007, respectively. During the three months ended April 30, 2007, the Borrower sold product to the Company totaling \$76,000. The Company has included \$95,275 related to the sale of product to the Borrower in note receivable in the accompanying condensed balance sheet as of April 30, 2007.

The Company recorded interest income related to the loan totaling \$32,874 during fiscal year 2006, all of which is included in note receivable in the accompanying condensed balance sheet as of April 30, 2007.

**(6) Product Warranties**

The Company generally warrants its products against certain manufacturing and other defects in material and workmanship. These product warranties are provided for specific periods of time and are applicable assuming the product has not been subjected to misuse, improper installation, negligence, or shipping damage. As of April 30, 2007 and October 31, 2006, the Company's accrual for estimated product warranty claims totaled \$50,000 and \$75,000, respectively, and is included in accounts payable and accrued expenses. Warranty claims expense includes the costs to investigate claims and potential claims, and the costs to replace and/or repair product pursuant to claims, which in certain cases can include claims not deemed valid by the Company. The accrued product warranty costs are based primarily on historical experience of actual warranty claims and costs as well as current information with respect to potential warranty claims and costs. Warranty claims expense, net of recoveries for the three months and six months ended April 30, 2007 totaled \$52,529 and \$36,743, respectively. Warranty claims expense for the three months and six months ended April 30, 2006 totaled \$38,352 and \$67,100, respectively.

The following table summarizes the changes in the Company's accrual for product warranties during the six months ended April 30, 2007 and 2006:

	Six Months Ended	
	April 30,	
	2007	2006
Balance at beginning of period	\$ 75,000	\$ 100,000
Liability accrued for warranties issued during the period	53,812	80,103
Warranty claims and costs paid during the period	(61,743)	(42,100)
Changes in liability for pre-existing warranties during the period	(17,069)	(13,003)
Balance at end of period	<u>\$ 50,000</u>	<u>\$ 125,000</u>

**OPTICAL CABLE CORPORATION**

Condensed Notes to Condensed Financial Statements

Three Months and Six Months Ended April 30, 2007

(Unaudited)

**(7) Warrants**

During fiscal year 2003, the Company issued 250,000 warrants to class members defined in a consolidated class action lawsuit by the claims administrator for the class members in connection with shareholder litigation arising from actions of the Company's former chief executive officer. The warrants were issued in accordance with a settlement agreement approved by the United States District Court for the Western District of Virginia on September 23, 2002. Each warrant entitles the holder to purchase one share of the Company's common stock at an exercise price of \$4.88 per share. The warrants will expire October 24, 2007. The total number of warrants to be issued in accordance with the settlement agreement, 250,000 warrants, has been issued by the Company. There were 232,873 and 234,205 warrants outstanding as of April 30, 2007 and October 31, 2006, respectively. During the six months ended April 30, 2007, 1,332 warrants were exercised.

**(8) Note Payable to Bank**

*New Credit Facility*

On September 25, 2006, the Company established revolving credit facilities with Valley Bank. The credit facilities with Valley Bank provide a working capital line of credit (the "Working Capital Facility"), a machinery and equipment line of credit (the "Machinery and Equipment Facility"), and a real estate term loan (the "Real Estate Loan"), which together replaced the Company's former credit facility with Wachovia Bank, National Association ("Wachovia"). The Working Capital Facility, the Machinery and Equipment Facility and the Real Estate Loan together provide the Company with an aggregate maximum of \$13.5 million in available credit, less any borrowings. As of April 30, 2007, the Company had approximately \$12.4 million of unused and available credit, after considering borrowing base calculations.

The Working Capital Facility provides up to \$5 million for the Company's working capital needs and bears interest at LIBOR plus 2.15%, which equates to a facility rate of 7.47% as of April 30, 2007. The Working Capital Facility provides a lower interest rate option if the Company maintains specified depository limits with Valley Bank. The Company can borrow up to 85% of the Company's eligible accounts receivable under the Working Capital Facility. As of April 30, 2007, the Company had no outstanding borrowings under the Working Capital Facility.

The Machinery and Equipment Facility provides up to \$2 million for machinery and equipment purchases and also bears interest at LIBOR plus 2.15%, which equates to a facility rate of 7.47% as of April 30, 2007. Both the Machinery and Equipment Facility and the Working Capital Facility are secured by the Company's accounts receivable, inventory, furniture, fixtures and equipment

**OPTICAL CABLE CORPORATION**

Condensed Notes to Condensed Financial Statements

Three Months and Six Months Ended April 30, 2007

(Unaudited)

and proceeds and are payable on demand with 60 days prior written notice, provided that the Company is not in default. If not sooner demanded, the Working Capital Facility and the Machinery and Equipment Facility expire on February 28, 2008. As of April 30, 2007, the Company had no outstanding borrowings under the Machinery and Equipment Facility.

The Company may also borrow up to \$6.5 million under the terms of the Real Estate Loan. The advances under the Real Estate Loan may be made at any time within one year of closing. Furthermore, to the extent the Company has borrowings under the Real Estate Loan, principal and interest payments will be calculated monthly, based on a 25 year amortization. The unpaid balance, if any, on any advances under the Real Estate Loan will be due October 1, 2011. Payments on the Real Estate Loan will be for interest only for the period from November 1, 2006 through October 1, 2007. Thereafter, through October 1, 2011 payments of both principal and interest will be due monthly. The Real Estate Loan bears interest at a fixed rate of 7.50% for 5 years and is secured by a first deed of trust on the Company's real property. As of April 30, 2007, the Company had no outstanding borrowings under the Real Estate Loan.

In connection with obtaining the Valley Bank credit facilities, the Company incurred various costs. These financing costs, net of amortization, were deferred and are included in prepaid expenses and other assets on the condensed balance sheet. The deferred financing costs associated with the new credit facilities with Valley Bank are being amortized to interest expense using the straight-line method, which approximates the effective interest method, over periods not greater than the minimum expected terms of the loan agreements. The deferred financing costs, net as of April 30, 2007 and October 31, 2006 totaled \$40,751 and \$93,062, respectively, and are included in prepaid expense and other assets on the accompanying condensed balance sheets.

*Former Credit Facility*

Prior to September 25, 2006, the Company had a revolving credit facility with Wachovia. The initial term of the Wachovia loan agreement expired in April 2005 and was automatically extended through April 2006 pursuant to the terms of the original agreement. Effective March 31, 2006, the Company and Wachovia agreed to amend and restate the terms of the financing, extending the Wachovia loan agreement until April 17, 2008. However, the Company terminated its credit facility with Wachovia early in conjunction with the establishment of the Company's new credit facilities with Valley Bank. The Wachovia credit facility bore interest at one-half of one percent (0.50%) per annum above the prime rate.

**(9) Net Income (Loss) Per Share**

Basic net income (loss) per share excludes dilution and is computed by dividing net income (loss) available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted net income (loss) per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the net income (loss) of the Company.

**OPTICAL CABLE CORPORATION**

Condensed Notes to Condensed Financial Statements

Three Months and Six Months Ended April 30, 2007

(Unaudited)

The following is a reconciliation of the numerators and denominators of the net income (loss) per share computations for the periods presented:

	<u>Net Income (Numerator)</u>	<u>Shares (Denominator)</u>	<u>Per Share Amount</u>
<b>Three Months Ended April 30, 2007</b>			
Basic net income per share	\$ 64,715	6,066,511	\$ 0.01
Effect of dilutive stock options and warrants	—	19,019	
Diluted net income per share	<u>\$ 64,715</u>	<u>6,085,530</u>	<u>\$ 0.01</u>
<b>Three Months Ended April 30, 2006</b>			
Basic net loss per share	<u>\$(309,210)</u>	<u>5,999,462</u>	<u>\$(0.05)</u>
Effect of dilutive stock options and warrants	—	—	
Diluted net loss per share	<u>\$(309,210)</u>	<u>5,999,462</u>	<u>\$(0.05)</u>
<b>Six Months Ended April 30, 2007</b>			
Basic net loss per share	<u>\$(80,745)</u>	<u>6,036,778</u>	<u>\$(0.01)</u>
Effect of dilutive stock options and warrants	—	—	
Diluted net loss per share	<u>\$(80,745)</u>	<u>6,036,778</u>	<u>\$(0.01)</u>
<b>Six Months Ended April 30, 2006</b>			
Basic net loss per share	<u>\$(528,723)</u>	<u>5,902,220</u>	<u>\$(0.09)</u>
Effect of dilutive stock options and warrants	—	—	
Diluted net loss per share	<u>\$(528,723)</u>	<u>5,902,220</u>	<u>\$(0.09)</u>

Otherwise dilutive securities, including stock options and warrants, to acquire approximately 7,704 shares net of assumed proceeds based on exercise price, and with an exercise price less than the stock price as of the six months ended April 30, 2007, were excluded from the computation of diluted net loss per share for the six months ended April 30, 2007 because their effect would have been antidilutive.

Stock options that could potentially dilute net income (loss) per share in the future that were not included in the computation of diluted net income (loss) per share (because to do so would have been antidilutive for the periods presented) totaled 220,712 for the three months and six months ended April 30, 2007 and 237,778 for the three months and six months ended April 30, 2006.

**(10) Shareholders' Equity**

On March 26, 2007, the Company's Board of Directors approved a plan to purchase and retire up to 300,100 shares of the Company's common stock, or approximately 5% of the shares then outstanding. The Company anticipates that the purchases will be made over a 12-month period. No shares had been repurchased as of April 30, 2007.

**OPTICAL CABLE CORPORATION**

Condensed Notes to Condensed Financial Statements

Three Months and Six Months Ended April 30, 2007

(Unaudited)

**(11) Segment Information and Business and Credit Concentrations**

The Company has a single reportable segment for purposes of segment reporting.

The Company provides credit, in the normal course of business, to various commercial enterprises, governmental entities and not-for-profit organizations. Concentration of credit risk with respect to trade receivables is limited due to the Company's large number of customers. The Company also manages exposure to credit risk through credit approvals, credit limits and monitoring procedures. Management believes that credit risks as of April 30, 2007 and October 31, 2006 have been adequately provided for in the condensed financial statements.

For the three months ended April 30, 2007 and 2006, 10.3% and 17.2%, respectively, of net sales were attributable to one major domestic distributor. For the six months ended April 30, 2007 and 2006, 12.0% and 16.2% of net sales were attributable to this distributor. One other single customer accounted for 10% of net sales during the three months ended April 30, 2007, but no other single customer accounted for more than 10% of net sales during three months ended April 30, 2006 or the six months ended April 30, 2007 and 2006. For the six months ended April 30, 2007 and 2006, approximately 72% and 76%, respectively, of net sales were from customers located in the United States, and approximately 28% and 24%, respectively, were from customers outside of the United States.

**(12) Contingencies**

From time to time, the Company is involved in various claims, legal actions and regulatory reviews arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's financial position, results of operations or liquidity.

**(13) New Accounting Standards**

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections*, which replaces APB Opinion No. 20 *Accounting Changes* and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements—An Amendment of APB Opinion No. 28*. SFAS No. 154 requires retrospective application to prior periods' financial statements of a voluntary change in accounting principal unless it is not practicable. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of SFAS No. 154 did not have any effect on the Company's financial position, results of operations or liquidity.

In September 2006, the Securities and Exchange Commission ("SEC") released Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* ("SAB 108"). SAB 108 provides interpretive guidance on the SEC's views on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The provisions of SAB 108 are effective for financial statements issued for fiscal years ending after November 15, 2006. The adoption of this interpretation did not have any effect on the Company's financial position, results of operations or liquidity.



**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**Forward Looking Information**

This Form 10-Q may contain certain forward-looking information within the meaning of the federal securities laws. The forward-looking information may include, among other information, (i) statements concerning our outlook for the future, (ii) statements of belief, anticipation or expectation, (iii) future plans, strategies or anticipated events, and (iv) similar information and statements concerning matters that are not historical facts. Such forward-looking information is subject to risks and uncertainties that may cause actual events to differ materially from our expectations. Factors that could cause or contribute to such differences include, but are not limited to, the level of sales to key customers, including distributors; timing of certain projects and purchases by key customers; the economic conditions affecting network service providers; corporate and/or government spending on information technology; actions by competitors; fluctuations in the price of raw materials (including optical fiber); our dependence on a single manufacturing facility; our ability to protect our proprietary manufacturing technology; market conditions influencing prices or pricing; our dependence on a limited number of suppliers; the loss of or conflict with one or more key suppliers or customers; an adverse outcome in litigation, claims and other actions, and potential litigation, claims and other actions against us; an adverse outcome in regulatory reviews and audits and potential regulatory reviews and audits; adverse changes in state tax laws and/or positions taken by state taxing authorities affecting us; technological changes and introductions of new competing products; changes in end-user preferences of competing technologies, including copper cable and wireless, relative to fiber optic cable; economic conditions that affect the telecommunications sector, certain technology sectors or the economy as a whole; terrorist attacks or acts of war, and any current or potential future military conflicts; changes in the level of military spending by the United States government; ability to retain key personnel; the impact of changes in accounting policies, including those by the Securities and Exchange Commission and the Public Company Accounting Oversight Board; our ability to successfully comply with, and the cost of compliance with, the provisions of Section 404 of the Sarbanes-Oxley Act of 2002 or any revisions to that act which apply to us; impact of future consolidation among competitors and/or among customers adversely affecting our position with our customers and/or our market position; actions by customers adversely affecting us in reaction to the expansion of our product offering in any manner, including, but not limited to, by offering products that compete with our customers, and/or by entering into alliances with, and/or making investments in or with, parties that compete with and/or have conflicts with customers of ours; adverse reactions by customers, vendors or other service providers to unsolicited proposals regarding the acquisition of us by another company; the additional costs of considering and possibly defending our position on such unsolicited proposals regarding the acquisition of us by another company; impact of weather or natural disasters in the areas of the world in which we operate and market our products; changes in market demand, exchange rates, productivity, or market and economic conditions in the areas of the world in which we operate and market our products, and our success in managing the risks involved in the foregoing.

We caution readers that the foregoing list of important factors is not exclusive. We incorporate by reference those factors included in current reports on Form 8-K and in our annual reports on Form 10-K. We also incorporate by reference the disclosures set forth in Part II, Item 1A. of this Form 10-Q.

Dollar amounts presented in the following discussion have been rounded to the nearest hundred thousand, unless the amounts are less than one million, in which case the amounts have been rounded to the nearest thousand.

**Summary of Company Performance for Second Quarter 2007**

During the second quarter of our 2007 fiscal year, net sales decreased slightly to \$11.1 million compared to \$11.2 million during the same period last year. However, net sales sequentially increased \$1.9 million or 20.0% during the second quarter when compared to the first quarter of fiscal year 2007. At the same time, gross profit margin, or gross profit as a percentage of net sales, increased to 34.1% during the second quarter of fiscal year 2007 compared to 30.3% during the same period last year. We reported net income of \$65,000 during the second quarter of fiscal year 2007, compared to a net loss of \$309,000 for the comparable period last year.

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For the six months ended April 30, 2007, net sales decreased 3.3% to \$20.4 million compared to \$21.1 million for the same period last year. Gross profit margin increased to 34.6% compared to 31.7% for the same period last year. We reported a net loss of \$81,000 during the first half of fiscal year 2007 compared to a net loss of \$529,000 for the same period last year.

We believe that the benefits of the investments made in our systems, processes and facilities are beginning to be realized and that these investments have helped position us for future growth and increases in shareholder value. By the end of the second quarter, we had transitioned from dual processing of certain transactions on separate systems to exclusively using our new enterprise resource planning (“ERP”) system. During the first half of fiscal year 2007, our manufacturing lead times decreased and our manufacturing efficiencies increased compared to the first half of 2006. We experienced improved gross profit margins compared to the comparable period last year. We have also been able to reduce levels of certain inventories. We believe these improvements are in part the result of the successful implementation of the major portions of our new ERP system, as well as, overcoming certain ERP implementation challenges during the first half of fiscal year 2006.

Our focus for the remainder of fiscal year 2007 is on increasing net sales. We believe our investments in systems, processes and facilities have made our business more scalable, positioning us to support increased net sales levels. We also expect our efforts on key strategic initiatives to continue during the second half of fiscal year 2007.

### **Overview of Optical Cable Corporation**

We are a leading manufacturer of fiber optic cables primarily sold into the enterprise market, and the premier manufacturer of military ground tactical fiber optic cable for the U.S. military.

Founded in 1983, Optical Cable Corporation pioneered the design and production of fiber optic cables for the most demanding military field applications, as well as of fiber optic cables suitable for both indoor and outdoor use. Our current broad product offering is built on the evolution of these fundamental technologies, and is designed to provide end-users with fiber optic cables that are easy and economical to install, provide a high degree of reliability and offer outstanding performance characteristics.

We sell our products worldwide for uses ranging from commercial and campus installations to customized products for specialty applications and harsh environments, including military applications. We manufacture our high quality fiber optic cables at our ISO 9001:2000 registered and MIL-STD-790F certified facility located in Roanoke, Virginia.

Our tight-buffered fiber optic cables are used for high bandwidth transmission of data, video and audio communications. The enterprise market into which we sell includes local area network and premises markets. Our fiber optic cables are well-suited for use in various other short- to moderate-distance applications as well.

We sell our products internationally and domestically through our sales force to our customers, which include major distributors, regional distributors, various smaller distributors, original equipment manufacturers and value-added resellers. Net sales to customers located outside of the United States were 28% and 24% for the three months ended April 30, 2007 and 2006, respectively. Net sales to customers located outside of the United States were 28% and 24% of total net sales for the six months ended April 30, 2007 and 2006, respectively. Substantially all of our sales to customers located outside of the United States are denominated in U.S. dollars. We can experience fluctuations in the percentage of net sales to customers outside of the United States from period to period based on the timing of large orders, coupled with the impact of increases and decreases in sales to customers located in the United States.

Net sales consist of gross sales of products less discounts, refunds and returns. Revenue is recognized at the time of product shipment or delivery to the customer (including distributors) provided that the customer takes ownership and assumes risk of loss, based on shipping terms. During the second quarters of fiscal years 2007 and 2006, respectively, 10.3% and 17.2% of our net sales were attributable to one major domestic distributor. For the six months ended April 30, 2007 and 2006, 12.0% and 16.2%, respectively, of

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net sales were attributable to this distributor. One other single customer accounted for 10.0% of our net sales during the three months ended April 30, 2007, but no other single customer accounted for more than 10% of net sales during the three months ended April 30, 2006 or the six months ended April 30, 2007 and 2006.

A significant percentage of the selling price of our fiber optic cable is based on the cost of raw materials used. Single-mode fiber is less expensive than multimode fiber, and consequently single-mode fiber optic cables have a lower per unit selling price than comparable multimode fiber optic cables. We believe that while the long-haul, metropolitan, access and fiber-to-the-premises (FTTX) markets are predominantly the users of single-mode fiber optic cable, increasingly, single-mode fiber optic cable is also being used for short- to moderate-distance installations where higher bandwidth is required. However, any trend toward the use of single-mode fiber optic cables in such short- to moderate-distance installations may be slowed to the extent that 50 micron 10 gigabit multimode fiber optic cables are used to satisfy current bandwidth demands. To the extent that our sales mix shifts toward single-mode cables, we will have to increase the volume of product sold to maintain our current level of net sales.

Cable containing multimode fiber is generally used for communications over shorter distances where the higher bandwidth capacity and the higher transmission equipment cost of single-mode fiber is not required. Cable containing single-mode fiber is generally used for communications over longer distances and where higher bandwidth capacity is required.

Cost of goods sold consists of the cost of materials, product warranty costs and compensation costs, and overhead and other costs related to our manufacturing operations. The largest percentage of costs included in cost of goods sold is attributable to costs of materials.

Selling, general and administrative expenses ("SG&A expenses") consist of the compensation costs for sales and marketing personnel, shipping costs, trade show expenses, customer support expenses, travel expenses, advertising, bad debt expense, the compensation costs for administration and management personnel, legal and accounting fees, costs incurred to settle litigation or claims and other actions against us, and other costs associated with our operations.

Other income (expense), net consists of interest income, interest expense and other miscellaneous income and expense items not directly attributable to our operations.

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### Results of Operations

The following table sets forth and highlights fluctuations in selected line items from our condensed statements of operations for the periods indicated:

	Three Months Ended April 30,		Percent Change	Six Months Ended April 30,		Percent Change
	2007	2006		2007	2006	
Net sales	11,133,000	11,239,000	(0.9)%	20,409,000	21,110,000	(3.3)%
Gross profit	3,799,000	3,401,000	11.7%	7,068,000	6,697,000	5.5%
SG&A expenses	3,697,000	3,891,000	(5.0)%	7,184,000	7,543,000	(4.8)%
Net income (loss)	65,000	(309,000)	120.9%	(81,000)	(529,000)	84.7%

#### Three Months Ended April 30, 2007 and 2006

##### *Net Sales*

Net sales decreased 0.9% to \$11.1 million for the second quarter of fiscal year 2007 from \$11.2 million for the same period in 2006. Sequentially, net sales for the second quarter of fiscal 2007 increased 20.0% compared to net sales of \$9.3 million during the first quarter of fiscal 2007. Net sales to customers located outside of the United States continued to show substantial strength in the second quarter of fiscal year 2007, increasing 17.6% compared to the same period last year, while net sales to customers located in the United States decreased 6.8%.

The slight decrease in net sales during the second quarter of fiscal year 2007 when compared to the same period last year was primarily attributable to a decrease in our commercial market compared to the same period last year. Net sales in certain of our specialty markets increased during the second quarter compared to last year, partially offset by decreases in certain other specialty markets.

We believe net sales results experienced in the second quarter of fiscal year 2007 indicate that net sales were impacted by seasonality factors. Further detail regarding seasonality is provided in our discussion of "Seasonality".

##### *Gross Profit*

Gross profit margin, or gross profit as a percentage of net sales, increased to 34.1% in the second quarter of fiscal year 2007 from 30.3% in the second quarter of fiscal year 2006. As a result, gross profit increased 11.7% to \$3.8 million for the second quarter of fiscal year 2007 compared to \$3.4 million for the same period in 2006, despite the 0.9% decrease in net sales for the same period.

We believe that the benefits of the investments made in our systems, processes and facilities are beginning to be realized. During the second quarter of fiscal year 2007, our manufacturing lead times decreased, our manufacturing efficiencies increased, and we experienced improved gross profit margins, when compared to the second quarter of fiscal year 2006. We believe these improvements are in part the result of the successful implementation of the major portions of our new ERP system by the end of the second quarter of fiscal 2007, as well as, overcoming certain ERP implementation challenges during the first half of fiscal year 2006.

##### *Selling, General, and Administrative Expenses*

SG&A expenses decreased 5.0% to \$3.7 million in the second quarter of fiscal year 2007 from \$3.9 million for the same period last year. SG&A expenses as a percentage of net sales were 33.2% in the second quarter of 2007 compared to 34.6% in the second quarter of 2006. The decrease in SG&A expenses during the second quarter of fiscal year 2007 compared to the same period last year was primarily due to decreased employee compensation costs. Compensation costs decreased in the second quarter of fiscal 2007 compared to the same period in fiscal 2006 largely as a result of severance expenses totaling approximately \$285,000 before tax effects incurred in the second quarter of fiscal 2006 associated with certain changes within our sales organization last year.

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### *Other Income (Expense), Net*

We recognized other expense, net in the second quarter of fiscal year 2007 of \$1,000 compared to other income, net of \$8,000 in the second quarter of fiscal year 2006. Other expense, net is comprised of interest income, interest expense and other miscellaneous items which may fluctuate from period to period.

### *Income (Loss) Before Income Taxes*

We reported income before income taxes of \$100,000 for the second quarter of fiscal year 2007 compared to a loss before income taxes of \$482,000 for the second quarter of fiscal year 2006. This change was primarily due to an increase in gross profit of \$398,000 and a decrease in SG&A expenses totaling \$194,000 in the second quarter of 2007 compared to the same period in fiscal year 2006.

### *Income Tax Expense (Benefit)*

Income tax expense totaled \$35,000 for the second quarter of fiscal year 2007 compared to income tax benefit of \$173,000 for the same period in fiscal year 2006. Our effective tax rate was 35.3% in the second quarter of fiscal 2007 compared to 35.9% in the second quarter of fiscal 2006. Generally, fluctuations in our effective tax rates are primarily due to the amount and timing of various tax deductions and benefits.

### *Net Income (Loss)*

Net income for the second quarter of fiscal year 2007 was \$65,000 compared to a net loss of \$309,000 for the second quarter of fiscal year 2006. This change was due primarily to income before taxes experienced in the second quarter of fiscal year 2007 compared to a loss before taxes for the comparable period last year, partially offset by tax expense in the second quarter of 2007 compared to a tax benefit in the second quarter of fiscal year 2006.

## **Six Months Ended April 30, 2007 and 2006**

### *Net Sales*

Net sales decreased 3.3% to \$20.4 million for the first half of fiscal year 2007 from \$21.1 million for the same period in 2006. Net sales to customers located outside of the United States continued to show substantial strength in the first half of fiscal year 2007, increasing 12.5% compared to the same period last year, while net sales to customers located in the United States decreased 8.3%.

The decrease in net sales during the first half of fiscal year 2007 when compared to the comparable period last year was primarily attributable to a decrease in our commercial market compared to the same period last year. Net sales in certain of our specialty markets increased during the first half of fiscal year 2007 compared to last year, partially offset by decreases in certain other specialty markets.

We believe net sales results experienced in the first half of fiscal year 2007 indicate that net sales were impacted by seasonality factors. Further detail regarding seasonality is provided in our discussion of "Seasonality".

### *Gross Profit*

Gross profit margin, or gross profit as a percentage of net sales, increased to 34.6% for the first half of fiscal year 2007 from 31.7% for the same period last year. As a result, gross profit increased 5.5% to \$7.1 million for the first half of fiscal 2007 from \$6.7 million for the same period in 2006, despite the 3.3% decrease in net sales for the same period.

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During the first half of fiscal year 2007, our manufacturing lead times decreased, our manufacturing efficiencies increased and we experienced improved gross profit margins, when compared to the first half of fiscal year 2006. We believe these improvements are in part the result of the successful implementation of the major portions of our new ERP system by the end of the second quarter of fiscal 2007, as well as, overcoming certain ERP implementation challenges during the first half of fiscal year 2006.

### *Selling, General, and Administrative Expenses*

SG&A expenses decreased 4.8% to \$7.2 million in the first half of 2007 from \$7.5 million for the same period last year. SG&A expenses as a percentage of net sales were 35.2% for the six months ended April 30, 2007 compared to 35.7% for the same period in 2006. The decrease in SG&A expenses during the first half of 2007 compared to the same period last year was primarily due to decreased employee compensation costs and decreased shipping costs, partially offset by increases in legal and professional fees. Compensation costs decreased in the first half of fiscal 2007 compared to the same period in fiscal 2006 largely as a result of severance expenses totaling approximately \$285,000 before tax effects incurred in the second quarter of fiscal 2006 associated with certain changes within our sales organization last year. In addition, our shipping costs decreased due in part to targeted efforts to reduce shipping related expenses.

### *Other Income (Expense), Net*

We recognized other expense, net of \$9,000 in the first half of fiscal 2007 compared to other income, net of \$21,000 in the first half of 2006. Other expense, net is comprised of interest income, interest expense and other miscellaneous items which may fluctuate from period to period.

### *Loss Before Income Taxes*

We reported a loss before income taxes of \$125,000 for the first half of fiscal year 2007 compared to \$824,000 for the first half of fiscal year 2006. This decrease was primarily due to an increase in gross profit of \$371,000 and a decrease in SG&A expenses totaling \$358,000 in the first half of 2007 when compared to the same period in fiscal year 2006.

### *Income Tax Benefit*

Income tax benefit totaled \$45,000 for the first half of fiscal year 2007 compared to \$296,000 for the same period in fiscal 2006. Our effective tax rate was 35.6% in the first half of 2007 compared to 35.9% in the first half of 2006. Generally, fluctuations in our effective tax rates are primarily due to the amount and timing of various tax deductions and benefits.

### *Net Loss*

Net loss for the first half of 2007 was \$81,000 compared to \$529,000 for the first half of fiscal 2006. The improved results were primarily due to the decrease in the loss before taxes experienced in the first half of fiscal year 2007 compared to the same period last year, partially offset by the decrease in the tax benefit in the first half of fiscal year 2007 compared to the same period last year.

## **Financial Condition**

Total assets decreased \$1.2 million, or 3.4%, to \$33.6 million at April 30, 2007, from \$34.8 million at October 31, 2006. This decrease was primarily due to a \$1.5 million decrease in inventories and a \$1.1 million decrease in accounts receivable, net partially offset by a \$1.3 million increase in cash and cash equivalents. The inventory decrease was largely a result of efforts to optimize inventory levels and the timing of purchases of raw materials. Our new ERP system allows us to better plan inventory types and quantities on hand by increasing visibility of inventory available for use in production and providing improved tools for production planning. Accounts receivable decreased primarily as a result of the decrease in net sales when comparing net sales for the second quarter of fiscal year 2007, totaling \$11.1 million, to net sales for the fourth quarter of fiscal year 2006, totaling \$12.6 million. Further detail regarding the increase in cash is provided in our discussion of "Liquidity and Capital Resources."

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Total liabilities decreased \$1.5 million, or 34.2%, to \$2.9 million at April 30, 2007, from \$4.4 million at October 31, 2006. This decrease was primarily due to a \$991,000 decrease in note payable to bank, resulting from the repayment in the first half of fiscal year 2007 of outstanding borrowings on our bank line of credit, and a decrease of \$447,000 in accounts payable and accrued expenses (including accrued compensation and payroll taxes), largely due to the timing of related payments when comparing the two periods.

Total shareholders' equity at April 30, 2007 increased \$324,000 in the first half of fiscal year 2007. The increase resulted from the impact of share-based compensation totaling \$398,000, partially offset by a net loss of \$81,000.

### **Liquidity and Capital Resources**

Our primary capital needs during the first half of fiscal 2007 have been to fund working capital requirements, repayment of the note payable to our bank, capital expenditures, and advances to a start-up connector company described further herein. Our primary source of capital for these purposes has been existing cash and cash equivalents and cash provided by operations. As of April 30, 2007, we had no outstanding balance under our bank lines of credit. As of October 31, 2006, we had an outstanding loan balance of \$991,000 under one of our bank lines of credit.

Our cash totaled \$1.9 million as of April 30, 2007, an increase of \$1.3 million, compared to \$555,000 as of October 31, 2006. The increase in cash for the six months ended April 30, 2007 primarily resulted from net cash provided by operating activities of \$3.3 million, partially offset by capital expenditures totaling \$387,000, advances under a note receivable (described further herein) totaling \$615,000, and the repayment of our outstanding borrowings under our bank line of credit totaling \$991,000.

On April 30, 2007, we had working capital of \$14.6 million compared to \$14.4 million on October 31, 2006. The ratio of current assets to current liabilities as of April 30, 2007, was 6.2 to 1, compared to 4.4 to 1 as of October 31, 2006. The increase in working capital when comparing the periods was primarily caused by the \$1.3 million increase in cash, the \$991,000 decrease in note payable, the \$447,000 decrease in accounts payable and accrued expenses (including accrued compensation and payroll taxes), partially offset by the \$1.5 million decrease in inventories and the \$1.1 million decrease in accounts receivable, net.

On March 26, 2007, our Board of Directors approved a plan to purchase and retire up to 300,100 shares of our common stock, or approximately 5% of the shares then outstanding. We anticipate that the purchases will be made over a 12-month period. No shares had been repurchased as of April 30, 2007.

Net cash provided by operating activities was \$3.3 million in the first half of fiscal year 2007, compared to net cash used in operating activities of \$2.0 million in the first half of fiscal year 2006. Net cash provided by operating activities during the first half of fiscal year 2007 primarily resulted from certain adjustments to reconcile net loss to net cash provided by operating activities, including depreciation and amortization of \$787,000 and share-based compensation expense of \$398,000. Additionally, the decrease in accounts receivable in the amount of \$1.1 million and the decrease in inventories totaling \$1.5 million further contributed to net cash provided by operating activities. All of the aforementioned factors positively affecting cash provided by operating activities were partially offset by a net loss totaling \$81,000 and the decrease in accounts payable and accrued expenses (including accrued compensation and payroll taxes) in the amount of \$447,000. Net cash used in operating activities during the first half of 2006 primarily resulted from a net loss of \$529,000, an increase in inventories in the amount of \$1.6 million and a decrease in accrued compensation and payroll taxes totaling \$1.3 million, partially offset by adjustments to reconcile net loss to net cash used in operating activities, including depreciation and amortization of \$624,000, an increase in accounts payable and accrued expenses of \$753,000 and stock-based compensation expense of \$314,000.

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Net cash used in investing activities totaled \$1.0 million in the first half of fiscal year 2007 compared to \$1.7 million in the first half of fiscal year 2006. Net cash used in investing activities during the first half of fiscal years 2007 and 2006 resulted primarily from purchases of property and equipment and advances made to a start-up connector company described further herein.

On April 22, 2005, we agreed to extend a loan to a start-up connector company, Applied Optical Systems, Inc. (the “Borrower”), specializing in the design, manufacture and sale of connectors and cable assemblies for certain niche markets. The Borrower offers complementary products to our product offering and is still in the development stage. As a development stage company, the Borrower currently has limited revenues and assets and is incurring net losses. As of April 30, 2007, total assets of the Borrower, based on unaudited financial information, was equivalent to approximately 5.2% of our total assets. Total revenue of the Borrower, based on unaudited financial information, was equivalent to approximately 4.7% and 6.9%, respectively, of our net sales for the three and six month periods ended April 30, 2007.

This loan, and the related transactions described further herein, is part of a strategy designed to provide us with an option to expand our product line offering in certain market niches in which we currently sell our fiber optic cable products and to preserve channels to market for our existing product line offering in those market niches over the longer term.

Through April 30, 2007, we had advanced a total of \$3.0 million, net (including some accrued interest and accounts receivable from certain product sales) to the Borrower. The note receivable, which matures July 31, 2008, is collateralized by all of the Borrower’s tangible and intangible property and bears interest at six percent (6%) per annum. Two of the founders of the Borrower have also personally guaranteed amounts up to two-thirds of the principal balance outstanding on the note receivable plus two-thirds of any accrued interest related to the note receivable. In connection with the loan, we were issued a warrant by the Borrower which, as amended, gives us the right to purchase a fifty-six percent (56%) equity interest in the Borrower on a fully diluted, as converted basis, for a purchase price of \$1,500,000. In addition, we were granted the right to purchase all other outstanding equity of the Borrower at various times from 2009 through 2012, at a fixed multiple of trailing earnings before interest and taxes (EBIT), conditioned upon our exercise of the warrant or the Borrower’s failure to repay the loan when due. The note receivable is callable by us at any time. Our rights under the warrant terminate if the warrant is not exercised prior to the expiration date. Subsequent to April 30, 2007, we made additional advances to the Borrower totaling \$225,000.

Net cash used in financing activities totaled \$984,000 in the first half of fiscal year 2007 and resulted from the repayment of a note payable to our bank under our line of credit in the amount of \$991,000, partially offset by proceeds received from the exercise of warrants in the amount of \$6,500. Net cash provided by financing activities totaled \$407,000 in the first half of fiscal 2006 and resulted from proceeds from a note payable to our bank under our line of credit and proceeds received from the exercise of warrants, partially offset by payments for financing costs associated with amending and restating our existing credit facility.

On September 25, 2006, we closed on revolving credit facilities with Valley Bank. The credit facilities with Valley Bank provide a working capital line of credit (the “Working Capital Facility”), a machinery and equipment line of credit (the “Machinery and Equipment Facility”) and a real estate term loan (the “Real Estate Loan”), which together replaced our former credit facility with Wachovia Bank, National Association (“Wachovia”). The Working Capital Facility, the Machinery and Equipment Facility and the Real Estate Loan together provide us with an aggregate maximum of \$13.5 million in available credit, less any borrowings. As of April 30, 2007, we had approximately \$12.4 million of unused and available credit, after considering borrowing base calculations.

The Working Capital Facility provides up to \$5 million for our working capital needs and bears interest at LIBOR plus 2.15%, which equates to a facility rate of 7.47% as of April 30, 2007. The Working Capital Facility provides a lower interest rate option if we maintain specified depository limits with Valley Bank. We can borrow up to 85% of our eligible accounts receivable under the Working Capital Facility. As of April 30, 2007, we had no outstanding borrowings under the Working Capital Facility.



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The Machinery and Equipment Facility provides up to \$2 million for machinery and equipment purchases and also bears interest at LIBOR plus 2.15%, which equates to a facility rate of 7.47% as of April 30, 2007. Both the Machinery and Equipment Facility and the Working Capital Facility are secured by our accounts receivable, inventory, furniture, fixtures and equipment and proceeds and are payable on demand with 60 days prior written notice, provided that we are not in default. If not sooner demanded, the Working Capital Facility and the Machinery and Equipment Facility expire on February 28, 2008. As of April 30, 2007, we had no outstanding borrowings under the Machinery and Equipment Facility.

We may also borrow up to \$6.5 million under the terms of the Real Estate Loan. The advances under the Real Estate Loan may be made at any time within one year of closing. Furthermore, to the extent we have borrowings under the Real Estate Loan, principal and interest payments will be calculated monthly, based on a 25 year amortization. The unpaid balance, if any, on any advances under the Real Estate Loan will be due October 1, 2011. Payments on the Real Estate Loan will be for interest only for the period from November 1, 2006 through October 1, 2007. Thereafter, through October 1, 2011 payments of both principal and interest will be due monthly. The Real Estate Loan bears interest at a fixed rate of 7.50% for 5 years and is secured by a first deed of trust on our real property. As of April 30, 2007, we had no outstanding borrowings under the Real Estate Loan.

Prior to September 25, 2006, we had a revolving credit facility with Wachovia. The initial term of the Wachovia loan agreement expired in April 2005 and was automatically extended through April 2006 pursuant to the terms of the original agreement. Effective March 31, 2006, an agreement was reached with Wachovia to amend and restate the terms of the financing, extending the Wachovia loan agreement until April 17, 2008. However, we terminated our credit facility with Wachovia early in conjunction with the closing of our new credit facilities with Valley Bank. The Wachovia credit facility bore interest at one-half of one percent (0.50%) per annum above the prime rate.

We believe that our cash flow from operations, our cash on hand and our existing credit facilities will be adequate to fund our operations for at least the next twelve months.

During fiscal year 2003, as part of a settlement agreement reached in September 2002, we issued 250,000 warrants to class members defined in a consolidated class action lawsuit by the claims administrator for the class members in connection with shareholder litigation arising from actions of our former chief executive officer. The warrants have an exercise price per share of \$4.88. The warrants are exercisable for five years and will expire October 24, 2007. We have registered the shares issuable upon the exercise of the warrants under the Securities Act of 1933, as amended.

A prior distributor for us filed for protection from its creditors under bankruptcy laws in January 2001. We recognized recoveries totaling \$20,000 from the bankrupt estate of this prior distributor during the year ended October 31, 2006 and may recover additional amounts in the future. Subsequent recoveries, if any, from the bankrupt estate of the distributor will be recognized when payment is received, in accordance with U.S. generally accepted accounting principles.

From time to time, we are involved in various claims, legal actions and regulatory reviews arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on our financial position, results of operations or liquidity.

### **Seasonality**

Historically, net sales are relatively lower in the first half of each fiscal year and relatively higher in the second half of each fiscal year, which we believe may be partially due to construction cycles and budgetary considerations of our customers. For example, an average of approximately 45% of our net sales occurred during the first half of the fiscal year and an average of approximately 55%

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of our net sales occurred during the second half of the fiscal year for fiscal years 1996 through 2006, excluding fiscal years 2001 and 2002. Fiscal years 2001 and 2002 are excluded because we believe net sales for those years did not follow this pattern due to overall economic conditions in the industry.

We believe our net sales have generally been impacted by seasonality factors where we typically expect net sales to be relatively lower in the first half of each fiscal year and relatively higher in the second half of each fiscal year. This pattern may be substantially altered by the timing of larger projects or other economic factors impacting our industry or impacting the industries of our customers and end-users. As a result, while we believe seasonality may be a factor that impacts our quarterly net sales results, we are not able to reliably predict net sales based on seasonality because these other factors can also substantially impact our net sales patterns during the year.

### **Contractual Obligations and Commitments**

As of April 30, 2007, we have no contractual obligations and commitments that will significantly impact our future liquidity.

### **Critical Accounting Policies and Estimates**

Our discussion and analysis of financial condition and results of operations is based on the condensed financial statements and accompanying condensed notes that have been prepared in accordance with U.S. generally accepted accounting principles for interim financial reporting information and the instructions to Form 10-Q and Article 10 of Regulation S-X. The preparation of these condensed financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the condensed financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 1 to the financial statements filed with our Annual Report on Form 10-K for fiscal year 2006 provides a summary of our significant accounting policies. The following are areas requiring significant judgments and estimates due to uncertainties as of the reporting date: revenue recognition, trade accounts receivable and the allowance for doubtful accounts, inventories, long-lived assets, and commitments and contingencies.

Application of the critical accounting policies discussed in the section that follows requires management's significant judgments, often as a result of the need to make estimates of matters that are inherently uncertain. If actual results were to differ materially from the estimates made, the reported results could be materially affected. We are not currently aware of any reasonably likely events or circumstances that would result in materially different results.

#### *Revenue Recognition*

Management views revenue recognition as a critical accounting estimate since we must estimate an allowance for sales returns for the reporting period. This allowance reduces net sales for the period and is based on our analysis and judgment of historical trends, identified returns and the potential for additional returns.

#### *Trade Accounts Receivable and the Allowance for Doubtful Accounts*

Management views trade accounts receivable and the related allowance for doubtful accounts as a critical accounting estimate since the allowance for doubtful accounts is based on judgments and estimates concerning the likelihood that individual customers will pay the amounts included as receivable from them. In determining the amount of allowance for doubtful accounts to be recorded for individual customers, we consider the age of the receivable, the financial stability of the customer, discussions that may have occurred with the customer and our judgment as to the overall collectibility of the receivable from that customer. In addition, we establish an allowance for all other receivables for which no specific allowances are deemed necessary. This general allowance for doubtful

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accounts is based on a percentage of total trade accounts receivable with different percentages used based on different age categories of receivables. The percentages used are based on our historical experience and our current judgment regarding the state of the economy and the industry.

### *Inventories*

Management views the determination of the net realizable value of inventories as a critical accounting estimate since it is based on judgments and estimates regarding the salability of individual items in inventory and an estimate of the ultimate selling prices for those items. Individual inventory items are reviewed and adjustments are made based on the age of the inventory and our judgment as to the salability of that inventory in order for our inventories to be valued at the lower of cost or net realizable value.

### *Long-lived Assets*

Management views the determination of the carrying value of long-lived assets as a critical accounting estimate since we must determine an estimated economic useful life in order to properly depreciate our long-lived assets and because we must consider if the value of any of our long-lived assets have been impaired, requiring adjustment to the carrying value.

Economic useful life is the duration of time the asset is expected to be productively employed by us, which may be less than its physical life. Management's assumptions on wear and tear, obsolescence, technological advances and other factors affect the determination of estimated economic useful life. The estimated economic useful life of an asset is monitored to determine if it continues to be appropriate in light of changes in business circumstances. For example, technological advances or excessive wear and tear may result in a shorter estimated useful life than originally anticipated. In such a case, we would depreciate the remaining net book value of an asset over the new estimated remaining life, thereby increasing depreciation expense per year on a prospective basis. We must also consider similar issues when determining whether or not an asset has been impaired to the extent that we must recognize a loss on such impairment.

### *Commitments and Contingencies*

Management views accounting for contingencies as a critical accounting estimate since loss contingencies arising from product warranties and defects, claims, assessments, litigation, fines and penalties and other sources require judgment as to any probable liabilities incurred. For example, accrued product warranty costs recorded by us are based primarily on historical experience of actual warranty claims and costs as well as current information with respect to warranty claims and costs. Actual results could differ from the expected results determined based on such estimates.

### **Future Accounting Considerations**

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. Although we will continue to evaluate the application of FIN 48, we do not currently believe adoption of this interpretation will have a material impact on our results of operations, financial position or liquidity.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS 157"), which clarifies the definition of fair value, establishes a framework for measuring fair value under U.S. generally accepted accounting principles, and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements and eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We are currently evaluating the impact of SFAS No. 157.

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In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, (SFAS 158) an amendment of FASB Statements No. 87, 88, 106, and 132(R). SFAS 158 requires recognition of the overfunded or underfunded status of defined benefit postretirement plans as an asset or liability in the statement of financial position and to recognize changes in that funded status in comprehensive income in the year in which the changes occur. SFAS 158 also requires measurement of the funded status of a plan as of the date of the statement of financial position. SFAS 158 is effective for recognition of the funded status of the benefit plans for fiscal years ending after December 15, 2006 and is effective for the measurement date provisions for fiscal years ending after December 15, 2008. The adoption of the Statement is not expected to have any impact on our results of operations, financial position or liquidity as we do not have a defined benefit pension plan or other postretirement plans.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS 159"). SFAS 159 allows entities to measure eligible financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The Statement also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The Statement will be effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. We are currently evaluating the impact of SFAS 159.

As of June 8, 2007, there are no other new accounting standards issued, but not yet adopted by us, which are expected to be applicable to our financial position, operating results or financial statement disclosures.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

We do not engage in transactions in derivative financial instruments or derivative commodity instruments. As of April 30, 2007, our financial instruments were not exposed to significant market risk due to interest rate risk, foreign currency exchange risk, commodity price risk or equity price risk.

**Item 4. Controls and Procedures**

Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of the Company's disclosure controls and procedures as of April 30, 2007. Based on this evaluation process, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective and that there have been no changes in the Company's internal control over financial reporting that occurred during the last fiscal quarter ended April 30, 2007 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1A. Risk Factors

There are a number of business risks and uncertainties that may adversely affect our financial condition, our results of operations, our liquidity, the trading price of our common shares, and the prospects regarding any of the foregoing—collectively, our business and its prospects. These risks and uncertainties could cause future results to differ from past performance or expected results, including results described in statements elsewhere in this report that constitute “forward-looking statements” under the Private Securities Litigation Reform Act of 1995. The risks that we highlight below are **NOT** the only ones that we face. We discuss in this section some of the risk factors and uncertainties which we consider to be the most relevant to our specific activities and that we believe, if they actually occurred, could materially and adversely affect our business and its prospects. In addition to the risks and uncertainties included below, other risks and uncertainties include, but are not limited to, the additional risk factors included in Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Forward-Looking Information.” Additionally, risks and uncertainties not presently known to us or that we currently believe to be immaterial also may adversely impact our business and its prospects. Should any risks or uncertainties develop into actual events, these developments could have material adverse effects on our business and its prospects.

In addition to historical information, this Quarterly Report on Form 10-Q contains or may contain certain forward-looking statements, within the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Generally, the words “will,” “may,” “should,” “continue,” “believes,” “expects,” “intends,” “anticipates,” “could,” “likely,” “probably,” “feel,” “estimates” or similar expressions identify forward-looking statements. These forward-looking statements involve certain risks and uncertainties. Factors that could cause actual results to differ materially from those contemplated by the forward-looking statements include, among others, the risks and uncertainties identified below and the additional risk factors included in Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Forward-Looking Information.” We will sometimes set forth examples to further describe a risk factor or otherwise elaborate on a point by using the word “including.” When we use the word including in this Quarterly Report on Form 10-Q or in any of our other disclosures, we always mean “including, but not limited to” rather than including all examples.

***A decline in the demand for fiber optic cable generally or in certain applications or for tight buffered fiber optic cable specifically or in certain applications, in the markets we target may cause our sales to fall.***

Fiber optic cable, specifically tight buffered fiber optic cable, accounts for almost all of our sales. As a result, any decline in the demand for fiber optic cable generally or tight buffered fiber optic cable specifically will likely adversely affect our business and its prospects, including causing our sales to fall, causing our share price to decline and limiting our future sales prospects. We focus on producing tight buffered fiber optic cable that is used to connect optical networking equipment in short- to moderate-distance applications, including the enterprise market, and to a lesser extent, the metropolitan and access markets. Our future growth is affected by the rate at which optical networking and related optical cabling are deployed in these markets. The desire of organizations to deploy fiber optic cabling depends on such factors as end-user demand for the increased bandwidth made possible by optical networks, as well as a lack of suitable alternative technologies. Additionally, any decline in the demand for fiber optic cable used in short- to moderate-distance applications, such as metropolitan, access and enterprise networks, will likely adversely affect our business and its prospects, including causing our sales to fall, limiting our prospects for the future sales and causing a decline in our share price. If alternative fiber optic cable constructions, such as loose-tube fiber optic cable, become more accepted as alternatives to tight buffered fiber optic cable construction in our target markets, then our business and its prospects could be adversely affected, including material decreases in our sales, adverse effects on our future prospects and potential, and significant declines in our share price.

## PART II. OTHER INFORMATION

***Our ability to remain competitive in the fiber optic cable market is crucial to our continued success.***

The market for fiber optic cables, including the short- to moderate-distance markets in which our products are concentrated, is highly competitive. We compete with large, integrated fiber optic cable manufacturers such as Corning Cabling Systems, OFS, Alcatel and Draka, as well as with other large fiber optic cable manufacturers such as General Cable, Belden, AFL Telecommunications, Hitachi, Nexans (doing business as Berk-Tek), CommScope and others. Some of our competitors are more established, benefit from greater market recognition and have much greater financial, research and development, production and marketing resources than we do. Competition could increase if new companies enter the market or if existing competitors expand their product lines.

***We are a “microcap” stock with little, if any, coverage by security analysts, and with limited institutional following. Therefore, the price of our common shares is volatile and subject to significant fluctuations.***

Optical Cable Corporation has a relatively low market capitalization represented by the total number of common shares issued and outstanding multiplied by the price per common share. Often the capital stock of companies with such low market capitalizations are referred to as “microcap” stocks. As a result of this low market capitalization, it is quite difficult for us to secure coverage by security analysts and to convince institutional investors to invest substantial amounts in our common shares. Additionally, our low market capitalization makes it likely that the sale or purchase of even relatively small blocks of our common shares can result in significant fluctuations in the price of our common shares with or without any underlying change in our financial performance. As a result, the price of our common stock is volatile and subject to significant fluctuations.

***We believe our quarterly results may tend to fluctuate due to many factors, including timing of key projects, changing levels of corporate and government spending, fluctuations in spending in certain specialty markets we target, seasonality, and manufacturing yields and efficiencies. The price of our common shares will likely fall if our quarterly results are lower than the expectations of securities analysts, if any, or our shareholders.***

We expect our sales and income to fluctuate from quarter to quarter. In future quarters, our operating results may be below the expectations of securities analysts, if any securities analysts are offering coverage of us, or our shareholders. If this occurs, the price of our common shares is likely to fall and you may lose all or part of your investment. A number of factors, many of which are discussed in more detail in other risk factors, may cause variations in the results of our operations, including, but not limited to:

- The proportion of our net sales made to distributors relative to other types of customers;
- The proportion of large to small orders;
- Our product mix, including fluctuations in demand in our target and specialty markets;
- The timing of orders that we receive from our customers, including, larger projects;
- Fluctuations in spending on fiber optic cable in certain specialty markets we target;



## PART II. OTHER INFORMATION

- Fluctuations in corporate or government spending;
- Fluctuations in spending by specific customers or end-users, including the U.S. military;
- Seasonality, including affects of weather, construction and annual budgetary cycles on demand;
- Changes in the general economic conditions—whether in the U.S., other countries or specific regions that impact spending on fiber optic cabling products;
- Changes in the cost and availability of our raw materials;
- Our manufacturing capacity, efficiencies and yield; and
- Spending for fiber optic cabling in the metropolitan, access and enterprise markets.

A significant percentage of our expenses, including those relating to manufacturing, sales and marketing, and general and administrative functions, are relatively fixed in the short term. As a result, if we experience delays in generating or recognizing revenue, our operating results would be disproportionately affected. You should not rely on our results for one quarter as any indication of our future performance. We believe our results of operations may reflect some seasonality. Historically, our sales are lower in the first half of each fiscal year and higher in the second half of each fiscal year, which we believe may be partially due to construction cycles and budgetary considerations of our customers.

***If our supplier relationships are disrupted or if costs or availability of our raw materials change, our operating results may suffer.***

Our business and its prospects are affected by the cost and availability of raw materials. We currently rely on a limited number of suppliers for certain of our raw materials, including optical fiber, aramid yarns, plastics and other raw materials. We do not have long-term agreements with all of these suppliers. In fact, some of our suppliers of optical fiber are also major competitors in the market for fiber optic cable. For example, we may buy some of our optical fiber from a supplier that also offers fiber optic cables that compete with our fiber optic cables. These raw materials are critical to our production of fiber optic cables. Our business and its prospects, including our financial condition, future prospects, and results of operations, could be adversely affected by any disruption in our supply of raw materials or any increase in our costs resulting from our suppliers reducing the amount of optical fiber available to us, increasing their prices, lengthening the lead time for orders or otherwise impairing our ability to secure optical fiber, aramid yarns, plastics or other raw materials on competitive terms.

***Potential strategic alliances may not achieve their objectives.***

We intend to explore strategic alliances designed to increase the use of our manufacturing capacity, to increase distribution of our products, to secure supplies of raw materials, and to expand our product offerings. We may not be successful in developing these strategic alliances. Moreover, alliances that Optical Cable Corporation does develop may not achieve their strategic objectives, and parties to our strategic alliances may not perform as contemplated.

**PART II. OTHER INFORMATION**

***If a disaster struck our primary business facility, our business, results of operations and financial condition may be harmed.***

We believe that our success to date has been, and future results of operations will be, dependent in large part upon our ability to provide prompt and efficient service to our customers. As a result, any disruption of our day-to-day operations could cause a significant decline in our sales, negatively impact our financial performance and cause a decline in our share price. Our manufacturing operations, marketing, management information systems, customer service and distribution functions are housed in a single facility in Roanoke, Virginia. A fire, flood, earthquake, terrorist attack, act of war, military conflict, or any other disaster affecting our facility could disable the functions performed at our Roanoke, Virginia facility. Any significant damage to this facility would have a material adverse effect on our business and its prospects, including our results of operations and financial condition.

**PART II. OTHER INFORMATION**

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

On March 26, 2007, the Company's Board of Directors approved a plan to purchase and retire up to 300,100 shares of the Company's common stock, or approximately 5% of the shares then outstanding. The Company anticipates that the purchases will be made over a 12-month period. No shares had been repurchased as of April 30, 2007.

**PART II. OTHER INFORMATION****Item 4. Submission of Matters to a Vote of Security Holders**

The following information is furnished for matters submitted to a vote of security holders during the three months ended April 30, 2007:

- (a) The Annual Meeting of Shareholders of Optical Cable Corporation was held on March 27, 2007.
- (b) The name of each director elected at the meeting follows:

Neil D. Wilkin, Jr.  
 Luke J. Huybrechts  
 Randall H. Frazier  
 John M. Holland  
 Craig H. Weber  
 John B. Williamson, III

The above-named directors constitute the entire board of directors and there are no other directors continuing their term who were not up for re-election.

- (c) A brief description of each matter voted upon at the meeting and the number of votes cast for, against or withheld, as well as the number of abstentions and broker non-votes, as to each such matter, including a separate tabulation with respect to each nominee for office follows:
1. To elect the following six directors to serve for the terms of office specified in the proxy statement and until their successors are duly elected and qualified.

<u>Director</u>	<u>Votes for</u>	<u>Votes against</u>	<u>Votes abstaining</u>	<u>Broker non-votes</u>
Neil D. Wilkin, Jr.	4,509,473	—	592,370	—
Luke J. Huybrechts	4,516,316	—	585,527	—
Randall H. Frazier	4,577,464	—	524,379	—
John M. Holland	4,436,772	—	665,071	—
Craig H. Weber	4,577,526	—	524,317	—
John. B. Williamson, III	4,740,369	—	361,474	—

2. To ratify the selection of KPMG LLP as the independent registered public accounting firm for the Company.

<u>Votes for</u>	<u>Votes against</u>	<u>Votes abstaining</u>	<u>Broker non-votes</u>
5,034,548	52,296	15,000	—

**PART II. OTHER INFORMATION**

3. To consider the proposal by a shareholder requesting the Board of Directors to redeem or revoke the shareholder rights plan in effect with the Company since November 2001.

<u>Votes for</u>	<u>Votes against</u>	<u>Votes abstaining</u>	<u>Broker non-votes</u>
1,535,645	1,599,076	19,731	1,947,392

**PART II. OTHER INFORMATION**

**Item 6. Exhibits**

The exhibits listed on the Exhibit Index are filed as part of, and incorporated by reference into, this report.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**OPTICAL CABLE CORPORATION**  
(Registrant)

Date: June 14, 2007

/s/ Neil D. Wilkin, Jr.

Neil D. Wilkin, Jr.  
Chairman of the Board of Directors,  
President and Chief Executive Officer

Date: June 14, 2007

/s/ Tracy G. Smith

Tracy G. Smith  
Vice President and Chief Financial Officer

**Exhibit Index**

<b>Exhibit No.</b>	<b>Description</b>
3.1	Articles of Amendment filed November 5, 2001 to the Amended and Restated Articles of Incorporation, as amended through November 5, 2001 (incorporated herein by reference to Exhibit 1 to the Company's Form 8-A filed with the Commission on November 5, 2001).
3.2	Bylaws of Optical Cable Corporation, as amended (incorporated herein by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the third quarter ended July 31, 2004 (file number 0-27022)).
4.1	Form of certificate representing Common Stock (incorporated herein by reference to Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q for the third quarter ended July 31, 2004 (file number 0-27022)).
4.2	Rights Agreement dated as of November 2, 2001 (incorporated herein by reference to Exhibit 4 to the Company's Form 8-A filed with the Commission on November 5, 2001).
4.3	Form of certificate representing preferred share purchase right (incorporated herein by reference to Exhibit 5 to the Company's Form 8-A filed with the Commission on November 5, 2001).
4.4	Warrant Agreement dated as of October 24, 2002 (incorporated herein by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-3 filed with the Commission on February 11, 2003).
4.5	Form of warrant certificate (incorporated herein by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-3 filed with the Commission on February 11, 2003).
4.6	Commercial Loan Agreement dated September 22, 2006 by and between Optical Cable Corporation and Valley Bank in the amount of \$6,500,000 (Loan No. 156779) (incorporated herein by reference to Exhibit 4.6 of the Company's Annual Report on Form 10-K for the period ended October 31, 2006).
4.7	Commercial Loan Agreement dated September 22, 2006 by and between Optical Cable Corporation and Valley Bank in the amount of \$2,000,000 (Loan No. 156833) (incorporated herein by reference to Exhibit 4.7 of the Company's Annual Report on Form 10-K for the period ended October 31, 2006).
4.8	Commercial Loan Agreement dated September 22, 2006 by and between Optical Cable Corporation and Valley Bank in the amount of \$5,000,000 (Loan No. 156809) (incorporated herein by reference to Exhibit 4.8 of the Company's Annual Report on Form 10-K for the period ended October 31, 2006).
4.9	Promissory Note dated September 22, 2006 by Optical Cable Corporation in the amount of \$2,000,000 (Loan No. 156833) (incorporated herein by reference to Exhibit 4.9 of the Company's Annual Report on Form 10-K for the period ended October 31, 2006).



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- 4.10 Credit Line Deed of Trust dated September 22, 2006 between Optical Cable Corporation as Grantor, John T. McCaleb and Catherine J. Hartman as Trustees, and Valley Bank as Lender (incorporated herein by reference to Exhibit 4.10 of the Company's Annual Report on Form 10-K for the period ended October 31, 2006).
- 4.11 Promissory Note dated September 22, 2006 by Optical Cable Corporation in the amount of \$6,500,000 (Loan No. 156779) (incorporated herein by reference to Exhibit 4.11 of the Company's Annual Report on Form 10-K for the period ended October 31, 2006).
- 4.12 Promissory Note dated September 22, 2006 by Optical Cable Corporation in the amount of \$5,000,000 (Loan No. 156809) (incorporated herein by reference to Exhibit 4.12 of the Company's Annual Report on Form 10-K for the period ended October 31, 2006).
- 10.1\* Employment Agreement by and between Optical Cable Corporation and Neil D. Wilkin, Jr. effective November 1, 2002 (incorporated herein by reference to Exhibit 10.1 to the Company's Amended Quarterly Report on Form 10-Q/A for the quarterly period ended January 31, 2003 (file number 0-27022)).
- 10.2\* Employment Agreement dated December 10, 2004 by and between Optical Cable Corporation and Tracy G. Smith (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated January 24, 2005 (file number 0-27022)).
- 10.3\* Employment Agreement by and between Optical Cable Corporation and Luke J. Huybrechts effective November 1, 2002 (incorporated herein by reference to Exhibit 10.2 to the Company's Amended Quarterly Report on Form 10-Q/A for the quarterly period ended January 31, 2003 (file number 0-27022)).
- 10.5\* Optical Cable Corporation Employee Stock Purchase Plan (incorporated herein by reference to Exhibit 10.9 to the Company's Quarterly Report on Form 10-Q for the period ended July 31, 1998 (file number 0-27022)).
- 10.6\* Optical Cable Corporation 1996 Stock Incentive Plan (incorporated herein by reference to Exhibit 28.1 to the Company's Registration Statement on Form S-8 No. 333-09733).
- 10.7\* Optical Cable Corporation Amended 2004 Non-Employee Directors Stock Plan (incorporated herein by reference to Appendix B to the Company's definitive proxy statement on Form 14A filed February 23, 2005).
- 10.8\* Form of December 17, 2004 restricted stock award agreement under the Optical Cable Corporation 1996 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed January 24, 2005).
- 10.9\* Form of December 17, 2004 restricted stock award agreement under the Optical Cable Corporation 1996 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K filed January 24, 2005).

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- 10.10\* Form of award agreement under the Optical Cable Corporation Amended 2004 Non-Employee Directors Stock Plan (incorporated herein by reference to Exhibit 10.10 of the Company Annual Report on Form 10-K for the period ended October 31, 2004).
- 10.11\* Optical Cable Corporation 2005 Stock Incentive Plan (incorporated by reference to Appendix A to the Company's definitive proxy statement on Form 14A filed February 23, 2005).
- 10.12\* Form of time vesting award agreement under the Optical Cable Corporation 2005 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.12 to the Company's Quarterly Report on Form 10-Q for the period ended April 30, 2006).
- 10.13\* Form of stock performance (Company stock performance measure) vesting award agreement under the Optical Cable Corporation 2005 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.13 to the Company's Quarterly Report on Form 10-Q for the period ended April 30, 2006).
- 10.14\* Form of operational performance (individual participant performance measure) vesting award agreement under the Optical Cable Corporation 2005 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.14 to the Company's Quarterly Report on Form 10-Q for the period ended April 30, 2006).
- 10.15\* Form of operational performance (Company financial performance measure) vesting award agreement under the Optical Cable Corporation 2005 Stock Incentive Plan. FILED HEREWITH.
- 10.16 Redemption Agreement by and between Optical Cable Corporation and BB&T Investment Services, Inc. dated March 27, 2007. FILED HEREWITH.
- 11.1 Statement regarding computation of per share earnings (incorporated by reference to note 9 of the Condensed Notes to Condensed Financial Statements contained herein).
- 31.1 Certification of the Company's Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. FILED HEREWITH.
- 31.2 Certification of the Company's Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. FILED HEREWITH.
- 32.1 Certification of the Company's Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. FILED HEREWITH.
- 32.2 Certification of the Company's Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. FILED HEREWITH.

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\* Management contract or compensatory plan or agreement.

**FORM  
OF  
OPTICAL CABLE CORPORATION  
2005 STOCK INCENTIVE PLAN**

**FY \_\_\_\_\_ RESTRICTED STOCK AWARD  
(Operational Performance Vesting—Company Financial Based)**

*[Note: This Form of Restricted Stock Award may change from time to time at the direction of the Compensation Committee of the Board of Directors or the Board of Directors.]*

GRANTED TO	GRANT DATE	NUMBER OF SHARES GRANTED	PRICE PER SHARE	SOCIAL SECURITY NUMBER
[Name]	[Date]	[Number]	N/A	[ ]
	GRANT NUMBER	VESTING AND RESTRICTION LAPSE SCHEDULE*		
	RS-[ ]-[ ]	Shares granted hereunder will vest, in accordance with and subject in all respects to the provisions of Sections 3 and 4 below, on January 31 <sup>st</sup> of each year (each such date, a "Vesting Date"), with the first Vesting Date being _____ and the last Vesting Date being _____.		

\* Fractional shares shall be carried over to the last vesting period

OPTICAL CABLE CORPORATION and its successors and assigns (the "Company") hereby grants to [Name] (the "Participant") effective \_\_\_\_\_ (the "Grant Date"), a Restricted Stock Award (the "Award"), pursuant to its 2005 Stock Incentive Plan that is provided along herewith (the "Plan"), covering the above stated number of shares (the "Restricted Shares") of common stock of the Company ("Common Stock").

The Chief Executive Officer proposed this Award and recommended its approval to the Compensation Committee of the Board of Directors of the Company (the "Compensation Committee"), and the Compensation Committee, pursuant to the terms of the Plan, granted the Award to the Participant.

The Plan is administered by the Compensation Committee, or alternatively and as appropriate, the Board of Directors (in either case, the "Committee"). Any controversy that arises concerning this Award or the Plan shall be resolved by the Committee as it deems proper, and any decision of the Committee shall be final and conclusive.

The terms of the Plan are hereby incorporated into this Award by this reference. In the case of any conflict between the Plan and this Award, the terms of the Plan shall control. Capitalized terms not defined in this Award shall have the meaning assigned to such terms in the Plan.

Now, therefore, in consideration of the foregoing and the mutual covenants hereinafter set forth:

1. The Company hereby grants to the Participant an Award covering the Restricted Shares, subject to the terms and conditions of this Award and the Plan.

2. Unless otherwise determined by the Committee [or unless as otherwise provided in Section 4(b) below], the Award will vest, and the restrictions applicable to Restricted Shares shall lapse (with the shares no longer subject to the restrictions set forth herein being referred to as "Unrestricted Shares"), in accordance with Section 3 below. Except as otherwise provided in the Plan or in Section 4 below or otherwise determined by the Committee, the Participant must be employed by the Company or a subsidiary at all times from the Grant Date through a Vesting Date in order for part of this Award to vest on such Vesting Date, and the restrictions on that portion of the Restricted Shares to lapse.

3. On each Vesting Date, a portion of the Award shall vest based on the Company's gross profit (in dollars) growth rate percentage ("GPGR") achieved for the current fiscal year of the Company (November 1 to October 31) when compared to the prior fiscal year of the Company, with the vesting portion of the Award being determined in accordance with the following table and vesting occurring on the next Vesting Date after the Company's current fiscal year end and after the financial statements have been properly prepared and finalized:

Gross Profit (\$) Growth Rate percentage (GPGR) achieved for current fiscal year of Company compared to last fiscal year (fiscal years ending October 31)	Portion of total Restricted Shares vesting at each Vesting Date immediately following end of current fiscal year of the Company given the GPGR achieved for the current fiscal year (a)
GPGR is 25%	70%
GPGR is 20%	50%
GPGR is 15%	34%
GPGR is 10%	20%
GPGR is 5%	10%
GPGR is less than 5%	0%

(a) Actual vesting percentage shall be calculated by interpolating the vesting percentages set forth in table above.

Gross profit dollars for purposes of this Award is calculated by taking net sales (in dollars) and subtracting cost of goods sold (in dollars) during any year, as determined using generally accepted accounting principles applicable to the United States and as set forth in annual financial statements of the Company, properly prepared and finalized. Additionally, the effects on net sales and costs of goods sold of the events set forth in Attachment A hereto, are specifically excluded from calculation of gross profit dollars for purposes of this Award.

GPGR percentage is calculated by taking the amount of gross profit dollars earned by the Company during the current fiscal year and subtracting the gross profit dollars earned by the Company during the prior fiscal year, and then dividing that amount by the amount of gross profit achieved during the prior fiscal year.

Additionally, after all of the annual vesting calculations are complete and appropriate shares vested, if any shares would otherwise be forfeited, a total compounded GPGR percentage calculation for the Company will be made for the period from fiscal year \_\_\_\_ through fiscal year \_\_\_\_ to determine the aggregate minimum number of total Restricted Shares that will vest pursuant to this Award, as determined based on the table below:

Cumulative Compounded GPGR percentage of the Company (comparing fiscal year ____ through fiscal year ____)	MINIMUM percentage of total Restricted Shares to vest irrespective of annual GPGR calculation (b)
GPGR is 10%	100%
GPGR is 7.5%	50%
GPGR is less than 5%	0%

(b) Actual vesting percentage shall be calculated by interpolating the vesting percentages set forth in table above.

Participant shall not be entitled to receive more than the total number of Restricted Shares shown as the “Number of Shares Granted” set forth at the top of this document.

Any Restricted Shares covered by the Award that have not vested in accordance herewith or pursuant to Section 4 below on or before \_\_\_\_\_, 20\_\_ shall be irrevocably forfeited

4. a. Unless otherwise determined by the Committee [or unless as otherwise provided in Section 4(b) below], in the event that Participant’s employment with the Company and/or any subsidiaries terminates before the Award is fully vested and the restrictions on all of the Restricted Shares have lapsed, Participant will, upon the date of Participant’s termination of employment (as reasonably fixed and determined by the Company), forfeit the remainder of the Restricted Shares and the Company will be the owner of such remaining Restricted Shares and will have the right, without further action by Participant, to transfer such remaining Restricted Shares into its name.

[b. If a Triggering Event (as defined in Section 4 (c) below) occurs while Participant is employed by the Company (or if Participant’s employment is terminated during the pendency of an event that, if consummated, would lead to a Triggering Event), but before the Award is fully vested and the restrictions applicable to all of the Restricted Shares have lapsed, then the date upon which the Triggering Event (or the date of the termination of Participant’s employment if Participant’s employment is terminated during the pendency of an event that, if consummated, would lead to a Triggering Event) occurs will be the Vesting Date with respect to the unvested portion of the Award, and such unvested portion of the Award shall thereupon immediately vest and all restrictions on the remaining Restricted Shares shall lapse.] [Note: This paragraph is applicable to grants for executive officers only]

[c. For purposes of this Award, a “Triggering Event” occurs if, after the date of this Award, (i) any person, including a “group” as defined in Section 13(d) (3) of the Securities Exchange Act of 1934, becomes the owner or beneficial owner of Company securities having 50% or more of the combined voting power of the then outstanding Company securities that may be cast for the election of the Company’s directors; or (ii) as the direct or indirect result of, or in connection with, a tender or exchange offer, a merger or other business combination, a sale of assets, a contested election of directors, or any combination of these events, the persons who were directors of the Company before such events cease to constitute a majority of the Corporation’s Board, or any successor’s board, within three years of the last of such transactions. For purposes of this Award, a Triggering Event occurs on the date on which an event described in (i) or (ii) occurs. If a Triggering Event occurs on account of a series of transactions or events, the Triggering Event occurs on the date of the last of such transactions or events.] [Note: This paragraph is applicable to grants for executive officers only]

5. Participant will not sell, transfer, pledge, hypothecate or otherwise dispose of any Restricted Shares (or any interest in such shares) prior to the Vesting Date as to which the restrictions applicable to such shares lapse.

6. Prior to a Vesting Date, the Company will, at its option, reflect Participant’s ownership of the Restricted Shares in book-entry form with the Company’s transfer agent or through the issuance of one or more stock certificates. If the Company elects to reflect ownership through the issuance of stock certificates, such certificates will be held in escrow with the Corporate Secretary of the Company in accordance with the provisions of this Award and the Plan. Subject to terms of this Award and the Plan, Participant will have all rights of a shareholder with respect to the Restricted Shares while they are held in escrow or in book-entry form, including, without limitation, the right to vote the Restricted Shares and receive any cash dividends declared on such shares. If, from time to time prior to the date that the Award is fully vested and the restrictions on all of the Restricted Shares have lapsed, there is (i) any stock dividend, stock split or other change in the Restricted Shares, or (ii) any merger or sale of all or substantially all of the assets or other acquisition of the Company, any and all new, substituted or additional securities to which Participant is entitled by reason of his ownership of the Restricted Shares shall be held on his behalf by the Company in book-entry form or through the issuance of one or more stock certificates and held in escrow pursuant to this section until vesting pursuant to the schedule applicable to the underlying Restricted Shares, at which time all restrictions shall lapse.

7. As described in the Plan, in the event of certain corporate transactions or other actions or events, the Committee may take such actions with respect to this Award as it deems appropriate and consistent with the Plan.

8. Participant understands that Participant (and not the Company) is responsible for any tax liability that may arise as a result of the transaction contemplated by this Award. Participant understands that Section 83 of the Internal Revenue Code of 1986, as amended (the "Code") taxes as ordinary income the difference between the amount paid for the Restricted Shares and the fair market value of the Restricted Shares as of the date the restrictions on such shares lapse. Participant understands that Participant may elect to be taxed at the time of the Award, rather than when the restrictions lapse, by filing an election under Section 83(b) of the Code with the Internal Revenue Service within 30 days from the Grant Date.

9. As a condition of accepting this Award, Participant agrees to make arrangements for the payment of withholding of income taxes and employment taxes upon the vesting of the Award and the lapse of restrictions on the Restricted Shares. Until adequate arrangements have been made, certificates representing Unrestricted Shares will not be issued to Participant. Participant may satisfy applicable withholding taxes by any manner permitted by the Plan, subject to the consent of the Committee, including, (i) delivering a sufficient number of shares of already owned Common Stock (which have been owned by Participant for more than six (6) months), and/or (ii) having the Company retain a sufficient number of shares from the distribution to be made to Participant.

10. The fact that the Participant has been granted this Award will not affect or qualify the right of the Company or a subsidiary to terminate the Participant's employment at any time.

11. If any provision of this Award should be deemed void or unenforceable for any reason, it shall be severed from the remainder of the agreement, which shall otherwise remain in full force and effect.

12. The Company may, in its discretion, delay delivery of a certificate required upon vesting of the Award until (i) the admission of such shares to list on any stock exchange (including NASDAQ) on which the Common Stock may then be listed, (ii) the completion of any registration or other qualification of such shares under any state or federal law, ruling, or regulation of any governmental regulatory body that the Company shall, in its sole discretion, determine if necessary or advisable, and (iii) the Company shall have been advised by counsel that it has complied with all applicable legal requirements.

13. Any notice to be given under the terms of this Award shall be addressed to Optical Cable Corporation, to the attention of the Chief Financial Officer, 5290 Concourse Drive, Roanoke, VA 24019, and any notice to be given to Participant or to his or her personal representative shall be addressed to him or her at the address set forth below or to such other address as either party may, hereafter, designate in writing to the other. Notices shall be deemed to have been duly given if mailed, postage prepaid, addressed as aforesaid.

14. You may accept this Award, subject to the registration and listing of the shares issueable under the Plan, by signing and returning the enclosed copy of this Award. Your signature will also evidence your agreement to the terms and conditions set forth herein and to which this Award is subject.

15. Along with this Award, you hereby acknowledge receipt of a copy of the Plan and the Prospectus for the Plan. Also, if you have previously been granted an award under the Plan, you hereby acknowledge that you have received all of the reports, proxy statements and other communications generally distributed to the holders of the Company's securities since the date(s) of such grant(s) and no later than the times of such distributions.

[16. Note: With respect to any individual Award, Committee may insert required retention periods for shares received pursuant to an Award, applicable even after such shares are Unrestricted Shares.] [Note: With respect to any individual Award, Committee may condition receipt of shares under this Award on other events or conditions.]

IN WITNESS WHEREOF, the Company has caused this Award to be signed, as of the Grant Date shown above.

OPTICAL CABLE CORPORATION

By: \_\_\_\_\_

I hereby acknowledge receipt of this Award, the Plan, and the Prospectus for the Plan, and I agree to conform to all terms and conditions of this Award and the Plan.

\_\_\_\_\_  
Name

\_\_\_\_\_  
Date:

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Address

**OPTICAL CABLE CORPORATION  
10b5-1 REPURCHASE AGREEMENT**

This 10b5-1 Repurchase Agreement (this "Repurchase Agreement") is dated as of March 27, 2007, between Optical Cable Corporation, a Virginia corporation (the "Issuer"), and BB&T Investment Services, Inc. (the "Broker").

WHEREAS, the Issuer desires to establish this Repurchase Agreement to repurchase shares of its common stock (the "Stock"); and

WHEREAS, the Issuer desires to engage the Broker to effect repurchases of shares of Stock in accordance with this Repurchase Agreement;

NOW, THEREFORE, the Issuer and the Broker hereby agree as follows:

**1. Repurchases**

A. Subject to the Issuer's continued compliance with Section 2 hereof, the Broker shall (i) effect a purchase or purchases (each, a "Purchase") of up to 300,100 shares of the Stock (the "Total Plan Shares") as set forth in Attachment 1, and (ii) effect each Purchase in accordance with the trade parameters and trade order set forth in Attachment 1.

Attachment 1 may be amended from time to time by Issuer with any such amendment being effective the next business day after receipt by Broker. Any such amendment shall be in writing signed by the President or Chief Financial Officer and delivered to Broker via telecopy, transmitted to (704-954-1344), Attention: Darren Earnhardt.

B. Purchases may be made in the open market or through privately negotiated transactions. The Broker shall comply with all applicable requirements of Rule 10b-18 promulgated under the Securities Exchange Act of 1934 (the "Exchange Act"), specifically the requirements of paragraphs (b)(2), (b)(3) and (b)(4) of Rule 10b-18 under the Exchange Act, in connection with Purchases of Stock in the open market pursuant to this Repurchase Agreement. The Issuer agrees not to take any action that would cause Purchases not to comply with Rule 10b-18, Rule 10b5-1 or Regulation M.

**2. Commission and Fees**

The Issuer shall pay to the Broker a commission of \$.02 cents per share of Stock repurchased pursuant to this Repurchase Agreement. In addition, the Issuer shall pay to the Broker a \$2.00 per transaction confirmation fee. In accordance with the Broker's customary procedures, the Broker will deposit shares of Stock purchased hereunder into an account established by the Broker for the Issuer against payment to the Broker of the purchase price therefor and commissions and other amounts in respect thereof payable pursuant to this Section. The Issuer will be notified of all transactions pursuant to customary trade confirmations.



**3. Term of the Repurchase Agreement**

A. This Repurchase Agreement shall become effective immediately and shall terminate upon the first to occur of the following:

- i. the ending of the Trading Period, as set forth in Attachment 1;
- ii. the purchase of the number of Total Plan Shares pursuant to this Repurchase Agreement;
- iii. the end of the second business day following the date of receipt by the Broker of notice of early termination substantially in the form of Appendix A hereto, signed by the Issuer's President or Chief Financial Officer, delivered to the Broker by telecopy, transmitted to (704-954-1344), Attention: Darren Earnhardt;
- iv. the commencement of any voluntary or involuntary case or other proceeding seeking liquidation, reorganization or other relief under any bankruptcy, insolvency or similar law or seeking the appointment of a trustee, receiver or other similar official, or the taking of any corporate action by the Issuer to authorize or commence any of the foregoing;
- v. the public announcement of a tender or exchange offer for the Stock or of a merger, acquisition, recapitalization or other similar business combination or transaction as a result of which the Stock would be exchanged for or converted into cash, securities or other property; or
- vi. the failure of the Issuer to comply with Section 2 hereof.

B. Sections 2 and 13 of this Repurchase Agreement shall survive any termination hereof. In addition, the Issuer's obligation under Section 2 hereof in respect of any shares of Stock purchased prior to any termination hereof shall survive any termination hereof.

**4. Market Disruptions and Restrictions**

The Issuer understands that the Broker may not be able to effect a Purchase due to a market disruption or a legal, regulatory or contractual restriction or internal policy applicable to the Broker or otherwise. If any Purchase cannot be executed as required by Section 1 due to a market disruption, a legal, regulatory or contractual restriction or internal policy applicable to the Broker or any other event, such Purchase shall be cancelled and shall not be effected pursuant to this Repurchase Agreement.

**5. Representations of Issuer**

The Issuer represents and warrants, on the date hereof and on the date of any amendment hereto, that:

A. it is not aware of material, nonpublic information with respect to the Issuer or any securities of the Issuer (including the Stock);

B. it is entering into or amending, as the case may be, this Repurchase Agreement in good faith and not as part of a plan or scheme to evade the prohibitions of Rule 10b5-1 under the Exchange Act or other applicable securities laws; and

C. its execution of this Repurchase Agreement or amendment hereto, as the case may be, and the Purchases contemplated hereby do not and will not violate or conflict with the Issuer's certificate of incorporation or by-laws or, if applicable, any similar constituent document, or any law, rule regulation or agreement binding on or applicable to the Issuer or any of its subsidiaries or any of its or of their property or assets.

**6. Rules 10b5-1 and 10b-18**

It is the intent of the parties that this Repurchase Agreement comply with the requirements of Rule 10b5-1(c)(1)(i)(B) and Rule 10b-18 under the Exchange Act, and this Repurchase Agreement shall be interpreted to comply with the requirements thereof.

**7. Notification and Indemnification**

The Issuer shall, on the business day prior to the intended date of such purchase, notify the Broker of the intention on the part of any affiliated purchaser, as defined in Rule 10b-18, of the Issuer to purchase the Stock on any day if such purchase is to be effected otherwise than through the Broker pursuant to this Repurchase Agreement and the Broker shall refrain from purchasing any Stock hereunder on the day following receipt of such notice. The Issuer shall be solely responsible for any purchases made by the Broker as the Issuer's agent prior to the Broker's receipt of such written notice. Notwithstanding the foregoing, if the Broker receives such notice, the Broker may nevertheless be entitled to make, and the Issuer shall be solely responsible for, a purchase hereunder pursuant to a bid made before such notice is received by the Broker. The Issuer shall be solely responsible for notifying the Broker of any purchases of the Stock by any such affiliated purchaser, and, without limiting the generality of Section 14 hereof, the Issuer agrees to indemnify and hold harmless the Broker for any failure to so notify the Broker or any error in any such notification. The Issuer also acknowledges that any action that it takes that causes or influences any such affiliated purchaser to purchase the Stock may cause the Daily Share Purchase Amount to be reduced.

**8. Exclusive Agreement**

At the time of the Issuer's execution of this Repurchase Agreement, the Issuer has not entered into a similar agreement with respect to the Stock. The Issuer agrees not to enter into any such agreement while this Repurchase Agreement remains in effect.

**9. Compliance**

Except as specifically contemplated hereby, the Issuer shall be solely responsible for compliance with all statutes, rules and regulations applicable to the Issuer and the transactions contemplated hereby, including, without limitation, reporting and filing requirements.

**10. Applicable Law**

This Repurchase Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Virginia (without regard to its conflicts of laws provisions), and may be modified or amended only by a writing signed by the parties hereto.

**11. Authorization of Program**

The Issuer represents and warrants that the transactions contemplated hereby are consistent with the Issuer's publicly announced stock repurchase program ("Program") and said Program has been duly authorized by the Issuer's Board of Directors.

**12. Stock Splits**

The number of Total Plan Shares, other share amounts and prices, if applicable, set forth in section 1(a) shall be adjusted automatically on a proportionate basis to take into account any stock split, reverse stock split or stock dividend with respect to the Stock or any change in capitalization with respect to the Issuer that occurs during the term of this Repurchase Agreement.

**13. Authority, Influence and Control**

Except as contemplated by Section 1.A. and Section 3.A. iii. of this Repurchase Agreement, the Issuer acknowledges and agrees that it will have limited authority, influence or control over any Purchase effected by the Broker pursuant to this Repurchase Agreement and the Issuer will not attempt to exercise any authority, influence or control over Purchases. The Broker agrees not to seek advice from the Issuer with respect to the manner in which it effects Purchases under this Repurchase Agreement.

**14. Indemnification**

The Issuer agrees to indemnify and hold harmless the Broker and its affiliates and their officers, directors, employees and representatives against any loss, claim, damage or liability, including legal fees and expenses, arising out of any action or proceeding relating to this Repurchase Agreement or any Purchase, except to the extent that any such loss, claim, damage or liability is determined in a non-appealable determination of a court of competent jurisdiction to be solely the result of the indemnified person's willful misconduct or gross negligence.

**15. Counterparts**

This Repurchase Agreement may be executed in any number of counterparts, all of which, taken together, shall constitute one and the same agreement.

**[END OF PAGE]  
[SIGNATURE PAGE FOLLOWS]**

IN WITNESS WHEREOF, the undersigned have signed this Repurchase Agreement as of the date first written above.

BB&T Investment Services, Inc.

\_\_\_\_\_  
Name: Darren Earnhardt  
Its: Chief Financial Officer

OPTICAL CABLE CORPORATION

By: \_\_\_\_\_  
Tracy G. Smith  
Chief Financial Officer

## CERTIFICATION

I, Neil D. Wilkin, Jr., certify that:

1. I have reviewed this report on Form 10-Q of Optical Cable Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 14, 2007

/s/ Neil D. Wilkin, Jr.

Neil D. Wilkin, Jr.  
Chairman of the Board of Directors,  
President and Chief Executive Officer

## CERTIFICATION

I, Tracy G. Smith, certify that:

1. I have reviewed this report on Form 10-Q of Optical Cable Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 14, 2007

/s/ Tracy G. Smith

Tracy G. Smith

Vice President and Chief Financial Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Optical Cable Corporation (the "Company") on Form 10-Q for the quarter ended April 30, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that: (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and (2) the information contained in the Report fairly represents, in all material respects, the financial condition and results of operations of the Company as of April 30, 2007, and for the period then ended.

Date: June 14, 2007

/s/ Neil D. Wilkin, Jr.

Neil D. Wilkin, Jr.

Chairman of the Board of Directors,  
President and Chief Executive Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Optical Cable Corporation (the "Company") on Form 10-Q for the quarter ended April 30, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that: (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and (2) the information contained in the Report fairly represents, in all material respects, the financial condition and results of operations of the Company as of April 30, 2007, and for the period then ended.

Date: June 14, 2007

/s/ Tracy G. Smith

Tracy G. Smith

Vice President and Chief Financial Officer