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

Form 10-K

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

For the fiscal year ended October 31, 2008

Commission File Number 0-27022

OPTICAL CABLE CORPORATION

(Exact name of the registrant as specified in its charter)

Virginia
(State or other jurisdiction of
incorporation or organization)

5290 Concourse Drive, Roanoke, VA
(Address of principal executive offices)

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

24019
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock, no par value	Nasdaq Global Market

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934. Yes No

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. (1) Yes No (2) Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller Reporting Company <input checked="" type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes No

The aggregate market value of the registrant's Common Stock, no par value, held by non-affiliates of the registrant (without admitting any person whose shares are not included in determining such value is an affiliate) as of April 30, 2008, the last business day of the Company's most recent second quarter was \$26,722,843 based upon the closing price of these shares as reported by the Nasdaq Global Market on April 30, 2008.

As of January 23, 2009, the Company had outstanding 6,101,437 common shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Proxy Statement for the 2009 Annual Meeting of Shareholders are incorporated by reference in Part III of this Form 10-K Report: "Election of Directors," "Beneficial Ownership of Securities," "Compensation of Executive Officers," "Compensation of Directors," "Compliance with Section 16(a) of the Securities Exchange Act of 1934," "Code of Ethics," "Executive Compensation," "Compensation Committee Report on Executive Compensation," "Beneficial Ownership of Common Stock," "Equity Compensation Plans Information," "Certain Relationships and Related Transactions," "Independent Registered Public Accounting Firm," and "Audit Committee Pre-approval of Audit and Permissible Non-audit Services of Independent Registered Public Accounting Firm." In addition, portions of the Company's Annual Report filed as exhibit 13.1 to this report on Form 10-K are incorporated by reference in Part II of this Form 10-K Report: "Corporate Information," "Management's Discussion and Analysis," "Consolidated Financial Statements," "Notes to Consolidated Financial Statements," and "Report of Independent Registered Public Accounting Firm."

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PART I

Item 1. BUSINESS

Overview

Optical Cable Corporation was incorporated in the Commonwealth of Virginia in 1983. We are headquartered at 5290 Concourse Drive, Roanoke, Virginia 24019 and our telephone number is (540) 265-0690. Optical Cable Corporation, together with our wholly owned subsidiary, Superior Modular Products Incorporated, doing business as SMP Data Communications (“SMP Data Communications”), has offices and manufacturing and warehouse facilities located both in Roanoke, Virginia and near Asheville, North Carolina.

Optical Cable Corporation and its subsidiaries (collectively, the “Company”) is a leading manufacturer of a broad range of fiber optic cable and data communication connectivity solutions, and offers an integrated suite of high quality, warranted cabling and connectivity products, primarily for the enterprise market. Our product offerings include designs for uses ranging from commercial, enterprise network and campus installations to customized products for specialty applications, residential applications, and harsh environments, including military, industrial, mining and broadcast applications. Our products are designed to meet the most demanding needs of end-users, delivering a high degree of reliability and outstanding performance characteristics.

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, creating a broad product offering built on the evolution of these fundamental technologies.

On May 30, 2008, Optical Cable Corporation acquired SMP Data Communications. Founded in 1990, SMP Data Communications is a wholly owned subsidiary of Optical Cable Corporation that develops copper and fiber passive connectivity hardware components for use in the enterprise market, including a broad range of commercial and residential applications. SMP Data Communications is internationally recognized for its role in establishing copper connectivity data communications standards, through its innovative and patented technologies.

Our combined product offerings are exceptionally complementary. While separate legal entities, Optical Cable Corporation and SMP Data Communications go to market as one company, offering a comprehensive and integrated suite of high quality, warranted cabling and connectivity products, primarily for the enterprise market, with fiber optic product lines being branded Optical Cable Corporation and copper products lines being branded SMP Data Communications. In addition to the integrated management of sales and marketing functions, a number of other functions are integrated under a single management structure, including accounting, finance, information technology and human resources. At the current time, manufacturing, engineering and quality are managed separately at our Roanoke, Virginia and Asheville, North Carolina facilities.

We primarily manufacture our high quality fiber optic cables at our ISO 9001:2000 registered and MIL-STD-790F certified facility located in Roanoke, Virginia and we primarily manufacture our high quality fiber and copper connectivity products at our ISO 9001:2000 registered facility located near Asheville, North Carolina.

On August 1, 2008, Optical Cable Corporation acquired 70% of the authorized membership interests of Centric Solutions LLC (“Majority-owned Subsidiary”). Majority-owned Subsidiary is a start-up business founded in 2008 to provide turnkey cabling and connectivity solutions for the datacenter market. Majority-owned Subsidiary operates and goes to market separately from Optical Cable Corporation, however, in some cases, Majority-owned Subsidiary includes products supplied by Optical Cable Corporation and SMP Data Communications in its product offering.

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Products

We are a leading manufacturer of a broad range of fiber optic cable and data communication connectivity solutions, and offer an integrated suite of high quality, warranted cabling and connectivity products, primarily for the enterprise market. Our product offerings include designs for uses ranging from commercial, enterprise network and campus installations to customized products for specialty applications, residential applications, and harsh environments, including military, industrial, mining and broadcast applications. Our products are designed to meet the most demanding needs of end-users, delivering a high degree of reliability and outstanding performance characteristics.

Fiber Optic Cable Products

We manufacture and market a broad array of fiber optic cables that provide high bandwidth transmission of data, video and voice communications over short- to moderate-distances. Our product line is diverse and versatile, in keeping with evolving application needs of customers within our markets. Our tight-buffered fiber optic cables address the needs of the enterprise market in particular, and to a lesser extent the access market.

The following summarizes the major construction types of fiber optic cables we produce and their attributes; however, we produce many other types of fiber optic cables as well:

A-Series Assembly Fiber Optic Cables. Our A-Series fiber optic cables contain one or two optical fibers which are surrounded by a layer of aramid yarn strength members to prevent the optical fiber from being stretched if there is tension on the fiber optic cable. A flexible and resilient thermoplastic outer jacket is then applied to further strengthen and protect the optical fiber. These fiber optic cables are used for jumpers, which are short length patch cords, and for pigtails, which are short lengths of fiber optic cable with a connector on one end. Various special outer jacket materials are offered to provide flammability ratings and handling characteristics tailored to customers' needs. These fiber optic cables are sometimes privately labeled and often sold to original equipment manufacturers that produce the fiber optic cable assemblies.

B-Series Breakout Fiber Optic Cables. Our B-Series fiber optic cables consist of a number of subcables, each consisting of a single optical fiber, aramid yarn strength members and a subcable jacket. These subcables are generally tightbound in a high performance Core-Locked™ outer jacket to form the finished multifiber fiber optic cables. Like the A-Series fiber optic cables, the subcables are intended to be terminated directly with connectors. This direct termination feature makes this fiber optic cable type particularly well suited for shorter distance installations, where there are many terminations and termination costs are more significant. The materials and construction of the fiber optic cable permit its use both indoors and outdoors. These features make the fiber optic cables suitable for use in campus and industrial complex installations and between and within buildings since there is no need to splice outdoor fiber optic cables to indoor fiber optic cables at the building entrance.

D-Series Distribution Fiber Optic Cables. Our D-Series fiber optic cables are made with the same tight-buffered optical fiber as the B-Series fiber optic cables and with a high performance outer jacket. Unlike the B-Series fiber optic cables, each tight-buffered optical fiber in a D-Series fiber optic cable is not covered with a separate subcable jacket, giving the D-Series cables a smaller and more lightweight configuration. Our D-Series fiber optic cables also are available with a Core-Locked™ jacket. The tight-buffered optical fiber and high performance outer jacket make D-Series fiber optic cables rugged and survivable. D-Series fiber optic cables are suitable for longer distance applications, where termination considerations are less important and often traded off for size, weight and cost. They also can be armored for additional protection for use in buried and overhead installations. The high strength to weight ratio of these fiber optic cables makes them well suited for installations where long lengths of fiber optic cables must be pulled through duct systems. D-Series fiber optic cables are used in relatively longer length segments of installations, such as trunking, LAN and distribution applications, optical fiber in the loop, optical fiber to the curb and drop cables.

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G-Series Subgrouping Fiber Optic Cables. Our G-Series fiber optic cables combine a number of multifiber subcables, each similar to a D-Series fiber optic cable. Each multifiber subcable generally is tightbound with an elastomeric jacket, providing excellent mechanical and environmental performance. These subcables are further protected, generally with a pressure extruded, high performance Core-Locked™ outer jacket, to form the finished fiber optic cable. This design permits the construction of very high fiber count fiber optic cables. These fiber optic cables are well-suited for installations where groups of optical fibers must be routed to different locations.

Other Fiber Optic Cable Types. We believe that we offer the most comprehensive tight-buffered fiber optic cable product offering for the enterprise market. We produce variations on the basic fiber optic cable styles discussed above for more specialized installations, as well as various hybrid and composite cables (some variations are not available for all cable styles or types). We can armor fiber optic cables with corrugated steel tape or interlocking armor for further protection in certain installations. We offer cables suitable for underground or overhead installations. For overhead installations on utility poles, we offer several self-supporting fiber optic cables, with higher performance outer jackets, as well as M-Series aerial messenger cables which feature a stainless steel or galvanized steel, self-supporting messengered construction. We have fiber optic cables available in several flammability ratings, including plenum for use in moving air spaces in buildings, and riser for less critical flame-retardant requirements. Zero halogen versions of many of our fiber optic cables are available for use in enclosed spaces where there is concern over release of toxic gases during fire. We offer various hybrid and composite fiber optic cables combining different types of optical fiber and/or copper wires, with copper wires being used as power feeds or to facilitate the transition from copper wire to optical fiber-based systems without further installation of fiber optic cables. Our composite cables include a line of security cables which combine copper power feeds with optical fiber in the cables making them particularly well suited for surveillance cameras and other specialty applications. We also offer specialty fiber optic cables, such as for use in military ground tactical, industrial (including tray cables), mining, deployable broadcast, oil and gas, festoon, and pierside applications. Our product offering further includes fiber optic cables complying with or certified to various standards for specialty applications, such as: U.S. Department of Defense MIL-PRF-85045/8A and U.K. Ministry of Defence Def-Stan 60-1, Part 3 qualifications for military ground tactical fiber optic cable; Det Norske Veritas (DNV) type approval certificate for marine shipboard and offshore platform applications; U.S. Mine Safety and Health Administration (MSHA) approval for use in mines; and American Bureau of Shipping (ABS) type approved cables. Additionally, we offer our customers a variety of customized constructions to meet their specific communication needs.

Fiber Optic and Copper Connectivity Products

We design and manufacture quality innovative copper and fiber connectivity components for use in a broad range of commercial and residential applications. We are internationally recognized for our role in establishing copper connectivity data communication standards, through our innovative and patented technologies.

The following summarizes the major types of copper and fiber optic passive connectivity products and their attributes; however, we produce many other types of connectivity products as well:

Copper Closet and Workstation Products. Our Copper Closet and Workstation connectivity solutions offer customers a complete line of copper connectivity components necessary for the equipment room, the telecommunications closet, the datacenter and the workstation. Our products include: category compliant plugs and jacks (including products with patented circuit board technology and products in a standard Keystone or proprietary Bezel configuration), patch cords, faceplates, surface mounted boxes, distribution and multimedia boxes, patch panels, cable assemblies, cable organizers, and other wiring products. Our product offering includes: products compliant with Category 6a, 6 and 5e standards, shielded and unshielded products, and products suitable for certain telco applications. Our product offering also includes patented technologies with unique features, such as our keyed Limited Access™ connectors.

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Residential Systems. Our offering includes the Home Axxess™ product line, a comprehensive line of high-quality wiring products comprised of various enclosures, modules and modular outlets designed for single dwelling and multiple dwelling residential use. By utilizing our products, customers obtain a convenient method for networking, customizing and distributing all of the electronic services in the home including voice, data, video, audio and security, all managed from one central location.

Fiber Optic Connectivity Products. Our FiberOpticx™ product line provides a wide range of fiber distribution solutions for equipment room, the telecommunication closet, the datacenter and the workstation. Our product offering includes wall mount enclosures, rack mount enclosures, pre-terminated enclosures, patch panels, connectors, splice trays, fiber optic jumpers, plug and play cassette modules, adapters, and accessories.

Rack Solutions. We offer a complete array of high-performance network, data storage and telecommunications management systems for commercial and residential use. Our rack solutions product line includes data cabinets, wall-mount enclosures, horizontal and vertical cable management systems and open frame relay racks. These products meet the demands of all network segments including LAN, WAN, Metro Co-location, POPs and Gateways. They serve the equipment, cross-connect and termination needs for copper, fiber optic and coaxial multi-media applications.

Distribution Methods of Products and Services

Our products are sold to major distributors, regional distributors, various smaller distributors, original equipment manufacturers, value-added resellers, and, in certain cases, end-users. Generally, our products are purchased from our customers by contractors, system integrators and end-users.

Competitive Business Conditions, Positions in the Industry and Methods of Competition

The market for fiber optic cables and data communication connectivity products for the enterprise market and other short- to moderate-distance markets are highly competitive. Our fiber optic cable product lines compete with products of large, integrated fiber optic cable manufacturers such as Corning Cabling Systems, OFS, and Draka Comteq, as well as with other large fiber optic cable manufacturers such as General Cable, Belden, Nexans (doing business as Berk-Tek), CommScope and others. Our fiber optic and copper connectivity product lines compete with products of large fiber optic and copper connectivity manufacturers such as CommScope, Corning Cabling Systems, OFS, Ortronics/Legrand, Panduit, Belden 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.

Compliance with Environmental Laws

We are not aware of any material violations at our facilities of any local, state or federal environmental laws. We have not incurred any material expenditures related to environmental compliance during our 2008 fiscal year. We believe that we have materially complied with all applicable environmental regulations.

Research and Development Activities

Research and development costs totaled \$528,000 for the fiscal year ended October 31, 2008. There were no significant research and development costs for the fiscal years ended October 31, 2007 and 2006.

Customers

We have a global customer base, selling in over 50 countries in fiscal year 2008. The following is a partial list of representative types of end-users of our fiber optic cables and copper and fiber optic connectivity products:

- Commercial Institutions. Businesses located in offices, retail space, and medical facilities, to name a few, are installing or improving networks to distribute increasing volumes of data. These businesses often use high performance local area networks (“LANs”) or datacenters.

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- **Government Agencies.** Government agencies tend to have large buildings or complexes, many people, and the need to access and process large quantities of data. Like commercial institutions, these routinely include high performance LANs or datacenters. Security also may be desired, making our cabling and connectivity solutions a logical choice.
- **Industrial and Manufacturing Facilities.** Industrial and manufacturing facilities typically have a more severe environment (often with heavy electrical equipment) than other types of businesses. Fiber optic cable and connectivity in these environments offers immunity to electrical noise, ruggedness, high information carrying capacity and greater distance capability. Such facilities also have need for our copper connectivity products. Our products are installed in automotive assembly plants, steel plants, chemical and drug facilities, petrochemical facilities and petroleum refineries, mines and other similar environments.
- **Cable Assembly Houses.** Cable assembly houses typically manufacture cable assemblies, which are short lengths of cable pre-terminated with connectors. Supporting virtually all segments of the market, these manufacturers consume large quantities of cables and connectivity products. Products sold to customers in this market sometimes may be privately labeled.
- **Military.** Our core fiber optic cable technologies enable us to develop and efficiently produce fiber optic cables for military tactical applications that survive extreme mechanical and environmental conditions. We are certified by both the United States Department of Defense (“U.S. DoD”) and the United Kingdom Ministry of Defence as a qualified supplier of ground tactical fiber optic cable. Our manufacturing facility has also been certified by the U.S. DoD as a MIL-STD-790F facility, one of the most respected certifications in the defense industry. We also hold contracts with the U.S. DoD to supply tactical fiber optic cable assemblies, which we sell as fiber optic cables connectorized with qualified military connectors on military reels ready for deployment.
- **Educational Institutions.** Colleges, universities, high schools and grade schools are installing and improving their networks for higher data transmission speeds, as well as using datacommunications solutions to support interactive learning systems.
- **Original Equipment Manufacturers.** We private label a number of our copper connectivity products for other major manufacturers of copper connectivity, including major competitors. Additionally, we license and cross-license a number of our patents with other major manufacturers of copper connectivity.

Our extensive technology base and versatile manufacturing processes enable us to respond to diverse customer needs.

Employees

As of October 31, 2008, we employed a total of 324 persons. None of our employees is represented by a labor union. We have experienced no work stoppages and we continue to take steps we believe appropriate to ensure our employee relations are good.

Item 1A. RISK FACTORS

Not required for a “smaller reporting company” as defined in Rule 12b-2 promulgated under the Securities Exchange Act of 1934, as amended.

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Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

We own our facility located in Roanoke County, Virginia, and the land on which our Roanoke facility is located. Our Roanoke facility houses our corporate headquarters, our fiber optic cable manufacturing, our fiber optic cable product development function and our fiber optic cable warehouse. Our Roanoke facility is situated on approximately 23 acres of land near the Roanoke, Virginia airport and major trucking company facilities. Our Roanoke facility building is approximately 146,000 square feet.

We own our facility near Asheville, North Carolina (in Swannanoa, North Carolina) and the land on which our Asheville facility is located. Our Asheville facility houses administrative offices, our connectivity manufacturing, our connectivity product development function and our connectivity warehouse. Our Asheville facility is situated on approximately 13 acres of land located east of Asheville, North Carolina. The Asheville facility includes two buildings totaling approximately 64,000 square feet.

We believe that we are currently operating at approximately 50% of our production equipment capacity at our manufacturing facilities.

Additional personnel would need to be hired and trained, and additional warehousing space may be needed to utilize our excess production equipment capacity at both the Roanoke and Asheville facilities. We can provide no assurance as to the time required to complete the process of hiring and training personnel or our ability to secure additional warehousing space, necessary to utilize our excess capacity.

Item 3. LEGAL PROCEEDINGS

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 its financial position, results of operations or liquidity.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of the year ended October 31, 2008.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The information pertaining to shareholders beneficially owning more than five percent of the Company's common stock and the security ownership of management, which is set forth under the caption "Beneficial Ownership of Common Stock" in the Proxy Statement for the 2009 Annual Meeting of Shareholders of the Company, is incorporated herein by reference.

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Issuer Purchases of Equity Securities

The following table summarizes the Company's purchases of its common stock for the three months ended October 31, 2008:

<u>Period</u>	<u>Total number of shares purchased (1)</u>	<u>Average price paid per share (2)</u>	<u>Total number of shares purchased as part of publicly announced plans or programs</u>	<u>Maximum number of shares that may yet be purchased under the plan or programs (1)</u>
August 1, 2008 - August 31, 2008	—	—	—	158,827
September 1, 2008 - September 30, 2008	—	—	—	158,827
October 1, 2008 - October 31, 2008	9,100	\$ 4.01	9,100	149,727

- (1) 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 anticipated that the purchases would be made over a 12-month period, but there is no definite time period for repurchase. For the three month period ended October 31, 2008, the Company repurchased and retired 9,100 shares of its outstanding common stock. The repurchase, including brokerage and legal fees, totaled approximately \$37,000. As of October 31, 2008, 6,208,861 shares of the Company's common stock were outstanding.
- (2) The average price paid per share set forth above includes the purchase price paid for the shares, and brokerage and legal fees paid by the Company. The average purchase price per share (excluding brokerage and legal fees) paid by the Company for the three months ended October 31, 2008 was \$3.98.

The information contained under the caption "Corporate Information" of our Annual Report for the fiscal year ended October 31, 2008, filed as Exhibit 13.1 to this report on Form 10-K, is incorporated herein by reference.

Item 6. SELECTED FINANCIAL DATA

Not required for a "smaller reporting company" as defined in Rule 12b-2 promulgated under the Securities Exchange Act of 1934, as amended.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information contained under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report for the fiscal year ended October 31, 2008, filed as Exhibit 13.1 to this report on Form 10-K, is incorporated herein by reference.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We do not engage in transactions in derivative financial instruments or derivative commodity instruments. As of October 31, 2008, 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.

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Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information contained under the captions “Consolidated Financial Statements,” “Notes to Consolidated Financial Statements,” and “Report of Independent Registered Public Accounting Firm” of our Annual Report for the fiscal year ended October 31, 2008, filed as Exhibit 13.1 to this report on Form 10-K, is incorporated herein by reference.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A (T). CONTROLS AND PROCEDURES

Disclosure Controls and Procedures.

The Company maintains disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) that are designed to be effective in providing reasonable assurance that information required to be disclosed in reports under the Exchange Act are recorded, processed and summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission (the “SEC”), and that such information is accumulated and communicated to management to allow for timely decisions regarding required disclosure.

In designing and evaluating disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, will be detected. These inherent limitations include the realities that judgments in decision making can be faulty and that breakdowns can occur because of simple error or mistake. The design of any system of controls is based, in part, upon certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

As of October 31, 2008, the Company completed an evaluation, under the supervision and with the participation of management, including the chief executive officer and the chief financial officer (principal accounting officer and principal financial officer), of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, the chief executive officer and chief financial officer concluded that the Company’s disclosure controls and procedures were effective as of October 31, 2008.

Management’s Annual Report on Internal Control Over Financial Reporting.

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) or 15d-15(f) under the Exchange Act). Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America and include those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of our management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Further, the evaluation of the effectiveness of internal control over financial reporting was made as of a specific date, and continued effectiveness in future periods is subject to the risks that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies and procedures may decline.

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Management conducted an evaluation of the design and effectiveness of the Company's system of internal control over financial reporting as of October 31, 2008, based on the framework set forth in "Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its evaluation, management concluded that, as of October 31, 2008, the Company's internal control over financial reporting was effective.

This Annual Report on Form 10-K does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to temporary rules of the SEC that permit the Company to provide only management's report in this Annual Report on Form 10-K.

Changes in Internal Control Over Financial Reporting.

There were no changes in the Company's internal controls over financial reporting during the fourth fiscal quarter of the fiscal year covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. OTHER INFORMATION

None.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

For information with respect to the Directors of the registrant, see "Election of Directors," "Directors," and "Executive Officers" in the Proxy Statement for the 2009 Annual Meeting of Shareholders of the Company, which information is incorporated herein by reference.

For information with respect to the executive officers of the registrant, see "Executive Officers" in the Proxy Statement for the 2009 Annual Meeting of Shareholders of the Company, which information is incorporated herein by reference.

The information with respect to compliance with Section 16(a) of the Securities Exchange Act of 1934, which is set forth under the caption "Compliance with Section 16(a) of the Securities Exchange Act of 1934" in the Proxy Statement for the 2009 Annual Meeting of Shareholders of the Company, is incorporated herein by reference.

The information concerning the Company's code of ethics that applies to the Company's principal executive officer and the Company's senior financial officers required by this Item is incorporated by reference to the Company's Proxy Statement under the heading "Code of Ethics."

Item 11. EXECUTIVE COMPENSATION

The information set forth under the captions "Executive Compensation," "Compensation Committee Report on Executive Compensation," and "Director Compensation" in the Proxy Statement for the 2009 Annual Meeting of Shareholders of the Company is incorporated herein by reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Equity Compensation Plan Information

<u>Plan Category</u>	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights(1)	(b) Weighted-average exercise price of outstanding options, warrants, and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders:			
1996 Stock Incentive Plan			
Stock Option Grants	175,082 shares	\$ 7.60	— shares
Restricted Share Grants	44,790 shares	—	— shares
Total 1996 Stock Incentive Plan	219,872 shares	\$ 6.05	— shares
2005 Stock Incentive Plan	382,638 shares	—	479,941 shares
2004 Non-employee Directors Plan	— shares	—	198,964 shares
Total for approved plans	602,510 shares	\$ 2.21	678,905 shares
Equity compensation not pursuant to plan approved by security holders			
holders	3,123 shares	\$ 7.12	— shares
Total for all plans	605,633 shares	\$ 2.23	678,905 shares

(1) Includes restricted shares that are issued and outstanding, but have not yet vested and are subject to forfeiture.

The term “shares” in the table above means our common shares.

During 2002 our Board of Directors approved grants of stock options to purchase a total of 3,123 shares of our common stock at an exercise price of \$7.12 per share, the closing price at the date of the grant. These grants were not submitted to a vote of the shareholders. These grants were made to non-employee members of the Board of Directors who had not served as an executive officer during the past year as partial compensation for service by non-employee directors. Non-employee members of the Board of Directors abstained from the vote approving the grants. These options vested monthly over one year. The per share estimated fair value of stock options granted to these outside members of the Board of Directors was \$6.87 on the date of grant using the Black-Scholes option-pricing model with the following assumptions: no expected cash dividend yield, risk-free interest rate of 5.34%, expected volatility of 133.6% and an expected life of 9 years.

The information concerning stock ownership by directors, executive officers and shareholders beneficially owning more than five percent of the Company’s common stock, which is set forth under the caption “Beneficial Ownership of Common Stock” in the Proxy Statement for the 2009 Annual Meeting of Shareholders of the Company, is incorporated herein by reference.

The information concerning securities authorized for issuance under equity compensation plans required by this Item, pursuant to Item 201(d) of Regulation S-K, is incorporated by reference to the Company’s Proxy Statement under the heading “Equity Compensation Plans Information.”

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information with respect to certain transactions with management of the Company, which is set forth under the caption “Certain Relationships and Related Transactions” in the Proxy Statement for the 2009 Annual Meeting of Shareholders of the Company, is incorporated herein by reference.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information with respect to certain principal accountant fees and services, which is set forth under the caption “Independent Registered Public Accounting Firm” in the Proxy Statement for the 2009 Annual Meeting of Shareholders of the Company, is incorporated herein by reference.

The information concerning pre-approval policies for audit and non-audit services required by this Item is incorporated by reference to the Company’s Proxy Statement under the heading “Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Registered Public Accounting Firm.”

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) List of documents filed as part of this report:

1. Financial statements: The Company’s consolidated financial statements and related information are hereby incorporated by reference to pages 24 to 47 of the Company’s Annual Report filed as Exhibit 13.1 to this Form 10-K.
2. Financial statement schedules: All schedules are omitted, as the required information is inapplicable or the information is presented in consolidated financial statements or related notes thereto.
3. Exhibits to this Form 10-K pursuant to Item 601 of Regulation S-K are as follows:

<u>Exhibit No.</u>	<u>Description</u>
2.1	Agreement and Plan of Merger dated May 30, 2008, by and among Optical Cable Corporation, Aurora Merger Corporation, Preformed Line Products Company and Superior Modular Products Incorporated (incorporated herein by reference to Exhibit 2.1 to the Company’s Current Report on Form 8-K filed June 2, 2008).
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)).

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- 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).
- 4.6 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).
- 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).
- 4.13 Amendment to Commercial Loan Agreement dated October 26, 2007 by and between Optical Cable Corporation and Valley Bank (Loan No. 156779) (incorporated herein by reference to Exhibit 4.13 of the Company's Annual Report on Form 10-K for the period ended October 31, 2007).
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- 4.15 Amendment No. 1 dated February 29, 2008 to the 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 4.2 of the Company's Current Report on Form 8-K filed February 29, 2008).
- 4.16 Credit Agreement dated May 30, 2008 by and between Optical Cable Corporation and Superior Modular Products Incorporated as borrowers and Valley Bank as lender in the amount of \$17,000,000 consisting of a Revolver in the amount of \$6,000,000; Term Loan A in the amount of \$2,240,000; Term Loan B in the amount of \$6,500,000; and a Capital Acquisitions Term Loan in the amount of \$2,260,000. FILED HEREWITH.
- 4.17 Credit Line Deed of Trust dated May 30, 2008 between Optical Cable Corporation as Grantor, LeClairRyan as Trustee and Valley Bank as Beneficiary. FILED HEREWITH.
- 4.18 Deed of Trust, Security Agreement and Fixtures Filing dated May 30, 2008 by and between Superior Modular Products Incorporated as Grantor, LeClairRyan as Trustee and Valley Bank as Beneficiary. FILED HEREWITH.
- 4.19 Security Agreement dated May 30, 2008 between Optical Cable Corporation and Superior Modular Products Incorporated and Valley Bank. FILED HEREWITH.
- 4.20 Revolving Loan Note in the amount of \$6,000,000 by Optical Cable Corporation and Superior Modular Products Incorporated dated May 30, 2008. FILED HEREWITH.
- 4.21 Term Loan A Note in the amount of \$2,240,000 by Optical Cable Corporation and Superior Modular Products Incorporated dated May 30, 2008. FILED HEREWITH.
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- 4.23 Capital Acquisitions Term Note in the amount of \$2,260,000 by Optical Cable Corporation and Superior Modular Products Incorporated dated May 30, 2008. FILED HEREWITH.
- 10.1* Employment Agreement by and between Optical Cable Corporation and Neil D. Wilkin, Jr. effective November 1, 2002 (incorporated by reference to Exhibit 10.1 to our 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 by reference herein to Exhibit 10.1 to the Company's Current Report on Form 8-K dated January 24, 2005 (file number 0-27022)).

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- 10.3* Employment Agreement by and between Optical Cable Corporation and Luke J. Huybrechts, effective November 1, 2002 (incorporated 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)).
- 10.4* Employment Agreement by and between Superior Modular Products Incorporated and William R. Reynolds effective May 30, 2008 (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended July 31, 2008 (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).
- 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's 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).

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- 11.1 Statement regarding computation of per share earnings (incorporated by reference to note 13 of the Notes to Financial Statements contained herein).
- 13.1 Annual Report. FILED HEREWITH.
- 23.1 Consent of Independent Registered Public Accounting Firm. FILED HEREWITH.
- 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.

* Management contract or compensatory plan or agreement.

Date: January 29, 2009

/s/ JOHN B. WILLIAMSON, III

John B. Williamson, III
Director

Exhibit Index

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13.1	Annual Report. FILED HEREWITH.

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31.1	Certification of the Company's Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. FILED HEREWITH.
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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.
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* Management contract or compensatory plan or agreement.

CREDIT AGREEMENT

between

OPTICAL CABLE CORPORATION and

SUPERIOR MODULAR PRODUCTS INCORPORATED, as Borrower

and

VALLEY BANK, as Bank

May 30, 2008

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Exhibit 3.1(c)	Term Loan B Note	
Exhibit 3.1(d)	Capital Acquisitions Term Loan Note	
Exhibit 7.1(a)	Compliance Certificate	

CREDIT AGREEMENT

THIS CREDIT AGREEMENT dated as of May 30, 2008, by and between OPTICAL CABLE CORPORATION, a Virginia corporation ("OCC"), SUPERIOR MODULAR PRODUCTS INCORPORATED, a Delaware corporation ("SMP", and together with OCC, each individually with respect to itself, jointly and severally, and collectively, the "Borrower"), and VALLEY BANK, a Virginia banking corporation, its affiliates and their successors and assigns (the "Bank"), provides:

RECITALS

WHEREAS, the Borrower and the Bank desire to agree to the terms and conditions upon which the Borrower may obtain certain loans from the Bank.

AGREEMENT

NOW THEREFORE, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS

1.1 The terms defined in this Article I shall for all purposes of this Agreement have the meanings herein specified unless the context expressly or by necessary implication otherwise requires:

"Acquisition Agreement" means that certain Merger Agreement by and between the Borrower, Aurora Merger Corporation and Preformed Line Products Company and SMP, dated May 30, 2008, as amended, supplemented or otherwise modified from time to time.

"Affiliate" means any Person (1) which directly or indirectly controls, or is controlled by, or is under common control with, the Borrower; or (2) which directly or indirectly beneficially owns or holds five percent or more interest in the Borrower. The term "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract, or otherwise.

"Agreement" means this Credit Agreement between the Borrower and the Bank, as amended, supplemented, or modified from time to time.

"AOS" means Applied Optical Systems, Inc., a Delaware corporation.

"Bank" has the meaning set forth in the preamble of this Agreement.

“Business Day” means any day other than Saturday, Sunday or other day on which commercial banks in Roanoke, Virginia, are authorized or required to close under applicable laws, and, if the applicable day relates to a LIBOR Base Loan, or notice with respect to a LIBOR Base Loan, a day on which dealings in Dollar deposits are also carried on in the London interbank market and banks are open for business in London.

“Capital Acquisitions Term Loan” means the loan or loans described under Section 2.1(c).

“Capital Acquisitions Term Loan Limit” means as defined under Section 3.1(d)(i) hereof.

“Capital Acquisitions Term Loan Termination Date” means June 1, 2015.

“Capital Acquisitions Term Loan” means the promissory note evidencing the Capital Acquisitions Term Loan and any and all renewals, modifications, replacements and extensions thereof.

“Closing Date” means May 30, 2008.

“Collateral” means as defined under Section 4.1 hereof.

“Debt Service Coverage Ratio” shall have the meaning as defined under Section 7.11(b) of this Agreement.

“Dollar(s)” means lawful money of the United States of America.

“Eligible Inventory” means all raw materials inventory used or consumed in connection with the manufacture of goods produced by the Borrower and any Subsidiary and located at Borrower’s and such Subsidiary’s principal places of business. Criteria for eligibility shall be established by the Bank in a commercially reasonable manner.

“Eligible Receivables” means Receivables which are, and at all times shall continue to be, acceptable to the Bank in all respects and which meet the following criteria: (a) delivery of the goods or the rendition of services relating to such Receivable has been completed; (b) no return, rejection or repossession of the goods relating to such Receivable has occurred; (c) such goods or services have been accepted by the customer without dispute, offset, defense or counterclaim; (d) the Receivable continues to be in full conformity with the representations and warranties made by the Borrower herein with respect thereto; (e) no more than 90 days have elapsed from the invoice date of such Receivable; (f) the Bank is and continues to be satisfied with the credit standing of the customer in relation to the amount of credit extended; (g) no more than 50 percent of the entire amount of Receivables from such customer has been due and owing for more than 90 days from the date of invoice; (h) neither the customer nor any of its affiliates are subject to bankruptcy or insolvency proceedings; (i) the Receivable is not subject to a contra account; (j) the Receivable is not owed by an Affiliate of the Borrower; (k) the Receivable is not a foreign account (except for purposes of calculating Eligible Foreign Receivable, without duplication); and (l) the Receivable does not constitute an unpaid finance charge.

“Eligible Foreign Receivables” means Receivables which are due from any customer located outside the United States of America and which otherwise meet the criteria for Eligible Receivables.

“Environmental Laws” means any Federal, state or local laws, rules, ordinances or common law, and any judicial interpretation thereof, relating primarily to the environment or to environmental protection, including, but not limited to, the Clean Air Act, 42 U.S.C. Section 7401, et seq.; Federal Water Pollution Control Act, 33 U.S.C. Section 1251, et seq.; Solid Waste Disposal Act, 42 U.S.C. Section 6901, et seq.; Comprehensive Environmental Response Compensation and Liability Act, 42 U.S.C. Section 9601, et seq.; National Environmental Policy Act, 42 U.S.C. Section 4321, et seq.; and Toxic Substances Control Act, 15 U.S.C. Section 2601, et seq.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended, and the regulations and published interpretations thereof.

“ERISA Affiliate” means any trade or business (whether or not incorporated) which together with the Borrower would be treated as a single employer under Section 4001 of ERISA.

“Event of Default” means an event specified in Section 9.1 hereof.

“GAAP” means generally accepted accounting principles in the United States, consistently applied.

“Hazardous Materials” means all materials subject to regulation under Environmental Laws, including, but not limited to, asbestos, polychlorinated biphenyls (PCB’s), petroleum products, and lead based paints.

“Head Office” means the principal office of the Bank located at 36 Church Avenue, SW Roanoke, Virginia 24011.

“Indebtedness” means with respect to any Person at any time, without duplication, (i) all obligations of such Person for borrowed money, (ii) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments, (iii) all obligations of such Person upon which interest charges are customarily paid (other than accounts payable to suppliers incurred in the ordinary course of business and not overdue), (iv) all obligations of such Person under conditional sale or other title retention agreements relating to property purchased by such Person, (v) all obligations of such Person issued or assumed as the deferred purchase price of property or services (other than accounts payable to suppliers incurred in the ordinary course of business and not overdue), (vi) all obligations of others secured by any lien, security interest or encumbrance on property owned or acquired by such Person, whether or not the obligations secured thereby have been assumed, and (vii) all capitalized lease obligations of such Person.

“LIBOR Base Interest Rate” means the one-month London Interbank Offered Rate established by the British Bankers’ Association as of 11:00 a.m. (London, England time) on the first Business Day of each month during which a liquidity drawing remains unreimbursed, as published by an online information service such as Bloomberg Financial Markets News Services or any comparable reporting service selected by the Bank. The rate shall be adjusted on the first Business Day of each month and shall be effective as of the first calendar day of the month.

“LIBOR Base Loan” means any of the Loans when and to the extent the interest rate therefor is determined by reference to the LIBOR Base Interest Rate.

“Loan Documents” means, collectively, this Agreement, the Notes, the Security Agreement, and all documents, agreements, certificates, and instruments evidencing and securing the Loans, and as may be executed pursuant to, or transferred or delivered in connection with, this Agreement.

“Loans” means as defined under Section 1.1 hereof.

“Minimum Tangible Net Worth” shall have the meaning as defined under Section 7.11(a) of this Agreement.

“Multiemployer Plan” means a Plan described in Section 4001(a)(3) of ERISA which covers employees of the Borrower or any ERISA Affiliate.

“Notes” means, collectively, the Revolving Loan Note, Term Loan A Note, Term Loan B Note, and the Capital Acquisitions Term Loan Note.

“PBGC” means the Pension Benefit Guaranty Corporation.

“Permitted Encumbrances” means, as of any particular time, (a) liens imposed by mandatory provisions of law such as for materialmen’s, mechanics’, warehousemen’s and other like liens arising in the ordinary course of business securing charges for which payment is not yet due, (b) liens for taxes, assessments and governmental charges or levies imposed upon any person or upon such person’s income or profits or property, if the same are not yet due and payable or if the same are being contested in good faith and as to which adequate reserves therefor have been established on the Borrower’s books in accordance with generally accepted accounting principles, (c) liens arising in connection with any court proceedings in the aggregate amount of no more than \$100,000 at any one time, provided the execution of such liens is effectively stayed and such liens are contested in good faith and adequate reserves therefor have been established on the Borrower’s books in accordance with GAAP or any attachment or judgment lien not constituting an Event of Default hereunder, (d) liens incurred or deposits made securing statutory obligations under workmen’s compensation, unemployment insurance, social security or public liability laws or similar legislation or securing the performance of tenders, bids, leases, contracts (other than for the repayment of Indebtedness) and other similar obligations (excluding liens under ERISA), (e) pledges or deposits of money securing bids, tenders, contracts (other than contracts for the payment of money) or leases to which Borrower is a party as lessee made in the ordinary course of business, (f) carriers’, warehousemen’s, suppliers’ or other similar possessory liens arising in the ordinary course of business and securing liabilities in an outstanding aggregate amount not in excess of \$100,000 at any time, so long as such liens attach only to Inventory, (g) deposits securing, or in lieu of, surety, appeal or customs bonds in proceedings to which Borrower is a party, (h) liens in favor of the Bank, (i) purchase money liens incurred in the ordinary course of business for purchase of equipment (which may take the form of capitalized lease obligations), and (k) existing liens set forth on Schedule 2.1(b) (together with any renewals, replacements or extensions thereof).

“Person” means a corporation, association, partnership, limited liability company, organization, business, division, individual or government or political subdivision thereof or any governmental agency.

“Plan” means any employee pension benefit plan of the Borrower or any Subsidiary covered by ERISA.

“Prime Rate” means the prime interest rate as established by the Bank from time to time.

“Prime Loan or Loans” means any of the Loans when and to the extent the interest rate therefore is determined by reference to the Prime Rate.

“Prohibited Transaction” means a prohibited transaction as defined in Section 406 of ERISA.

“Properties” means the land, buildings, improvements and structures now or later owned or leased by the Borrower.

“Real Property” means the real property described on the attached Exhibit A.

“Receivable(s)” means all accounts, accounts receivable, contract rights, instruments, documents, chattel paper and general intangibles of the Borrower and each Subsidiary.

“Reportable Event” means a reportable event as defined in Section 4043 of ERISA that might constitute grounds for termination by the PBGC of an employee benefit plan of the Borrower covered by ERISA or for the appointment by the appropriate United States District Court of a trustee to administer any such plan.

“Revolving Loan” means the loan or loans described under Section 2.1(a).

“Revolving Loan Limit” means as defined under Section 3.1(a)(i) hereof.

“Revolving Loan Termination Date” means February 28, 2010.

“Revolving Loan Note” means the promissory note evidencing the Revolving Loan and any and all renewals, modifications, replacements and extensions thereof.

“Security Agreement” means that certain security agreement from the Borrower to the Bank, to secure the Loans and the Notes, as amended replaced or restated from time to time.

“Subsidiary” means any corporation, partnership, joint venture, limited liability company, of which the Borrower at the time owns or controls, directly or through any intervening medium, or in which the Borrower owns securities or other ownership interests representing more

than 50 percent of the ordinary voting power, or in the case of a partnership, more than 50 percent of the general partnership interests; *provided however*, that a right or option to obtain any such securities or ownership interests shall not be deemed to be owning or controlling same until and to the extent exercised.

“Tangible Net Worth” means the difference between total assets (defined in accordance with GAAP consistently applied)(less amounts owed to the Borrower under that certain note receivable from AOS, dated April 22, 2005, as modified from time to time) and total liabilities (defined in accordance with GAAP consistently applied), plus the dollar amount of the impact of all repurchases of common stock of OCC subsequent to the date of this Agreement that are executed in accordance with a stock redemption or repurchase plan or program approved by the board of directors of OCC prior to the date hereof.

“Term Loan A” means the loan or loans described under Section 2.1(b).

“Term Loan A Limit” means as defined under Section 3.1(b)(i) hereof.

“Term Loan A Termination Date” means June 1, 2013.

“Term Loan A Note” means the promissory note evidencing Term Loan A and any and all renewals, modifications, replacements and extensions thereof.

“Term Loan B” means the loan or loans described under Section 2.1(c).

“Term Loan B Limit” means as defined under Section 3.1(c)(i) hereof.

“Term Loan B Termination Date” means June 1, 2013.

“Term Loan B Note” means the promissory note evidencing Term Loan B and any and all renewals, modifications, replacements and extensions thereof.

“UCC” means the Uniform Commercial Code as adopted and in effect in the Commonwealth of Virginia, and with respect to matters outside of the Commonwealth of Virginia, similar laws in such states.

ARTICLE II

PURPOSES OF LOANS

2.1 Purposes of the Loans. The Borrower shall borrow from the Bank certain loans described as follows (the “Loans”):

(a) \$6,000,000 Revolving Loan to provide for the working capital needs of the Borrower and to finance the transactions contemplated by the Acquisition Agreement (the “Revolving Loan”);

- (b) \$2,240,000 term loan to finance the acquisition of the North Carolina Real Property (the "Term Loan A");
- (c) \$6,500,000 term loan to refinance an existing loan secured by the Virginia Real Property (the "Term Loan B"); and
- (d) \$2,260,000 term loan to assist with financing of capital acquisitions by the Borrower (the "Capital Acquisitions Term Loan").

ARTICLE III

THE LOANS

3.1 The Loans.

(a) Revolving Loan.

(i) Limit. The Bank shall, on the terms and subject to the conditions of this Agreement and the Loan Documents, make the Revolving Loan to the Borrower in the aggregate principal amount at any one time outstanding not to exceed the lesser of (i) \$6,000,000, or (ii) the sum of 85 percent of Eligible Receivables plus 35 percent of uninsured Eligible Foreign Receivables (or 100 percent of insured Eligible Foreign Receivables, without duplication and at the Bank's discretion) up to a maximum amount of \$1,500,000 at any one time plus 25 percent of Eligible Inventory (the "Revolving Loan Limit"). Within the Revolving Loan Limit, the Borrower may borrow, repay, and reborrow, at any time or from time to time from the Closing Date until the Revolving Loan Termination Date. If the Bank shall make advances in excess of the Revolving Loan Limit or in excess of the foregoing advance formula, such advances shall be subject to this Agreement and shall be secured by the Collateral. All advances shall be disbursed by the Bank and charged to the Borrower's account on the Bank's books, and shall bear interest as hereinafter provided, and be payable in accordance with the terms hereof and of the Revolving Loan Note.

(ii) Revolving Loan Interest and Repayment. The Revolving Loan shall be evidenced by the Revolving Loan Note in the form attached hereto as Exhibit 3.1(a), in the principal amount of the Revolving Loan Limit and payable to the order of the Bank. Advances under the Revolving Loan shall be LIBOR Base Loans, with interest accruing at the LIBOR Base Interest Rate plus 190 basis points; *provided however*, that at any time that the average quarterly deposits balance of the Borrower is less than \$500,000, interest shall accrue at the LIBOR Base Interest Rate plus 215 basis points. Repayment shall be made as follows: Accrued interest on the outstanding principal balance shall be paid in immediately available funds at the Head Office of the Bank on the first day of each month commencing on July 1, 2008, with all then outstanding principal, interest, fees and costs due on the Revolving Loan Termination Date.

(b) Term Loan A.

(i) Amount. The Bank shall on the terms and subject to the conditions of this Agreement and the Loan Documents, make Term Loan A to the Borrower in the aggregate principal amount not to exceed \$2,240,000 (the "Term Loan Limit"). Term Loan A shall be fully funded on the Closing Date. The Borrower may not re-borrow amounts thereunder.

(ii) Term Loan A Interest and Repayment. The Term Loan shall be evidenced by Term Loan A Note, payable to the order of the Bank, in the principal amount of Term Loan A Limit. Term Loan A shall accrue interest at six percent (6%) per annum based on a 360 day year, amortized over a 25 year period. Repayment shall be made as follows: 59 equal payments of principal and interest in the amount of \$14,556.93 in immediately available funds at the Head Office of the Bank on the first day of each month commencing on July 1, 2008, plus one final payment of principal and interest in the amount of \$2,032,147.07 and all then outstanding principal, interest, fees and costs due on Term Loan A Termination Date.

(c) Term Loan B.

(i) Amount. The Bank shall on the terms and subject to the conditions of this Agreement and the Loan Documents, make Term Loan B to the Borrower in the aggregate principal amount not to exceed \$6,500,000 (the "Term Loan B Limit"). Term Loan B shall be fully funded on the Closing Date. The Borrower may not re-borrow amounts thereunder.

(ii) Term Loan B Interest and Repayment. Term Loan B shall be evidenced by Term Loan B Note, payable to the order of the Bank, in the principal amount of Term Loan B Limit. Term Loan shall accrue interest at six percent (6%) per annum based on a 360 day year, amortized over a 25 year period. Repayment shall be made as follows: 59 equal payments of principal and interest in the amount of \$42,241.09 in immediately available funds at the Head Office of the Bank on the first day of each month commencing on July 1, 2008, plus one final payment of principal and interest in the amount of \$5,896,855.51 and all then outstanding principal, interest, fees and costs due on Term Loan B Termination Date.

(d) Capital Acquisitions Term Loan.

(i) Amount. The Bank shall on the terms and subject to the conditions of this Agreement and the Loan Documents, make the Capital Acquisitions Term Loan to the Borrower in the aggregate principal amount not to exceed \$2,260,000 (the "Capital Acquisitions Term Loan Limit"). The Capital Acquisitions Term Loan may be funded based upon draw requests of the Borrower for the 12 month period immediately after the Closing Date.

(ii) Capital Acquisitions Term Loan Interest and Repayment. The Capital Acquisitions Term Loan shall be evidenced by the Capital Acquisitions Term Loan Note, payable to the order of the Bank, in the principal amount of the Capital Acquisitions Term Loan Limit. The Capital Acquisitions Term Loan shall accrue interest at six percent (6%) per annum based on a 360 day year and convert to an amortized loan on June 1, 2009, amortized over a seven year period. Repayment shall be made as follows: Interest only payable monthly at the Head Office of the Bank for 12 months commencing June 1, 2008, then converting to 72 equal payments of principal and interest, based on outstanding principal as of May 31, 2009, in immediately available funds at the Head Office of the Bank on the first day of each month commencing on July 1, 2009, with all then outstanding principal, interest, fees and costs due on the Capital Acquisitions Term Loan Termination Date.

3.2 Notice and Manner of Borrowing for the Loans. The Borrower shall give the Bank written or facsimile notice, or through telephone conversation with the officer designated for purposes of notice in accordance with Section 10.1 hereof. If the advance request is received by 10:00 a.m. (Eastern), the Bank shall use commercially reasonable best efforts to advance funds the same Business Day and, if not, the next Business Day. All advances shall be funded in the Borrower's deposit account at the Bank.

3.3 Method of Payment. The Borrower shall make each payment under this Agreement and under the Notes not later than 5:00 p.m. (Eastern) on the date when due in lawful money of the United States to the Bank at the Bank's Head Office. The Borrower authorizes the Bank, if and to the extent payment is not made when due under this Agreement and the Notes, to charge from time to time against any account of the Borrower with the Bank any amount so due.

3.4 Prepayments. The Borrower may prepay the Notes, subject to the terms hereof, in whole or in part with accrued interest to the date of such prepayment on the amount prepaid without cost, premium, penalty, or otherwise. Except as may be otherwise agreed to by the Borrower and the Bank, all payments received by the Bank hereunder shall be applied, in accordance with the then current billing statement applicable to the advance, first to accrued interest, then to fees, then to principal due and then to late charges. Any remaining funds shall be applied to the further reduction of principal. Notwithstanding the foregoing, upon the occurrence and continuance of an Event of Default, payments shall be applied as determined by the Bank in its sole discretion.

3.5 Illegality. Notwithstanding any other provision in this Agreement, if the adoption of any applicable law, rule, or regulation, or any change therein, or any change in the interpretation or administration thereof by any governmental authority, central bank, or comparable agency charged with the interpretation or administration thereof, or compliance by the Bank with any request or directive (whether or not having the force of law) of any such authority, central bank, or comparable agency shall make it unlawful or impossible for the Bank to (a) maintain its commitment, then upon notice to the Borrower by the Bank the commitment of the Bank shall terminate; or (b) maintain or fund its LIBOR Base Loans, then upon notice to the Borrower by the Bank the outstanding principal amount of the LIBOR Base Loans, together with interest accrued thereon, and any other amounts payable to the Bank under this Agreement shall be repaid (i) immediately upon demand of the Bank if such change or compliance with such request, in the judgment of the Bank, requires immediate repayment; or (ii) at the expiration of the last interest period to expire before the effective date of any such change or request.

3.6 Insufficiency of Base Rate. Notwithstanding anything to the contrary herein, if the Bank determines on a commercially reasonable basis (which determination shall be conclusive) that:

(a) Quotations of interest rates for the relevant deposits referred to in the definition of LIBOR Base Interest Rate are not being provided in the relevant amounts or for the relative maturities for purposes of determining the rate of interest on LIBOR as provided in this Agreement; or

(b) The relevant rates of interest referred to in the definition of LIBOR Base Interest Rate upon the basis of which the rate of interest for any such type of Loan is to be determined do not accurately cover the cost of capital to the Bank of making or maintaining such type of Loan;

then the Bank shall forthwith give notice thereof to the Borrower, whereupon until the Bank notifies the Borrower that the circumstances giving rise to such suspension no longer exist, (i) the obligation of the Bank to make LIBOR Base Loans shall be suspended; and (ii) the LIBOR Base Loans shall be converted to Prime Loans.

3.7 Increased Cost. The Borrower shall pay to the Bank from time to time such amounts as the Bank may determine to be necessary to compensate the Bank for any costs incurred by the Bank which the Bank determines are attributable to its making or maintaining any LIBOR Base Loans hereunder or its obligation to make any such Loans hereunder, or any reduction in any amount receivable by the Bank under this Agreement or the Notes in respect of any such Loans or such obligation (such increases in costs and reductions in amounts receivable being herein called "Additional Costs"), caused by any change after the date of this Agreement in United States federal, state, municipal, or foreign laws or regulations (including Regulation D), or the adoption or making after such date of any interpretations, directives, or requirements applying to a class of banks including the Bank of or under any United States federal, state municipal, or any foreign laws or regulations (whether or not having the force of law) by any court or governmental or monetary authority charged with the interpretation or administration thereof. The Bank will notify the Borrower of any event occurring after the date of this Agreement which entitles the Bank to compensation pursuant to this Section 3.7 as promptly as practicable after it obtains knowledge thereof and determines to request such compensation. Determinations by the Bank for purposes of this Section 3.7 of the effect of any Regulatory Change on its costs of making or maintaining the Loans or on amounts receivable by it in respect of Loans, and of the additional amounts required to compensate the Bank in respect of any Additional Costs, shall be conclusive, absent manifest error, provided that such determinations are made on a reasonable basis.

3.8 Funding Loss Indemnification. The Borrower shall pay to the Bank, upon the request of the Bank, such amount or amounts as shall be sufficient (in the reasonable opinion of the Bank) to compensate it for any loss, cost, or expense incurred as a result of:

(a) Any payment of a LIBOR Base Loan on a date other than the last day of the interest period for such LIBOR Base Loan including, but not limited to, acceleration of the Loans by the Bank pursuant to Section 9.2; or

(b) Any failure by the Borrower to borrow, or to honor a LIBOR Base Loan on the date set for borrowing as specified in the relevant notice under Section 3.2.

ARTICLE IV

COLLATERAL

4.1 Description of Collateral. The Bank shall receive, subject to Permitted Encumbrances, as collateral security for the Loans, the Notes and all other present and future indebtedness of the Borrower owing to the Bank: (a) A perfected first priority lien on and security interest in all of the Borrower's personal property and assets of every kind and description, whether now owned or hereafter acquired, including but not limited to all accounts, deposit accounts,

inventory, furniture, fixtures and equipment, general intangibles, instruments, investment property, letter of credit rights, commercial tort claims, documents, and chattel paper, and with respect to all of the foregoing, without limitation, all goods represented thereby, all accessions thereto, and all goods that may be substituted therefor, reclaimed or repossessed from or returned by account debtors and all proceeds, products, rents and profits thereof, as all such terms are defined in the UCC; and (b) A first lien deed of trust on the Real Property ((a) and (b) collectively constituting the "Collateral).

4.2 Loan Documents. The Borrower shall execute and deliver, or cause to be executed and delivered, all Loan Documents and other instruments, in form and substance satisfactory to the Bank and its counsel, reasonably necessary, in the opinion of such counsel, to evidence and secure the Loans, and to perfect and maintain continuously the Bank's security interest in and lien on the Collateral, at such time or times as the Bank shall reasonably request. The Borrower authorizes the Bank to file such financing instruments necessary to perfect its interest in the Collateral.

ARTICLE V

CONDITIONS OF LENDING

5.1 First Borrowing Under The Loans. The obligation of the Bank to make the Loans is subject to the accuracy, as of the Closing Date, of the representations and warranties contained in Article VI, to the performance by the Borrower of its obligations to be performed hereunder and to the satisfaction of the following conditions, each of which shall be precedent to any obligations of the Bank hereunder and shall be satisfied prior to the first advance under the Loans. With respect to the obligation of the Bank to make the initial advance under the Loans on the Closing Date:

- (a) The Borrower shall have duly authorized, executed (and, where appropriate, acknowledged) and delivered to the Bank the Loan Documents to which it is a party;
- (b) The Borrower shall have delivered to the Bank copies of the corporate resolutions adopted by its respective Board of Directors, duly authorizing the execution, delivery and performance of the Loan Documents to which it is a party, and all transactions and documents contemplated thereby;
- (c) The Bank shall have received true copies of all consents and required governmental approvals, if any, necessary to the execution, delivery and performance of the Loan Documents and the transactions contemplated thereby;
- (d) The Bank shall have received a General Certificate of the Secretary of the Borrower with (i) a copy of its articles of incorporation, certified as of a recent date by the appropriate official of the state of incorporation, (ii) a certificate of the appropriate official of the state of incorporation, dated as of a recent date, as to the good standing of the Borrower, (iii) a copy of the bylaws of the Borrower certified as of a recent date by its secretary; and (iv) incumbency and signature certificates of the Borrower certified as of a recent date by its secretary certifying the names and the signatures of the officers of the Borrower authorized to sign the Loan Documents to which it is a party;

- (e) The Bank shall have received a written opinion of counsel to the Borrower addressed to the Bank, dated the Closing Date;
- (f) No event shall have occurred and be continuing which constitutes an Event of Default, or which would constitute an Event of Default but for a requirement that notice be given or that a period of time elapse, or both; and the Borrower shall have duly authorized, executed and delivered to the Bank a certificate to that effect, dated the Closing Date;
- (g) Financing statements, notices and other documents deemed by the Bank and its counsel necessary or advisable to perfect the Bank's security interest in the Collateral shall have been duly filed or recorded in all appropriate offices and jurisdictions and sent to or received by all necessary Persons, as the case may be, and filing and recording receipts evidencing such filings shall have been delivered to, or shall be available for prompt delivery to, the Bank;
- (h) The Bank shall have received certificates of insurance and, if requested by the Bank, copies of all policies evidenced thereby, showing insurance covering all of the Collateral against loss, or damage of any nature or kind in the amounts and with insurers reasonably satisfactory to the Bank;
- (i) The Bank shall have received an American Land Title Association commitment of title insurance, inclusive of affirmative mechanics and materialmans' lien coverage, containing only Permitted Encumbrances or those exceptions acceptable to the Bank, and otherwise in form and content acceptable to the Bank;
- (j) The Bank shall have received evidence satisfactory to the Bank as to the priority of the Bank's security interest in the Collateral;
- (k) The Borrower shall have delivered to the Bank such evidence, as is requested by the Bank, of compliance with all laws, ordinances, rules, charters, by-laws, regulations and restrictions affecting the Real Property, such evidence including, without limitation, zoning maps, ordinances, permits, resolutions, and other documents or items as the Bank may reasonably request;
- (l) The Bank shall have received a flood certification letter evidencing that the Real Property is not located within a Special Flood Hazard area as defined by the U.S. Department of Housing and Urban Development;
- (m) The Borrower shall have paid or shall pay all costs of the Bank incurred in connection with the underwriting, drafting and closing of the Loans and the Loan Documents, including without limitation, reasonable fees of counsel;
- (n) The representations made, and the information furnished by the Borrower to the Bank with regard to the Loans and the Borrower's qualifications therefor shall have been and, to the best of the Borrower's knowledge, shall continue to be true and correct and not misleading in any material respect;

(o) Receipt and approval by the Bank of the executed Acquisition Agreement, including the accompanying Disclosure Schedule (which Bank hereby acknowledges has been received and reviewed) and all material related documents, and satisfactory confirmation that consummation of the transactions described thereby will occur contemporaneously with funding of the Loans by the Bank;

(p) All legal matters incident to the Loans and all documents and instruments to be delivered hereunder or pursuant hereto or thereto, shall be reasonably satisfactory in form and substance to counsel for the Bank;

(q) The Bank shall have placed a participation of no less than \$9,500,000 of the Loans with another lender upon terms and conditions acceptable to the Bank; and

(r) The Borrower shall have paid the Bank a fee of \$11,200 applicable to Term Loan A and a fee of \$5,650 applicable to the Capital Acquisitions Term Loan, the \$3,000 Phase I fee, the \$3,750 appraisal fee, the \$190 Verachek fee, the \$50 flood certifications, plus all other costs incurred by the Bank in closing the Loans, no later than the Closing Date.

ARTICLE VI

GENERAL REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants to the Bank, as of the date of this Agreement (unless otherwise specified) and as of the date of each advance under the Loans, and each of which shall be deemed continuing during the terms of the Loans that:

6.1 Incorporation, Qualification, Properties. The Borrower is a (i) corporation duly organized, existing and in good standing under the laws of the jurisdiction of its incorporation or organization, (ii) duly qualified as a foreign corporation to do business in each of the jurisdictions where failure to qualify would have a material adverse effect on its ability to fulfill its obligations under the Loan Documents or to conduct its business, and (iii) entitled to own or lease its Properties and operating assets and carry on its businesses as now conducted.

6.2 Authority. The Borrower has the necessary corporate power to enter into, and has taken all necessary corporate actions to authorize the execution, delivery and performance of this Agreement, and the other Loan Documents, and all transactions and documents contemplated hereby and thereby to which it is a party, and all such corporate actions are in full force and effect.

6.3 Binding Effect and Enforceability. This Agreement constitutes, and the other Loan Documents, when issued and delivered pursuant hereto for value received, shall constitute, legal, valid and binding obligations of the Borrower, enforceable in accordance with the terms thereof, except that the enforceability of the obligations of the parties under the Loan Documents is subject to the provisions of bankruptcy, insolvency, reorganization, moratorium or other similar laws and is also subject to general equity principles, which may limit the specific enforcement of certain remedies.

6.4 No Corporate or Contract Violation. There is no provision of law or in the charter or bylaws of the Borrower, and no provision of any existing mortgage, contract, lease, indenture or agreement binding on the Borrower or any of its rights in its Properties or operating assets, which

would be breached by the execution and delivery of the Loan Documents or by the performance or observance of any of the terms thereof, or result in, or require, the creation or imposition of any lien (other than Permitted Encumbrances) upon or with respect to any of the Borrower's rights in any of its Properties or cause the Borrower to be in default or violation of any law, rule, regulation, order, writ, judgment, injunction, decree, determination or award binding upon or applicable to the Borrower, in each case that could reasonably be expected to have a material adverse effect on the Borrower.

6.5 Financial Statements. The financial statements of the Borrower which include the balance sheet of the Borrower dated as of January 31, 2008, together with its statements of income, and changes in financial position for the period then ended, in the form previously delivered to the Bank, fairly present the financial condition of the Borrower as well as the results of its operations and changes in its financial position as of the dates and for the period covered thereby, and are correct and complete in all material respects. All such financial statements were prepared in substantial compliance with GAAP applied on a consistent basis. There are no material liabilities, direct or indirect, fixed or contingent, of the Borrower as of the date hereof, which are not reflected in the above financial statements, other than those incurred in the ordinary course of business since January 31, 2008, or which the Borrower has disclosed to the Bank in writing. There has been no material adverse change in the Borrower's financial condition or operations since January 31, 2008, except as disclosed in writing to the Bank.

6.6 Proceedings. To the best of the Borrower's knowledge, there are no proceedings pending or threatened, before any court or administrative agency against the Borrower which, if adversely determined, would individually or in the aggregate materially and adversely affect the financial condition of the Borrower, or the ability of the Borrower to perform under this Agreement or any of the other Loan Documents, with the exception of those proceedings set forth on Schedule 6.6.

6.7 Approvals. To the best of the Borrower's knowledge, the execution, delivery and performance of this Agreement and the other Loan Documents, and the transactions contemplated hereby and thereby, do not require any consents, approvals, permits, authorizations or orders of any governmental or regulatory authority, except as set forth herein. All tax returns now required to be filed by the Borrower have been filed (or appropriate extensions of such filings have been obtained) and all taxes, assessments and other governmental charges (other than those presently payable without penalty or interest and those being contested in good faith by appropriate proceedings) due from the Borrower have been paid. The Borrower has established on its books reserves adequate for the payment of all federal, state and other income tax liabilities.

6.8 ERISA. To the best of the Borrower's knowledge, the Borrower is in compliance in all material respects with all applicable provisions of ERISA, and has not received any notice of violation thereof from any applicable authority. Neither a Reportable Event nor a Prohibited Transaction has occurred or exists in connection with any Plan; no notice of intent to terminate a Plan has been filed nor has any Plan been terminated; no circumstances exist which constitute grounds for the termination of any Plan by PBGC or for the appointment of any trustee to administer a Plan, nor has the PBGC instituted any such proceedings; the Borrower has not completely or partially withdrawn from a Multiemployer Plan, as described in Section 4001(e)(3) of ERISA; the Borrower has met its minimum funding requirements under ERISA with respect to all of their or its Plan and the present fair market value of all Plan assets exceeds the present value

of all vested benefits under each Plan, as determined on the most recent valuation date of the Plan and in accordance with the provisions of ERISA and the regulations thereunder for calculating the potential liability of the Borrower to PBGC or the Plan under Title IV of ERISA; and the Borrower has not incurred any liability to the PBGC or ERISA.

6.9 Compliance. The Borrower is in compliance with all statutes, rules and regulations relating to environmental, occupational and health standards and controls in all jurisdictions where they presently are doing business, the failure to comply with which might materially adversely affect the business, operations or Properties of the Borrower, and the Borrower has not received any notice of violation thereof from any applicable authority. The Borrower is not in violation of any other statute, rule or regulation of any governmental body, the violation of any of which might materially adversely affect the business, operations or Properties of the Borrower.

6.10 Use of Proceeds. The Borrower shall use the proceeds of the Loans only for the purposes set forth in Section 2.1 of this Agreement.

6.11 No Default. The Borrower is not in default in respect of any indebtedness for borrowed money and no holder of any such indebtedness has given notice of any asserted default thereunder. No liquidation, dissolution or other winding up of the Borrower and no bankruptcy or similar proceedings relative to it or the Properties are pending or, to the Borrower's knowledge, threatened against it.

6.12 Title to Property, Perfection of Liens. The Borrower has good and marketable title to all of its owned Properties and assets reflected on the balance sheets referred to in Section 7.1, and the Collateral, free and clear of any liens, security interests and encumbrances, except Permitted Encumbrances. The Borrower has the full right, power and authority to grant to the Bank a first priority lien and security interest in the Collateral.

6.13 RICO or CCE Actions. There is, to the best of the Borrower's knowledge, no investigation, and there is no indictment, information, proceeding, conviction, judgment or order under the Racketeer Influenced and Corrupt Organizations Act, 18 U.S.C. 1961, et seq. ("RICO"), the Continuing Criminal Enterprises Act, 21 U.S.C. 848 et seq. ("CCE") or any similar law that may result in a forfeiture of any part of the Collateral or any of the assets of the Borrower.

6.14 Accuracy of Information. To Borrower's knowledge after due inquiry, no information, exhibit or report furnished by the Borrower to the Bank in connection with the negotiation of this Agreement contained any material misstatement of fact or omitted to state any fact necessary to make the statement contained therein not materially misleading, and there is no fact that the Borrower has not disclosed to the Bank in writing that could materially adversely affect the Properties, or the business or financial condition of the Borrower.

6.15 Labor Disputes and Acts of God. Neither the business nor the Properties of the Borrower are affected by any fire, explosion, accident, strike, lockout, or other labor dispute, drought, storm, hail, earthquake, embargo, act of God or of the public enemy, or other casualty (whether or not covered by insurance), materially and adversely affecting such business or Properties or the operations of the Borrower.

6.16 Other Agreements. The Borrower is not in default in any respect in the performance, observance, or fulfillment of any of the material obligations, covenants, or conditions contained in any agreement or instrument material to their respective businesses that could reasonably be expected to have a material adverse effect on the Borrower.

6.17 Operation of Business. To the best of the Borrower's knowledge, the Borrower possesses all licenses, permits, franchises, patents, copyright, trademarks, and trade names, or rights thereto, to conduct its business substantially as now conducted and as presently proposed to be conducted, and the Borrower is not in violation of any valid rights of others with respect to any of the foregoing.

ARTICLE VII

AFFIRMATIVE COVENANTS

Until payment in full of the Loans and the Notes, unless the Bank shall otherwise consent in writing, the Borrower shall:

7.1 Financial Statements, Reports. Furnish or cause to be furnished, to the Bank:

(a) as soon as available, but not later than 90 days after the close of each fiscal year of the Borrower, the Borrower's reasonably detailed consolidated operating statements and balance sheets, together with its financial statements consisting of its balance sheet as of the end of such fiscal year its statements of income, retained earnings, cash flows, all audited by independent certified public accountants reasonably satisfactory to the Bank, in accordance with GAAP, accompanied by a certificate of the chief financial officer in the form attached hereto as Exhibit 7.1(a);

(b) as soon as available, but no later than 45 days after the end of each fiscal quarter of the Borrower, a certificate of the chief financial officer of the Borrower, in the form attached hereto as Exhibit 7.1(a);

(c) as soon as available, but no later than 25 days after the end of each month, the Borrower's report of Eligible Receivables, Eligible Foreign Receivables and Eligible Inventory pursuant to the Bank's Line Manager; and

(d) such additional information, reports or statements (financial or otherwise) as the Bank from time to time may reasonably request.

Notwithstanding the foregoing, to the extent any financial statements are available as publicly filed documents on www.sec.gov, such financial statements shall be deemed to have been furnished to the Bank.

7.2 Taxes. Duly pay and discharge all taxes, assessments and governmental charges upon the Borrower or against their owned Properties and other assets prior to the date on which penalties attach unless and to the extent only that such taxes, assessments and governmental charges shall be contested in good faith and by appropriate proceedings by the Borrower, and the Borrower shall have set aside on its books such reserves as are required by GAAP with respect to any such tax, assessment or charge so contested.

7.3 Corporate Franchises. Keep its corporate franchises in full force and effect and duly observe and conform to all valid requirements of any governmental authority relative to the conduct of its business and to its Properties and assets and maintain and keep in force all franchises, licenses and permits necessary to the lawful and proper conduct of its business.

7.4 Corporate Existence. Maintain its corporate existence in good standing.

7.5 Access to Premises and Records and Maintenance thereof.

(a) Maintain financial records in accordance with GAAP, and permit representatives of the Bank to have access to such financial records and its owned Properties (or in the case of any Properties not owned by Borrower, use its best efforts to make such access available) at reasonable times during normal business hours and to make inspections thereof and such excerpts from such records as such representatives deem necessary.

(b) Maintain its current financial records and other current corporate records at 5290 Concourse Drive, Roanoke, VA 24019 or such other location as Borrower may specify by written notice to Bank.

7.6 Notices of Default. Give the Bank written notice of any Event of Default and any event which with notice or lapse of time or both would constitute an Event of Default, within ten days of learning of same.

7.7 Maintenance of Collateral. Maintain the Collateral in good condition, repair and working order, ordinary wear and tear excepted.

7.8 Compliance with Laws. Comply in all material respects with all laws and governmental regulations of the United States of America and all political subdivisions thereof applicable to the rights of the Borrower to transact business under any such laws and regulations.

7.9 ERISA. (a) Comply in all material respects with the applicable provisions of ERISA, (b) deliver to the Bank written notice as soon as possible and in any event within 20 days if the Borrower adopts or agrees to contribute to an employee pension benefit plan (as defined in Section 3(2) of ERISA) not presently in existence if the obligation to contribute thereto is material, and (c) furnish to the Bank, (i) as soon as possible, and in any event within 20 days after any officer or partner of the Borrower or any Subsidiary knows or has reason to know that any Reportable Event with respect to any Plan with vested unfunded liabilities has occurred, a statement of an executive officer of the Borrower setting forth details as to such Reportable Event and the action that the Borrower propose to take with respect thereto, together with a copy of the notice of such Reportable Event given to PBGC, and (ii) promptly after receipt thereof, a copy of any notice the Borrower or any Subsidiary may receive from PBGC relating to the intention of PBGC to terminate any Plan with vested unfunded liabilities or to appoint a trustee to administer any such Plan.

7.10 Financial Covenants. Have and maintain as of the end of each quarter (pursuant to the financial statements provided pursuant to Section 7.1(b)) tested on a rolling four quarter basis commencing with the quarter ending July 31, 2008:

(a) Tangible Net Worth of not less than \$27,000,000 (“Minimum Tangible Net Worth”); and

(b) an annual consolidated debt service coverage ratio of not less than 1.25 to 1.00, for purposes hereof “debt service coverage” means the sum of net income plus depreciation divided by current maturities of long term debt, defined in accordance with GAAP, consistently applied (“Debt Service Coverage Ratio”).

7.11 Non-Bank Debt. Cause all non-Bank indebtedness for borrowed money of the Borrower (other than capitalized lease obligations) to be subordinate to the Loans and the Collateral.

7.12 Insurance. Continuously maintain or cause to be maintained insurance policies in such amounts as in effect immediately prior to the execution hereof and as otherwise deemed commercially reasonable in the discretion of the Bank (to include: property damage insurance, public liability insurance), paying or causing to be paid as the same becomes due all premiums in respect thereto, and naming the Bank as loss payee as its interests may appear.

7.13 Environmental Matters. Conduct its business operations in full compliance with Environmental Laws, except to the extent non-compliance would not result in a material adverse effect to the Borrower or its Properties, and refrain from, and prevent any other party from, using any Hazardous Materials on the Properties except such material as are incidental to its normal course of business, maintenance and repairs.

7.14 Indemnity. Protect and indemnify the Bank, its officers, directors, employees, and agents (the “Indemnitees”) from and against all liabilities, obligations, claims, damages, penalties, causes of action, costs and expenses (including, without limitation, reasonable attorneys’ fees and disbursements actually incurred), imposed upon or incurred by or asserted by third parties against the Indemnitees or any of them by reason of:

(a) ownership of the Properties or any interest therein, or receipt of any rent or other sum therefrom;

(b) any accident to, injury to or death of persons or loss of or damage to property occurring on or about the Properties or the adjoining sidewalks, curbs, vaults or vault space, if any, streets or ways;

(c) any use, nonuse or condition of the Properties or the adjoining sidewalks, curbs, vaults or vault space, if any, streets or ways;

(d) any failure on the part of the Borrower to perform or comply with any of the terms, covenants, conditions and agreements set forth in the Loan Documents, or any other agreements executed by the Borrower or any other Persons liable for the payment of the indebtedness hereby secured;

(e) performance of any labor or services or the furnishing of any materials or other property in respect of the Properties or any part thereof for construction or maintenance or otherwise;

(f) any action brought against the Bank by any person attacking the validity, priority or enforceability of the Loan Documents, or any other agreements executed by the Borrower or any other Persons liable for the payment of the indebtedness hereby evidenced;

(g) exercise or the attempted exercise by the Bank, of the rights and remedies set forth in the Notes and other Loan Documents; or

(h) actual or threatened damage to the environment, agency costs of investigation, personal injury or death, or property damage, due to a release or alleged release of any Hazardous Material on or under any of the Properties or the surface or ground water located on or under the Properties or arising from the Borrower's business operations, or gaseous emissions arising from the Borrower's business operations or any other condition existing on the Properties resulting from the use or existence of Hazardous Materials, whether such claim proves to be true or false.

The Borrower's indemnity obligations hereunder shall include, but are not limited to, liability for damages resulting from the personal injury or death of an employee of the Borrower, regardless of whether the Borrower has paid the employee under the worker's compensation laws of any state or other similar federal or state legislation for the protection of employees. The term "property damage" as used in this section includes, but is not limited to, damage to any real or personal property of the Borrower, the Indemnitees, and of any third parties. Any accounts payable to the Indemnitees under this section which are not paid within 10 Business Days after written demand therefor by the Bank shall bear interest at the Prime Rate from the date of such demand and shall be secured by the Collateral. In the event any action, suit or proceeding is brought against any of the Indemnitees by reason of any such occurrence, the Borrower shall have the right to, and upon the request of the Indemnitees shall, resist and defend at the Borrower's expense such action, suit or proceeding or cause the same to be resisted and defended by counsel designated by the Borrower and approved by the Indemnitees which approval shall not be withheld unreasonably. The obligations under this section shall survive the termination, satisfaction or release of the Loan Documents. Nothing in this section shall require the Borrower to indemnify any of the Indemnitees for any claim or liability arising from such Indemnitee's gross negligence or willful, wrongful acts.

7.15 Operating Accounts. Maintain with the Bank its primary operating deposit accounts.

7.16 General Information. Provide the Bank with such other information respecting the condition or operations, financial or otherwise, of the Borrower and the Collateral, as the Bank may from time to time reasonably request.

ARTICLE VIII
NEGATIVE COVENANTS

Until payment in full of the Loans and the Notes, without the prior express written consent of the Bank, the Borrower shall not:

8.1 Mergers, Consolidations, and Name Change. Enter into any merger or consolidation or acquire all or substantially all of the stock or the assets of any Person, or change its name without 10 days prior written notice to Bank; *provided however*, that mergers, consolidations or acquisitions having aggregate consideration of less than \$5,000,000 and the exercise of rights as a creditor and/or warrant holder with respect to AOS shall not require prior express written consent of the Bank.

8.2 Disposition of Assets. Sell, lease or otherwise dispose of assets of a significant portion of the assets of the Borrower, excluding for such purpose any interest in or loan to AOS.

8.3 Additional Debt. Except for trade debt incurred in the normal course of business, create, incur, assume, or suffer to exist, directly or indirectly, any liability for borrowed money other than (a) the debt evidenced by this Agreement and the Notes, (b) any debt existing at the date of this Agreement and described in the Borrower's financial statements previously delivered to the Bank (together with any renewals, replacements or extensions thereof), (c) unfunded pension fund and other employee benefit plan obligations and liabilities to the extent they are permitted to remain unfunded under applicable law, (d) purchase money indebtedness (which may take the form of capitalized leases), or (e) other Indebtedness in an aggregate amount not to exceed \$100,000 at any one time.

8.4 Liens. Create, incur, assume or allow to exist any pledge, lien or other encumbrance on or any security interest in any of the Borrower's assets, including stock in the Borrower or any Subsidiary, other than Permitted Encumbrances.

8.5 Change in Control. Transfer, assign or otherwise dispose of, or allow to be transferred, assigned or otherwise disposed of, a controlling interest in any Subsidiary.

8.6 No Sale and Lease Back. Enter into any transaction for the sale and lease back of any of its assets, without prior written consent of the Bank.

8.7 Loans. Make individual loans or advances to any Person, except (a) in the ordinary course of business, (b) as a part of a strategic acquisition of or investment in a Person, or (c) loans and advances to employees for moving, entertainment, travel and other similar expenses in the ordinary course of business not to exceed \$250,000 in the aggregate at any time outstanding.

8.8 Contingent Liabilities. Except as to the Loans, assume, guarantee, endorse, or otherwise become surety for or upon the obligation of any Person, except (a) by the endorsement of negotiable instruments for deposit or collection in the ordinary course of business or (b) for guaranteed indebtedness incurred for the benefit of Borrower or any Subsidiary if the primary obligation is expressly permitted by this Agreement.

8.9 Operations. Engage in business activities which are substantially different than the business activities in which the Borrower is engaged as of the date hereof, cease operations, or liquidate assets, resulting in a material negative impact upon the Borrower's ability to perform its obligations under this Agreement or the other Loan Documents.

EVENTS OF DEFAULT

9.1 Events of Defaults. The occurrence of any of the following events shall constitute an Event of Default under this Agreement:

(a) The Borrower shall fail to make any payment within five Business Days of the date when due of principal, interest or otherwise with respect to any of the Notes, whether at maturity, acceleration or otherwise;

(b) If there shall occur an event of default under any other Indebtedness having a principal balance in excess of \$100,000 of the Borrower to the Bank, and such default shall continue for 30 days after notice thereof has been given to the Borrower by the Bank;

(c) The Borrower shall breach or fail to perform in any material respect any other term, covenant, warranty or agreement herein or in any other Loan Document and such default shall continue for 30 days after written notice thereof has been given to the Borrower by the Bank;

(d) Any representation or warranty of the Borrower in any Loan Document or in any certificate delivered thereunder shall prove to have been untrue in any material respect at the time it was made;

(e) The Borrower shall default in, fail to pay at maturity, or otherwise default in respect of, any indebtedness for borrowed money from the Bank or from any other Person in an amount in excess of \$100,000, or fail to observe or perform any material term, covenant or agreement contained in any other agreement (except this Agreement) by which it is bound evidencing or securing borrowed monies or advances from the Bank in an amount in excess of \$100,000 (in the aggregate at any time outstanding) or from any other Person in an amount in excess of \$100,000 (in the aggregate at any time outstanding), and shall not cure such failure within any applicable period of grace as would permit the holder or holders thereof or of any obligations issued thereunder to accelerate the maturity thereof, except to the extent any of the foregoing is being contested in good faith;

(f) The Borrower shall (i) voluntarily commence any proceeding or file any petition seeking relief under Title 11 of the United States Code or any other federal, state or foreign bankruptcy, insolvency or similar law, (ii) consent to the institution of, or fail to controvert in a timely and appropriate manner, any such proceeding or the filing of any such petition, (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator or similar official for it or for a substantial part of its property, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors, (vi) become unable, admit in writing its inability or fail generally to pay its debts as they become due, or (vii) take action for the purpose of effecting any of the foregoing;

(g) An involuntary proceeding shall be commenced or an involuntary petition shall be filed in a court of competent jurisdiction seeking (i) relief in respect of the Borrower or of a substantial part of its property, under Title 11 of the United States Code or any other federal, state or foreign bankruptcy, insolvency or similar law, (ii) the appointment of a receiver, trustee, custodian, sequestrator or similar official for the Borrower or for a substantial part of its Properties or (iii) the winding-up or liquidation of the Borrower;

(h) The occurrence of any Prohibited Transaction involving any Plan, a Reportable Event or other event or circumstance which is not promptly cured and which might constitute grounds for termination of any Plan by the PBGC or grounds for the appointment by the appropriate United States District Court of a trustee to administer any such Plan, the filing of a notice of intent to terminate any Plan or the termination of any Plan, and in each case above, such event or condition, together with all other events or conditions, if any, could in the reasonable opinion of the Bank, subject the Borrower to any material tax, penalty or other liability to a Plan, a Multiemployer Plan, the PBGC which would have a material adverse effect or otherwise which could reasonably be expected to have a material adverse effect on the Borrower's ability to perform its obligations under the Loan Documents;

(i) The filing of an indictment or information, or the commencement of any proceeding, or the entry of any conviction, judgment or order, under RICO or CCE or any similar law, which in any instance results in or may result in a forfeiture of a material portion of any of the Collateral;

(j) Any of the liens, security interests, pledges and assignments in favor of the Bank, having an aggregated orderly liquidated value in excess of \$100,000, cease to create a valid and perfected first priority security interest in and to the property which is subject to any Loan Document or be in full force and effect or shall be declared null and void or the validity or enforceability thereof shall be contested by the Borrower, or the Borrower shall deny it has any further liability or obligation under the Loan Documents;

(k) One or more judgments, decrees, or orders for the payment of money in excess of \$100,000.00 in the aggregate shall be rendered against the Borrower, and such judgments, decrees, or orders shall continue unsatisfied and in effect for a period of 30 days after entry thereof without being vacated, discharged, satisfied, stayed or bonded pending appeal.

(l) If at any time title to the Collateral is encumbered, impaired, (except for Permitted Encumbrances), regardless of whether the lien, encumbrances, or other question existed at the time of any prior advance, and such lien, encumbrances or other question shall not be corrected within 30 days after notice of same is given to the Borrower by the Bank;

(m) If the Borrower assigns this Agreement or any interest therein, or if the Collateral or any material interest therein is conveyed or encumbered in any way not otherwise permitted by this Agreement without the prior written consent of the Bank; and

(n) If 10 Business Days after written request by the Bank, the Borrower fails to furnish to the Bank, the contracts, bills of sale, statements, receipts, vouchers and agreements, or any of them, under which the Borrower claims title to such materials, fixtures and articles comprising a material portion of the Collateral.

if to the Bank: Valley Bank
36 Church Avenue, SW
Roanoke, VA 24011
Attention: Scott L. Leffel
Title: Vice President

with a copy to: James Chapman Hale
LeClairRyan
10 South Jefferson St., Suite 1800
Roanoke, Virginia 24011

Any party shall have the right to change its address for notice, including the right to specify a person to whose attention notices shall be directed, by giving notice hereunder. Any notice sent by registered or certified mail shall be deemed given on the third day after the date of mailing; and any notice given by personal or courier delivery shall be deemed given on the date of receipt as evidenced by a signed receipt; provided that if any party shall refuse to accept delivery of any notice so sent by registered or certified mail or tendered for delivery personally or by courier, such notice shall be deemed given when tendered for delivery.

10.2 Term of Agreement. This Agreement shall continue in force and effect so long as the Loans or any obligation of the Borrower for any interest or other expense hereunder or thereunder or under any other Loan Document shall be outstanding.

10.3 No Waiver. No failure or delay by the Bank in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein provided are cumulative and no exclusive of any rights or remedies otherwise provided by law.

10.4 Seal, Jurisdiction. This Agreement and the Notes shall be deemed to be contracts made under seal in the Commonwealth of Virginia and shall be construed in accordance with and governed by the laws of the Commonwealth of Virginia except any provision of them that would otherwise require application of the law of a foreign jurisdiction.

10.5 Consent to Jurisdiction. The Parties consent to the jurisdiction and venue of the courts of the Commonwealth of Virginia, specifically to the courts of the City of Roanoke, Virginia, and to the jurisdiction and venue of the United States District Court for the Western District of Virginia in connection with any action, suit or proceeding arising out of or relating to this Agreement or any of the other Loan Documents and further waive and agree not to assert in any such action, suit or proceeding brought in the City of Roanoke, Virginia, or the Western District of Virginia that the Borrower is not personally subject to the jurisdiction of such courts, that the action, suit or proceeding is brought in an inconvenient forum or that venue is improper.

10.6 Severability. The provisions of this Agreement and the other Loan Documents are severable, and if any clause or provision of any of them shall be held invalid or enforceable in whole or in part in any jurisdiction, then such invalidity or unenforceability shall affect only such clause or provision, or part thereof, in such jurisdiction and shall not in any manner affect such clause or provision in any other jurisdiction. Each of the covenants, agreements and conditions contained in this Agreement is independent and compliance by the Borrower with any of them shall not excuse non-compliance by the Borrower with any other.

10.7 Offset. In addition to, and not in limitation of, all rights of offset that the Bank or other holder of the Notes may have under applicable law upon the occurrence of any Event of Default hereunder the Bank or other holder of the Notes and, to the extent permitted by applicable law, any participant in the Notes or the Loans, shall have the right to appropriate and apply to the payment thereof any and all balances, credits, deposits, accounts or monies of the Borrower then or thereafter maintained with the Bank or any of its subsidiaries or affiliates or other holder of any of the Notes.

10.8 Change, Waivers, etc. No amendment, modification, termination or waiver of any provision of this Agreement, the Notes or the other Loan Documents, nor consent to any departure by the Borrower from any Loan Document, shall in any event be effective unless the same shall be in writing and signed by the Bank and the Borrower, and then such amendment, waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

10.9 Singular and Plural. Terms in the singular number shall include the plural and those in the plural shall include the singular.

10.10 Use of Defined Terms. All terms defined in this Agreement shall have the defined meanings set forth herein when such terms are used in the Notes, the other Loan Documents and in certificates, reports or other documents made or delivered pursuant hereto or thereto, unless the context shall otherwise require.

10.11 Binding Effect of Agreement. This Agreement shall be binding upon and inure to the benefit of the Borrower, the Bank and their respective heirs, executors, personal representatives, successors and assigns, provided that the Borrower may not assign or transfer its rights or obligations under this Agreement without the prior written consent of the Bank.

10.12 Headings. Headings or captions have been inserted for convenience only and shall not be construed as limiting or affecting in any way the provisions of this Agreement.

10.13 Accounting Terms. Except as otherwise specifically provided, all accounting terms used herein shall have the meanings customarily given them in accordance with GAAP, and all financial computations, statements and balance sheets required or permitted under this Agreement shall be performed or prepared in accordance with such principles consistently applied.

10.14 Execution. This Agreement may be signed by facsimile or other electronic transmission and in any number of counterparts with the same effect as if the signatures hereto and thereto were upon the same instrument.

10.15 Expenses. The Borrower shall pay all reasonable fees and expenses actually incurred by the Bank in connection with the preparation of the Agreement and the other Loan Documents (whether or not the transactions hereby contemplated shall be consummated), and the making of the Loans hereunder, the enforcement of the rights of the Bank in connection with this Agreement or with the Loans made or the Notes issued hereunder, including but not limited to, the reasonable fees and disbursements of counsel actually incurred for the Bank. The Bank may use

either outside counsel or its own in-house counsel, or both, to provide it with legal services in connection with this transaction. In any event, such attorneys will represent the Bank exclusively, and the Borrower acknowledges that such attorneys do not undertake to provide legal services or advice to the Borrower. Any future reasonable and customary legal fees actually incurred after the closing of this loan for amendments to the Loan Documents requested by the Borrower or required hereunder are to be paid by the Borrower. If the Bank shall retain or engage at any time an attorney or attorneys to collect or enforce or protect its interest with respect to this Agreement, the Loans, the Notes or the other Loan Documents, to the extent the Bank is entitled to so collect, enforce or protect under the Loan Documents or applicable law, the Borrower shall pay all of the reasonable costs and expenses actually incurred of such collection, enforcement or protection, including reasonable fees and disbursements of attorneys actually incurred, and the Bank may take judgment for all such amounts.

10.16 WAIVER OF JURY TRIAL. TO THE EXTENT PERMISSIBLE UNDER APPLICABLE LAW, THE BORROWER, AND THE BANK WAIVE TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM BROUGHT BY EITHER PARTY AGAINST THE OTHER ON ANY MATTER WHATSOEVER ARISING OUT OF OR IN ANY WAY CONNECTED WITH THIS AGREEMENT, THE LOANS, THE NOTES, THE OTHER LOAN DOCUMENTS, OR ANY RELATED AGREEMENTS OR INSTRUMENTS, THE ENFORCEMENT THEREOF, ANY OBLIGATIONS OR INDEBTEDNESS EVIDENCED THEREBY, ANY COLLATERAL SECURITY THEREFOR OR ITS DISPOSITION, OR THE LENDING RELATIONSHIP BETWEEN THE PARTIES, INCLUDING ANY CLAIM OF INJURY OR DAMAGE TO ANY PARTY OR THE PROPERTY OF ANY PARTY.

10.17 Further Assurances. At any time or from time to time upon the request of the Bank, the Borrower shall execute and deliver such further documents and do such other acts and things as the Bank may reasonably request in order to effect fully the purposes of the Loan Documents and to provide for the payment of the Loans made hereunder and interest thereon in accordance with the terms of the Loan Documents.

10.18 Time of the Essence. Time shall be of the essence with respect to the performance of the Borrower's obligations under the Loan Documents.

10.19 Entire Agreement. This Agreement and the other Loan Documents contain the entire agreement among the parties with respect to the subject matter herein, and each party represents to and agrees with the others that there are no additional agreements, understandings or representations other than those provided herein and in the other Loan Documents. The Loan Documents supersede any prior agreements between the Bank and the Borrower, and, to the extent that the terms and provisions of any such prior agreements are inconsistent with the terms and provisions of the Loan Documents, the terms and provisions of the Loan Documents shall govern and control.

10.20 Construction and Conflicts. The parties to the Loan Documents and their respective counsel have reviewed and revised (or requested revisions of) the Loan Documents, and the normal rule of construction that any ambiguities are to be resolved against the drafting party shall not be applicable in the construction and interpretation of this Agreement or any of the other Loan Documents. To the extent possible, the provisions of this Agreement and the other Loan Documents shall be interpreted to complement and supplement each other and the absence of any

provision or portion thereof in one such document shall not be deemed to be an inconsistency with the other such document which contains such provision or portion thereof. To the extent that any provision of this Agreement is inconsistent with any corresponding provision of any other Loan Document, then such provision of this Agreement shall prevail.

10.21 Assignment; Participations.

(a) In the absence of an Event of Default, Bank covenants for the benefit of Borrower that it will not assign any of the Loans, this Agreement or the Loan Documents except with the prior written consent of Borrower (which consent shall not be unreasonably withheld or delayed), provided, that Bank retains the unrestricted right to transfer, sell or assign any or all of its interest and obligations in the Loans without the prior written consent of Borrower to (i) any affiliate of Bank, (ii) to any Person to the extent required to comply with any order, directive or request from any Governmental Authority, or (iii) in connection with the sale, merger, or reorganization of Bank or its assets.

(b) Bank may sell participations in all or any part of the Loans. Any participation by a Bank shall be made with the understanding that all amounts payable by Borrower hereunder shall be determined as if that Bank had not sold such participation, and that the holder of any such participation shall not be entitled to require such Bank to take or omit to take any action hereunder. Borrower shall not have any obligation or duty to any participant. Bank shall not be relieved of any of its obligations hereunder as a result of any participation in all or any part of the Loans.

[signature page follows]

IN WITNESS WHEREOF, the parties have caused this Credit Agreement to be duly executed and delivered by their proper and duly authorized officers as of the day and year first above written.

BORROWER:

OPTICAL CABLE CORPORATION

By: /s/ Tracy G. Smith
Name: Tracy G. Smith
Title: Vice President and Chief Financial Officer

SUPERIOR MODULAR PRODUCTS INCORPORATED

By: /s/ Tracy G. Smith
Name: Tracy G. Smith
Title: CFO and Secretary

BANK:

VALLEY BANK

By: /s/ Scott L. Leffel
Name: Scott L. Leffel
Title: Vice President

Exhibit A

Real Property

[see attached]

SCHEDULE A

Lying in Swannanoa Township, Buncombe County, North Carolina, and being more particularly described as follows:

Beginning at a rebar set in the center of the Southern Railroad right of way, said rebar being the northeast corner of Tract 2 described in that deed dated October 12, 1978 to Julius Blum recorded in Buncombe County Deed book 1201 at page 389, said beginning corner also being the northeast corner of the tract described in the document recorded in Buncombe County Deed Book 1409 at page 119; and running thence South 3 deg. 42 min. West 488.96 feet to a point in the northern right of way of Interstate 40; thence with said margin of said right of way the following three courses and distances, to wit: South 84 deg. 6 min. West 100.51 feet to a right of way monument, South 68 deg. 30 min. West 252.42 feet to a right of way monument and South 76 deg. 17 min. West 236.01 feet to a point; thence leaving said right of way and running North 22 deg. 2 min. West 197.36 feet to a spike set in the centerline of a gravel drive, said point hereinafter the "Drive Point"; and running thence North 60 deg. 44 min. East 141.17 feet to a set spike; thence North 22 deg. 2 min. West 303.26 feet to a point in the center of the Southern Railroad right of way; thence with said center of said right of way, North 80 deg. 14 min. East 670.09 feet to the Beginning. Containing 7.03 acres as shown on a plat thereof prepared by Kenneth O. Pankow, entitled "Survey for Superior Modular Products, Incorporated" dated February 1, 1996, revised through July 11, 1996. [Note – The unrevised version of this plat is recorded in Buncombe County Plat Book 64 at page 196.] Together with a non-exclusive easement for ingress, egress and regress 40 feet in width (the "Present Right of Way"), the centerline of which is described as follows:

Beginning at a set spike which stands North 60 deg. 44 min. East 141.17 feet from the Drive Point and running thence from the beginning point thus established, South 60 deg. 44 min. West 141.17 feet to the Drive Point; thence South 79 deg. 49 min. West 197.58 feet to a set spike; thence on a curve to the right with a radius of 155 feet, a chord bearing and distance of North 89 deg. 47 min. West 55.91 feet, an arc length of 56.22 feet to a point; thence North 79 deg. 24 min. West 192.58 feet to a point; thence on a curve to the left with a radius of 110 feet, a chord bearing and distance of North 89 deg. 37 min. West 39.03 feet, an arc length of 39.24 feet to a point; thence South 80 deg. 10 min. West 53.17 feet to the center of Buckeye Cove Road. The foregoing right of way is subject to the encroachment thereon by the portion of the building located thereon, as shown on the said plat of Kenneth O. Pankow.

Notwithstanding the foregoing, the Present Right of Way is terminable by Buckeye Limited Partnership or its successor in ownership of the 4.22 Acre Tract shown on said Pankow plat, in the manner set forth hereafter. At such time as there is constructed a roadway (the "Roadway") of as good quality, material and width as that which presently exists within the Present Right of Way, Grantee shall be provided with a document in recordable form granting a perpetual, non-exclusive easement 40 feet in width over the Roadway and upon which Grantee shall release all its rights in the Present Right of Way by joining therein. The centerline of the Roadway is intended to be substantially as follows: Beginning at the Drive Point and running thence, North 60 deg. 44 min. East 79.49 feet to a point; thence on a curve to the left with a radius of 70 feet, a chord bearing and distance of North 19 deg. 21 min. East, 92.56 feet, an arc length of 101.13 feet to a point; thence North 22 deg. 2 min. West 63.82 feet to a point; thence on a curve to the left

with a radius of 125 feet, a chord bearing and distance of North 49 deg. 5 min. West, 113.16 feet, an arc length of 117.99 feet to a point; thence on a curve to the left with a radius of 125 feet, a chord bearing and distance of North 86 deg. 16 min. West 44.02 feet, an arc length of 44.25 feet to a point; thence South 83 deg. 36 min. West 118.42 feet to a point; thence South 78 deg. 15 min. West 254.62 feet to a point; thence on a curve to the left with a radius of 70 feet, a chord bearing and distance of South 56 deg. 55 min. West 50.92 feet, an arc length of 52.12 feet to a point; thence on a curve to right with radius of 90 feet, a chord bearing and distance of South 56 deg. 29 min. West 64.18 feet an arc length of 65.62 feet to a point; thence South 77 deg. 22 min. West 45.71 feet to a point in the center of Buckeye Cove Road. Grantor excepts and reserves herefrom a perpetual non-exclusive easement 40 feet in width over and across the roadway, including those portions which lie within the bounds of the 7.03 acre tract above described. The Roadway shall provide access to both the 7.03 acre tract as well as the 1.76 acre tract shown on the said Pankow plat. Grantor further excepts herefrom the non-exclusive, perpetual right of way over the following described tract for the purpose of utilizing the same as a part of the Roadway, to wit: Beginning at a point standing South 22 deg. 2 min. East 20.16 feet from the Drive Point and running North 60 deg. 44 min. East 44.05 feet to a point; thence on a curve to the left with a radius of 50 feet, a chord bearing and distance of South 19 deg. 21 min. West 66.111 feet, an arc length of 72.23 feet to a point; thence North 22 deg. 2 min. West 44.06 feet to the beginning. Grantee understands that Grantor may, but need not, use the Roadway for access to the 1.76 acre tract in lieu of any other access route.

BEGINNING on an iron pin set in the north margin of the right of way of Interstate 40, southeast corner of the Superior Modular Products, Incorporated property described in Deed Book 1917, Page 569, Buncombe County Registry, and runs with the Superior Modular Products line North 3 deg. 41' 50" East 488.96 feet to an iron pin set in the centerline of the Southern Railway track; thence in an easterly direction with the center of the Southern Railway tract on a curve to the right with a radius of 2,285.08 feet an arc distance of 635.79 feet (chord North 88 deg. 19' 31" East 633.74 feet); and South 83 deg. 42' 14" East 283.55 feet; thence South 3 deg. 29' 36" East 262.72 feet to a concrete right of way monument in the north margin of the right of way of Interstate 40; thence with said margin South 76 deg. 18' 56" West 435.95 feet to a concrete right of way monument; south 76 deg. 19' 24" West 400.04 feet to a concrete right of way monument and south 84 deg. 09' 22" West 151.36 feet to the BEGINNING, according to a survey by Pankow Engineering Company dated December 19, 1996 (File D-96088).

Exhibit A

LEGAL DESCRIPTION

PARCEL 1: ALL THOSE LOTS IN HOLLINS MAGISTERIAL DISTRICT, ROANOKE COUNTY, VIRGINIA, MORE PARTICULAR DESCRIBED AS "NEW TRACT 2A-1, CONTAINING 11.284 ACRES" AND "TRACT 3E-1A, CONTAINING 11.238 ACRES", ON PLAT OF SURVEY DATED MARCH 20, 1997, PREPARED BY LUMSDEN ASSOCIATES, P.C., ENTITLED "PLAT SHOWING THE COMBINATION OF TRACT 3C AND TRACT 2A PROPERTY OF OPTICAL CABLE CORPORATION, CREATING HEREON NEW TRACT 2A-1 (11.284 AC.) SITUATED ALONG VALLEYPONTE PARKWAY AT THE TERMINUS OF NORTH & SOUTH CONCOURSE DRIVE, A COPY OF WHICH SURVEY IS RECORDED IN THE CLERK'S OFFICE, CIRCUIT COURT OF ROANOKE COUNTY, VIRGINIA, IN PLAT BOOK 20, PAGE 72; AND,

BEING THAT PROPERTY DESCRIBED IN DEED BOOK 1403, PAGE 469; IN DEED BOOK 1459, PAGE 1925; AND IN DEED BOOK 1521, PAGE 994; OF RECORD IN THE AFORESAID CLERK'S OFFICE; AND,

PARCEL 2: ALL THAT LOT OR PARCEL OF LAND LYING AT THE INTERSECTION OF VALLEYPONTE PARKWAY AND NORTH CONCOURSE DRIVE (FORMERLY CONCOURSE DRIVE) IN THE VALLEYPONTE INDUSTRIAL PARK, CONTAINING .488 ACRE, AS SHOWN ON "PLAT OF SURVEY SHOWING THE SUBDIVISION AND DEDICATION OF THE PROPERTY OF THE BOARD OF SUPERVISORS OF ROANOKE COUNTY", DATED MAY 10, 1990, AND RECORDED IN THE AFORESAID CLERK'S OFFICE, IN PLAT BOOK 12, PAGE 133; AND,

BEING THAT PROPERTY DESCRIBED IN DEED BOOK 1557, PAGE 1371, OF RECORD IN THE AFORESAID CLERK'S OFFICE.

SCHEDULE 2.1(b)

Existing Liens

There is a Lien filed by Chad Hall, d/b/a Cavalier Fence, claiming \$12,625.00 related to snow removal services, filed in Roanoke County Circuit Court on March 30, 2006; and a Lien filed by Commercial Building Services, Inc., claiming \$12,625.00 related to snow removal services, filed in Roanoke County Circuit Court on February 23, 2006. Both liens relate to the same services. The Borrower believes both liens are invalid. Moreover, as to both liens the statutory six - month limitation period (Va. Code § 43-17) for the filing party to institute an action to enforce the mechanic's lien has passed, so the liens are now unenforceable.

Liens in favor of IOS Capital and IKON Financial Services for leased office equipment.

SCHEDULE 6.6

Proceedings

None

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EXHIBIT 3.1(a)

Revolving Loan Note

[see attached]

\$6,000,000.00

May 30, 2008
Roanoke, Virginia
Note #156809

FOR VALUE RECEIVED, OPTICAL CABLE CORPORATION, a Virginia corporation and SUPERIOR MODULAR PRODUCTS INCORPORATED, a Delaware corporation (each individually with respect to itself, jointly and severally, and collectively, the "Borrower"), hereby promises to pay to the order of VALLEY BANK, a Virginia banking corporation, its affiliates and their successors and assigns (the "Bank") at its Head Office, in lawful money of the United States and in immediately available funds, the principal amount of up to SIX MILLION AND NO/100 DOLLARS (\$6,000,000.00), or such sum as may be advanced and outstanding from time to time, and to pay interest from the date of this note (herein referred to as the "Note") on the unpaid principal amount outstanding under this Note, in like money, at the time, in amounts, and at the rate per annum as provided in Section 3.1(a) of the credit agreement of even date herewith between the Borrower and the Bank, as modified, replaced or restated (the "Credit Agreement").

This Note is referred to as the Revolving Loan Note in the Credit Agreement. The Credit Agreement contains, among other things, provisions for acceleration of the maturity of this Note upon the happening of certain stated events and for prepayments on account of the principal of this Note prior to maturity of this Note upon the terms and conditions specified in the Credit Agreement.

Capitalized terms contained in this Note which are not otherwise defined herein shall have the meaning ascribed to them in the Credit Agreement.

This Note is governed by and subject to additional terms and conditions of the Credit Agreement and is secured by the Collateral described in the Credit Agreement and the other Loan Documents, reference to which is hereby made for a description of the Collateral and the rights of the Borrower and the Bank with respect to the Collateral and the remedies of the Bank pertaining thereto. In the event of a conflict between any term or condition contained in this Note and the Credit Agreement, such term or condition of the Credit Agreement shall control. The proceeds of any Collateral may be applied against the liabilities of the Borrower to the Bank as provided in the Loan Documents.

If an Event of Default occurs, the Bank shall have the option to exercise all of the rights and remedies provided in the Credit Agreement. To the extent permitted by law, upon default, the Bank reserves the right, in addition to all other remedies permitted by law or in the Credit Agreement, to set off the amount due under this Note or due under any other obligation to the Bank against any and all accounts, whether checking or savings or otherwise, credits, money, stocks, bonds or other security or property of any nature whatsoever on deposit with, held by, owned by, or in the possession of, the Bank, or any of its affiliates to the credit of or for the account of the Borrower or any other party to the Credit Agreement, without notice to or consent by the Borrower or any such party. The remedies provided in this Note, the Credit Agreement, and any other agreement between the Bank and the Borrower are cumulative and are not exclusive of any remedies provided by law.

If any portion of a payment is at least ten days past due, the Borrower promises to pay a late charge of five percent of the amount which is past due. In addition, to the extent not prohibited by applicable law, the undersigned promises to pay the following: (1) all expenses, including, without limitation, any and all court or collection costs, and reasonable attorney's fees, whether suit be brought or not, incurred in collecting this Note or in otherwise protecting the Bank's interests; (2) all costs incurred in evaluating, preserving or disposing of any Collateral granted as security for the payment of this Note, including the cost of any audits, appraisals, appraisal updates, reappraisals or environmental inspections which the Bank from time to time in its sole discretion may deem necessary; (3) any premiums for property insurance purchased on behalf of the Borrower or on behalf of the owner or owners of the Collateral pursuant to any Loan Document relating to the Collateral; (4) any expenses or costs incurred in defending any claim arising out of the execution of this Note or the obligation which it evidences, or otherwise involving the employment by the Bank of attorneys with respect to this Note and the obligations it evidences; and (5) any other charges permitted by applicable law. The Borrower shall pay such authorized charges on demand or, at the Bank's option, such charges may be added to the unpaid balance of the Note and shall accrue interest at the stated rate of interest.

The Borrower waives presentment, demand, protest, notice of protest and notice of dishonor and waives all exemptions as to the obligations evidenced by this Note. The Borrower waives any rights to require the Bank to proceed against any other party or person or any Collateral before proceeding against the Borrower, or any other party. The Bank may, without notice, without affecting the liability of the Borrower hereunder or under the Credit Agreement, and at any time or times, grant extensions of the time for payment or other indulgences to any party or permit the renewal or modification of this Note, or permit the substitution, exchange or release of any Collateral for this Note and may add or release any party primarily or secondarily liable. The Bank may apply all monies made available to it from any part of the proceeds of the disposition of any Collateral or by exercise of the right of setoff either to the obligations under this Note or to any other obligations of the Borrower to the Bank, as provided in the Credit Agreement. The undersigned specifically waives any rights afforded to it by Sections 49-25 and 49-26 of the Code of Virginia of 1950 as amended.

TO THE EXTENT LEGALLY PERMISSIBLE, THE BORROWER WAIVES ANY RIGHT TO TRIAL BY JURY IN ANY LITIGATION RELATING TO TRANSACTIONS UNDER THIS NOTE, WHETHER SOUNDING IN CONTRACT, TORT OR OTHERWISE.

Any provision of this Note which is prohibited or unenforceable shall be ineffective only to the extent of such prohibition or unenforceability without invalidating the remaining provisions of this Note. No amendment, termination or waiver of any provision of this Note, nor consent to any departure by the Borrower from any term of this Note, shall in any event be effective unless it is in writing and signed by an authorized employee of the Bank, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. No failure or delay on the part of the Bank to exercise any right, power or remedy under this Note shall be construed as a waiver of the right to exercise the same or any other right at any time.

This Note shall apply to and bind the Borrower and its successors and assigns and shall inure to the benefit of the Bank, its successors and assigns. This Note shall be governed by the internal laws of the Commonwealth of Virginia and applicable federal law. The Borrower

acknowledges that the events and occurrences relating to this Note bear a reasonable relationship to the laws of the Commonwealth of Virginia. The validity, terms, performance and enforcement of this Note shall be governed by applicable federal law and the internal laws of the Commonwealth of Virginia.

By signing below, the Borrower agrees to the terms of this Note.

BORROWER:

OPTICAL CABLE CORPORATION

By: /s/ Tracy G. Smith

Name: Tracy G. Smith

Title: Vice President and Chief Financial Officer

SUPERIOR MODULAR PRODUCTS INCORPORATED

By: /s/ Tracy G. Smith

Name: Tracy G. Smith

Title: CFO and Secretary

EXHIBIT 3.1(b)

Term Loan A Note

[see attached]

\$2,240,000.00

May 30, 2008
Roanoke, Virginia
Note #164267

FOR VALUE RECEIVED, OPTICAL CABLE CORPORATION, a Virginia corporation and SUPERIOR MODULAR PRODUCTS INCORPORATED, a Delaware corporation (each individually with respect to itself, jointly and severally, and collectively, the "Borrower"), hereby promises to pay to the order of VALLEY BANK, a Virginia banking corporation, its affiliates and their successors and assigns (the "Bank") at its Head Office, in lawful money of the United States and in immediately available funds, the principal amount of TWO MILLION TWO HUNDRED FORTY THOUSAND AND NO/100 DOLLARS (\$2,240,000.00), or such sum as may be advanced and outstanding from time to time, and to pay interest from the date of this note (herein referred to as the "Note") on the unpaid principal amount outstanding under this Note, in like money, at the time, in amounts, and at the rate per annum as provided in Section 3.1(b) of the Credit Agreement of even date herewith between the Borrower and the Bank, as modified, replaced or restated (the "Credit Agreement").

This Note is referred to as the Term Loan A Note in the Credit Agreement. The Credit Agreement contains, among other things, provisions for acceleration of the maturity of this Note upon the happening of certain stated events and for prepayments on account of the principal of this Note prior to maturity of this Note upon the terms and conditions specified in the Credit Agreement.

Capitalized terms contained in this Note which are not otherwise defined herein shall have the meaning ascribed to them in the Credit Agreement.

This Note is governed by and subject to additional terms and conditions of the Credit Agreement and is secured by the Collateral described in the Credit Agreement and the other Loan Documents, reference to which is hereby made for a description of the Collateral and the rights of the Borrower and the Bank with respect to the Collateral and the remedies of the Bank pertaining thereto. In the event of a conflict between any term or condition contained in this Note and the Credit Agreement, such term or condition of the Credit Agreement shall control. The proceeds of any Collateral may be applied against the liabilities of the Borrower to the Bank as provided in the Loan Documents.

If an Event of Default occurs, the Bank shall have the option to exercise all of the rights and remedies provided in the Credit Agreement. To the extent permitted by law, upon default, the Bank reserves the right, in addition to all other remedies permitted by law or in the Credit Agreement, to set off the amount due under this Note or due under any other obligation to the Bank against any and all accounts, whether checking or savings or otherwise, credits, money, stocks, bonds or other security or property of any nature whatsoever on deposit with, held by, owned by, or in the possession of, the Bank, or any of its affiliates to the credit of or for the account of the Borrower or any other party to the Credit Agreement, without notice to or consent by the Borrower or any such party. The remedies provided in this Note, the Credit Agreement, and any other agreement between the Bank and the Borrower are cumulative and are not exclusive of any remedies provided by law.

If any portion of a payment is at least ten days past due, the Borrower promises to pay a late charge of five percent of the amount which is past due. In addition, to the extent not prohibited by applicable law, the undersigned promises to pay the following: (1) all expenses, including, without limitation, any and all court or collection costs, and reasonable attorney's fees, whether suit be brought or not, incurred in collecting this Note or in otherwise protecting the Bank's interests; (2) all costs incurred in evaluating, preserving or disposing of any Collateral granted as security for the payment of this Note, including the cost of any audits, appraisals, appraisal updates, reappraisals or environmental inspections which the Bank from time to time in its sole discretion may deem necessary; (3) any premiums for property insurance purchased on behalf of the Borrower or on behalf of the owner or owners of the Collateral pursuant to any Loan Document relating to the Collateral; (4) any expenses or costs incurred in defending any claim arising out of the execution of this Note or the obligation which it evidences, or otherwise involving the employment by the Bank of attorneys with respect to this Note and the obligations it evidences; and (5) any other charges permitted by applicable law. The Borrower shall pay such authorized charges on demand or, at the Bank's option, such charges may be added to the unpaid balance of the Note and shall accrue interest at the stated rate of interest.

The Borrower waives presentment, demand, protest, notice of protest and notice of dishonor and waives all exemptions as to the obligations evidenced by this Note. The Borrower waives any rights to require the Bank to proceed against any other party or person or any Collateral before proceeding against the Borrower, or any other party. The Bank may, without notice, without affecting the liability of the Borrower hereunder or under the Credit Agreement, and at any time or times, grant extensions of the time for payment or other indulgences to any party or permit the renewal or modification of this Note, or permit the substitution, exchange or release of any Collateral for this Note and may add or release any party primarily or secondarily liable. The Bank may apply all monies made available to it from any part of the proceeds of the disposition of any Collateral or by exercise of the right of setoff either to the obligations under this Note or to any other obligations of the Borrower to the Bank, as provided in the Credit Agreement. The undersigned specifically waives any rights afforded to it by Sections 49-25 and 49-26 of the Code of Virginia of 1950 as amended.

TO THE EXTENT LEGALLY PERMISSIBLE, THE BORROWER WAIVES ANY RIGHT TO TRIAL BY JURY IN ANY LITIGATION RELATING TO TRANSACTIONS UNDER THIS NOTE, WHETHER SOUNDING IN CONTRACT, TORT OR OTHERWISE.

Any provision of this Note which is prohibited or unenforceable shall be ineffective only to the extent of such prohibition or unenforceability without invalidating the remaining provisions of this Note. No amendment, termination or waiver of any provision of this Note, nor consent to any departure by the Borrower from any term of this Note, shall in any event be effective unless it is in writing and signed by an authorized employee of the Bank, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. No failure or delay on the part of the Bank to exercise any right, power or remedy under this Note shall be construed as a waiver of the right to exercise the same or any other right at any time.

This Note shall apply to and bind the Borrower and its successors and assigns and shall inure to the benefit of the Bank, its successors and assigns. This Note shall be governed by the internal laws of the Commonwealth of Virginia and applicable federal law. The Borrower acknowledges that the events and occurrences relating to this Note bear a reasonable relationship to the laws of the Commonwealth of Virginia. The validity, terms, performance and enforcement of this Note shall be governed by applicable federal law and the internal laws of the Commonwealth of Virginia.

By signing below, the Borrower agrees to the terms of this Note.

BORROWER:

OPTICAL CABLE CORPORATION

By: _____
Name: Tracy G. Smith
Title: Vice President and Chief Financial Officer

SUPERIOR MODULAR PRODUCTS INCORPORATED

By: _____
Name: Tracy G. Smith
Title: CFO and Secretary

EXHIBIT 3.1(c)

Term Loan B Note

[see attached]

\$6,500,000.00

May 30, 2008
Roanoke, Virginia
Note #156779

FOR VALUE RECEIVED, OPTICAL CABLE CORPORATION, a Virginia corporation and SUPERIOR MODULAR PRODUCTS INCORPORATED, a Delaware corporation (each individually with respect to itself, jointly and severally, and collectively, the "Borrower"), hereby promises to pay to the order of VALLEY BANK, a Virginia banking corporation, its affiliates and their successors and assigns (the "Bank") at its Head Office, in lawful money of the United States and in immediately available funds, the principal amount of SIX MILLION FIVE HUNDRED THOUSAND AND NO/100 DOLLARS (\$6,500,000.00), or such sum as may be advanced and outstanding from time to time, and to pay interest from the date of this note (herein referred to as the "Note") on the unpaid principal amount outstanding under this Note, in like money, at the time, in amounts, and at the rate per annum as provided in Section 3.1(c) of the Credit Agreement of even date herewith between the Borrower and the Bank, as modified, replaced or restated (the "Credit Agreement").

This Note is referred to as the Term Loan B Note in the Credit Agreement. The Credit Agreement contains, among other things, provisions for acceleration of the maturity of this Note upon the happening of certain stated events and for prepayments on account of the principal of this Note prior to maturity of this Note upon the terms and conditions specified in the Credit Agreement.

Capitalized terms contained in this Note which are not otherwise defined herein shall have the meaning ascribed to them in the Credit Agreement.

This Note is governed by and subject to additional terms and conditions of the Credit Agreement and is secured by the Collateral described in the Credit Agreement and the other Loan Documents, reference to which is hereby made for a description of the Collateral and the rights of the Borrower and the Bank with respect to the Collateral and the remedies of the Bank pertaining thereto. In the event of a conflict between any term or condition contained in this Note and the Credit Agreement, such term or condition of the Credit Agreement shall control. The proceeds of any Collateral may be applied against the liabilities of the Borrower to the Bank as provided in the Loan Documents.

If an Event of Default occurs, the Bank shall have the option to exercise all of the rights and remedies provided in the Credit Agreement. To the extent permitted by law, upon default, the Bank reserves the right, in addition to all other remedies permitted by law or in the Credit Agreement, to set off the amount due under this Note or due under any other obligation to the Bank against any and all accounts, whether checking or savings or otherwise, credits, money, stocks, bonds or other security or property of any nature whatsoever on deposit with, held by, owned by, or in the possession of, the Bank, or any of its affiliates to the credit of or for the account of the Borrower or any other party to the Credit Agreement, without notice to or consent by the Borrower or any such party. The remedies provided in this Note, the Credit Agreement, and any other agreement between the Bank and the Borrower are cumulative and are not exclusive of any remedies provided by law.

If any portion of a payment is at least ten days past due, the Borrower promises to pay a late charge of five percent of the amount which is past due. In addition, to the extent not prohibited by applicable law, the undersigned promises to pay the following: (1) all expenses, including, without limitation, any and all court or collection costs, and reasonable attorney's fees, whether suit be brought or not, incurred in collecting this Note or in otherwise protecting the Bank's interests; (2) all costs incurred in evaluating, preserving or disposing of any Collateral granted as security for the payment of this Note, including the cost of any audits, appraisals, appraisal updates, reappraisals or environmental inspections which the Bank from time to time in its sole discretion may deem necessary; (3) any premiums for property insurance purchased on behalf of the Borrower or on behalf of the owner or owners of the Collateral pursuant to any Loan Document relating to the Collateral; (4) any expenses or costs incurred in defending any claim arising out of the execution of this Note or the obligation which it evidences, or otherwise involving the employment by the Bank of attorneys with respect to this Note and the obligations it evidences; and (5) any other charges permitted by applicable law. The Borrower shall pay such authorized charges on demand or, at the Bank's option, such charges may be added to the unpaid balance of the Note and shall accrue interest at the stated rate of interest.

The Borrower waives presentment, demand, protest, notice of protest and notice of dishonor and waives all exemptions as to the obligations evidenced by this Note. The Borrower waives any rights to require the Bank to proceed against any other party or person or any Collateral before proceeding against the Borrower, or any other party. The Bank may, without notice, without affecting the liability of the Borrower hereunder or under the Credit Agreement, and at any time or times, grant extensions of the time for payment or other indulgences to any party or permit the renewal or modification of this Note, or permit the substitution, exchange or release of any Collateral for this Note and may add or release any party primarily or secondarily liable. The Bank may apply all monies made available to it from any part of the proceeds of the disposition of any Collateral or by exercise of the right of setoff either to the obligations under this Note or to any other obligations of the Borrower to the Bank, as provided in the Credit Agreement. The undersigned specifically waives any rights afforded to it by Sections 49-25 and 49-26 of the Code of Virginia of 1950 as amended.

TO THE EXTENT LEGALLY PERMISSIBLE, THE BORROWER WAIVES ANY RIGHT TO TRIAL BY JURY IN ANY LITIGATION RELATING TO TRANSACTIONS UNDER THIS NOTE, WHETHER SOUNDING IN CONTRACT, TORT OR OTHERWISE.

Any provision of this Note which is prohibited or unenforceable shall be ineffective only to the extent of such prohibition or unenforceability without invalidating the remaining provisions of this Note. No amendment, termination or waiver of any provision of this Note, nor consent to any departure by the Borrower from any term of this Note, shall in any event be effective unless it is in writing and signed by an authorized employee of the Bank, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. No failure or delay on the part of the Bank to exercise any right, power or remedy under this Note shall be construed as a waiver of the right to exercise the same or any other right at any time.

This Note shall apply to and bind the Borrower and its successors and assigns and shall inure to the benefit of the Bank, its successors and assigns. This Note shall be governed by the internal laws of the Commonwealth of Virginia and applicable federal law. The Borrower acknowledges that the events and occurrences relating to this Note bear a reasonable relationship to the laws of the Commonwealth of Virginia. The validity, terms, performance and enforcement of this Note shall be governed by applicable federal law and the internal laws of the Commonwealth of Virginia.

By signing below, the Borrower agrees to the terms of this Note.

BORROWER:

OPTICAL CABLE CORPORATION

By: _____
Name: Tracy G. Smith
Title: Vice President and Chief Financial Officer

SUPERIOR MODULAR PRODUCTS INCORPORATED

By: _____
Name: Tracy G. Smith
Title: CFO and Secretary

EXHIBIT 3.1(d)

Capital Acquisitions Term Loan Note

[see attached]

\$2,260,000.00

May 30, 2008
Roanoke, Virginia
Note #164291

FOR VALUE RECEIVED, OPTICAL CABLE CORPORATION, a Virginia corporation and SUPERIOR MODULAR PRODUCTS INCORPORATED, a Delaware corporation (each individually with respect to itself, jointly and severally, and collectively, the "Borrower"), hereby promises to pay to the order of VALLEY BANK, a Virginia banking corporation, its affiliates and their successors and assigns (the "Bank") at its Head Office, in lawful money of the United States and in immediately available funds, the principal amount of up to TWO MILLION TWO HUNDRED SIXTY THOUSAND AND NO/100 DOLLARS (\$2,600,000.00), or such sum as may be advanced and outstanding from time to time, and to pay interest from the date of this note (herein referred to as the "Note") on the unpaid principal amount outstanding under this Note, in like money, at the time, in amounts, and at the rate per annum as provided in Section 3.1(d) of the Credit Agreement of even date herewith between the Borrower and the Bank, as modified, replaced or restated (the "Credit Agreement").

This Note is referred to as the Capital Acquisitions Term Loan Note in the Credit Agreement. The Credit Agreement contains, among other things, provisions for acceleration of the maturity of this Note upon the happening of certain stated events and for prepayments on account of the principal of this Note prior to maturity of this Note upon the terms and conditions specified in the Credit Agreement.

Capitalized terms contained in this Note which are not otherwise defined herein shall have the meaning ascribed to them in the Credit Agreement.

This Note is governed by and subject to additional terms and conditions of the Credit Agreement and is secured by the Collateral described in the Credit Agreement and the other Loan Documents, reference to which is hereby made for a description of the Collateral and the rights of the Borrower and the Bank with respect to the Collateral and the remedies of the Bank pertaining thereto. In the event of a conflict between any term or condition contained in this Note and the Credit Agreement, such term or condition of the Credit Agreement shall control. The proceeds of any Collateral may be applied against the liabilities of the Borrower to the Bank as provided in the Loan Documents.

If an Event of Default occurs, the Bank shall have the option to exercise all of the rights and remedies provided in the Credit Agreement. To the extent permitted by law, upon default, the Bank reserves the right, in addition to all other remedies permitted by law or in the Credit Agreement, to set off the amount due under this Note or due under any other obligation to the Bank against any and all accounts, whether checking or savings or otherwise, credits, money, stocks, bonds or other security or property of any nature whatsoever on deposit with, held by, owned by, or in the possession of, the Bank, or any of its affiliates to the credit of or for the account of the Borrower or any other party to the Credit Agreement, without notice to or consent by the Borrower or any such party. The remedies provided in this Note, the Credit Agreement, and any other agreement between the Bank and the Borrower are cumulative and are not exclusive of any remedies provided by law.

If any portion of a payment is at least ten days past due, the Borrower promises to pay a late charge of five percent of the amount which is past due. In addition, to the extent not prohibited by applicable law, the undersigned promises to pay the following: (1) all expenses, including, without limitation, any and all court or collection costs, and reasonable attorney's fees, whether suit be brought or not, incurred in collecting this Note or in otherwise protecting the Bank's interests; (2) all costs incurred in evaluating, preserving or disposing of any Collateral granted as security for the payment of this Note, including the cost of any audits, appraisals, appraisal updates, reappraisals or environmental inspections which the Bank from time to time in its sole discretion may deem necessary; (3) any premiums for property insurance purchased on behalf of the Borrower or on behalf of the owner or owners of the Collateral pursuant to any Loan Document relating to the Collateral; (4) any expenses or costs incurred in defending any claim arising out of the execution of this Note or the obligation which it evidences, or otherwise involving the employment by the Bank of attorneys with respect to this Note and the obligations it evidences; and (5) any other charges permitted by applicable law. The Borrower shall pay such authorized charges on demand or, at the Bank's option, such charges may be added to the unpaid balance of the Note and shall accrue interest at the stated rate of interest.

The Borrower waives presentment, demand, protest, notice of protest and notice of dishonor and waives all exemptions as to the obligations evidenced by this Note. The Borrower waives any rights to require the Bank to proceed against any other party or person or any Collateral before proceeding against the Borrower, or any other party. The Bank may, without notice, without affecting the liability of the Borrower hereunder or under the Credit Agreement, and at any time or times, grant extensions of the time for payment or other indulgences to any party or permit the renewal or modification of this Note, or permit the substitution, exchange or release of any Collateral for this Note and may add or release any party primarily or secondarily liable. The Bank may apply all monies made available to it from any part of the proceeds of the disposition of any Collateral or by exercise of the right of setoff either to the obligations under this Note or to any other obligations of the Borrower to the Bank, as provided in the Credit Agreement. The undersigned specifically waives any rights afforded to it by Sections 49-25 and 49-26 of the Code of Virginia of 1950 as amended.

TO THE EXTENT LEGALLY PERMISSIBLE, THE BORROWER WAIVES ANY RIGHT TO TRIAL BY JURY IN ANY LITIGATION RELATING TO TRANSACTIONS UNDER THIS NOTE, WHETHER SOUNDING IN CONTRACT, TORT OR OTHERWISE.

Any provision of this Note which is prohibited or unenforceable shall be ineffective only to the extent of such prohibition or unenforceability without invalidating the remaining provisions of this Note. No amendment, termination or waiver of any provision of this Note, nor consent to any departure by the Borrower from any term of this Note, shall in any event be effective unless it is in writing and signed by an authorized employee of the Bank, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. No failure or delay on the part of the Bank to exercise any right, power or remedy under this Note shall be construed as a waiver of the right to exercise the same or any other right at any time.

This Note shall apply to and bind the Borrower and its successors and assigns and shall inure to the benefit of the Bank, its successors and assigns. This Note shall be governed by the internal laws of the Commonwealth of Virginia and applicable federal law. The Borrower acknowledges that the events and occurrences relating to this Note bear a reasonable relationship to the laws of the Commonwealth of Virginia. The validity, terms, performance and enforcement of this Note shall be governed by applicable federal law and the internal laws of the Commonwealth of Virginia.

By signing below, the Borrower agrees to the terms of this Note.

BORROWER:

OPTICAL CABLE CORPORATION

By: _____
Name: Tracy G. Smith
Title: Vice President and Chief Financial Officer

SUPERIOR MODULAR PRODUCTS INCORPORATED

By: _____
Name: Tracy G. Smith
Title: CFO and Secretary

EXHIBIT 7.1(a)

Compliance Certificate

This Compliance Certificate is delivered pursuant to Section 7.1 of the Credit Agreement dated as of May __, 2008 (together with all amendments and modifications, if any, from time to time made thereto, the "Credit Agreement"), between Optical Cable Corporation and Superior Modular Products Incorporated and Valley Bank. Unless otherwise defined, terms used herein (including the attachments hereto) have the meanings provided in the Credit Agreement.

The undersigned, being the duly elected, qualified and acting _____ of the Borrower, on behalf of the Borrower, hereby certifies and warrants that:

1. I am the _____ of the Borrower and that, as such, I am authorized to execute this certificate on behalf of the Borrower.
2. This Compliance Certificate relates to the period commencing as of _____, 20__, and ending _____, 20__.
3. As of _____, 20__, and in accordance with the Credit Agreement:
 - a) the Borrower is not in default of any of the provisions of the Credit Agreement during the period as to which this Compliance Certificate relates;
 - b) the Borrower's Tangible Net Worth was _____; and
 - c) the Borrower's Debt Service Coverage Ratio was _____.

IN WITNESS WHEREOF, the undersigned has executed and delivered this certificate, this __ day of _____, 20__.

OPTICAL CABLE CORPORATION

By: _____
Name:
Title:

Instrument Prepared by

LeClairRyan
 10 S. Jefferson Street, Suite 1800
 Roanoke, VA 24011

Tax Map Nos. 037.07-01-05.02-0000, 037.07-01-15.00-0000, 03.07-01-15.01-0000

CORRECTED DEED OF TRUST**THIS IS A CREDIT LINE DEED OF TRUST**

THIS DEED OF TRUST, made this 4th day of June, 2008, by and among **OPTICAL CABLE CORPORATION** (hereinafter referred to as the "Grantor"); **LECLAIRRYAN**, whose business address is 10 South Jefferson, Suite 1800, Roanoke, Virginia 24011 (hereinafter collectively referred to as the "Trustee"); and **VALLEY BANK**, a Virginia banking corporation, its affiliates, successors and assigns (hereinafter referred to as the "Beneficiary").

The noteholder is Valley Bank, having a mailing address of: 36 W. Church Ave. S.W., Roanoke, VA 24011. The maximum principal amount secured hereby is SEVENTEEN MILLION AND 00/100 DOLLARS (\$17,000,000.00).

NOTE REGARDING RECORDATION TAXES: As a Corrected Deed of Trust this instrument is exempt from recordation taxes under Section 58.1-810(2) of the Virginia Code.

R E C I T A L S:

WHEREAS, in conjunction with that certain Credit Agreement dated, May 30, 2008 in the total principal amount of SEVENTEEN MILLION AND 00/100 DOLLARS (\$17,000,000.00), and made payable to the Beneficiary (the "Agreement"), Beneficiary and Grantor caused to be recorded that certain Credit Line Deed of Trust that was recorded in the Clerk's Office of the Circuit Court of Roanoke County, Virginia as instrument number 200807565; and

WHEREAS, the Beneficiary has requested the Grantor enter into this Corrected Deed of Trust to secure the performance of Grantor's obligations under the Agreement and the Grantor has agreed to the request.

W I T N E S S E T H:

NOW THEREFORE, in consideration of the loans evidenced by the Agreement, and other good and valuable consideration, the receipt of which is hereby acknowledged, the parties agree as follows:

The Grantor does hereby grant and convey, with covenants of General Warranty, unto Trustee, the property described in Schedule A attached hereto and by this reference made a part hereof,

Together with all buildings and improvements now or hereafter constructed thereon; all the estate and rights, if any, of the Grantor in and to all land lying in public and private streets, roads, and alleyways abutting the above-described property; all easements, rights-of-way, privileges, and appurtenances now or hereafter belonging to or in any way related to the above-described property; all fixtures, machinery, equipment, building materials, and other personal property of every nature whatsoever now or hereafter

located in, or on, or used, or intended to be used, in connection with the operation of the above-described property, including, but without limitation, heating, air conditioning, cooking, refrigerating, plumbing, and electrical apparatus and equipment, boilers, engines, motors, generating equipment, piping and plumbing fixtures, ventilating and vacuum cleaning systems, fire extinguishing apparatus, gas and electrical fixtures, elevators, escalators, partitions, mantels, built-in mirrors, disposals, washers, dryers, window shades, blinds, screens, storm sashes, storm doors, awnings, carpeting, underpadding, drapes, plants and shrubbery, and furnishings, all of which personal property, including replacements thereof and additions thereto, shall be deemed part of the realty hereby conveyed (and the Grantor hereby declares such personal property to be part of said realty, whether attached thereto or not, and subject to the lien hereby created); and all proceeds of the conversion, whether voluntary or involuntary, of any of the above-described property into cash or other liquid claims, including, without limitation, all awards, payments or proceeds, including interest thereon, and the right to receive same, which may be made as a result of any casualty, any exercise of the right of eminent domain or deed in lieu thereof, the alteration of the grade of any street and any injury to or decrease in the value of the above-described property, together with all costs and expenses incurred by the Beneficiary, in connection with the collection of such awards, payments, and proceeds, including, without limitation, reasonable attorneys' fees, all of the above-described real and personal property being hereinafter referred to as the "Property,"

IN TRUST to secure the Beneficiary for (a) the payment of a certain indebtedness owed by Grantor in the principal amount of SEVENTEEN MILLION AND 00/100 DOLLARS (\$17,000,000.00) together with interest thereon subject to the terms and conditions set forth in the Agreement, the terms of which are incorporated herein by reference; (b) the payment of all other sums, with interest thereon as provided herein, advanced in accordance with the provisions hereof by the Beneficiary or the Trustee for the protection of the lien and security interest of the Beneficiary in and to the Property; (c) the payment of all late charges, penalties, costs of collection, legal fees and other sums which may become due and owing by the Grantor hereunder or under the Agreement, and (d) the performance of the covenants and agreements of the Grantor hereunder and under the Agreement. The above-described indebtednesses are hereinafter called the "Obligations."

The Grantor also hereby irrevocably assigns and conveys unto the Beneficiary, and grants the Beneficiary a security interest in, all leases now or hereafter existing on any part of the Property and any guaranties thereof and all rents from the Property to secure the payment of all Obligations secured hereunder. The Grantor hereby irrevocably appoints the Beneficiary as its attorney-in-fact to do all things which the Grantor might otherwise do with respect to the Property and the leases therein, including, without limitation, collecting said rents with or without suit and applying the same, less expenses of collection, to any of the obligations secured hereunder in such manner as may be determined by the Beneficiary, or at the option of the Beneficiary, holding the same as security for the payment of all obligations secured hereunder, leasing, in the name of the Grantor, the whole or any part of the Property which may become vacant, and employing agents therefor and paying such agents reasonable compensation for their services; provided, however, that until there be a default under the terms of the Agreement or this Deed of Trust, the Grantor may continue to collect and enjoy said rents without accountability to the Beneficiary. The curing of any default, however, shall not entitle the Grantor to again collect said rents unless consent in writing is obtained by the Beneficiary. The powers and rights granted in this paragraph shall be in addition to the other remedies herein provided in the "event of default" (hereinafter defined) and may be exercised independently of or concurrently with any of the said remedies. Nothing in the foregoing shall be construed to impose any obligation upon the Beneficiary to exercise any power or right granted in this paragraph or to assume any liability under any lease of any part of the Property and no liability shall attach to the Beneficiary for failure or inability to collect any rents under any such lease. The Grantor covenants and warrants that (i) it will comply with all terms and conditions of all leases now existing or that may hereafter come into existence in respect of the Property or any part thereof; (ii) it has not sold, assigned, transferred, mortgaged, or pledged, and will not sell,

assign, transfer, mortgage, or pledge, without the Beneficiary's prior written consent, the rents, issues, or profits from the Property and leases thereof to any firm, person, or corporation other than the Beneficiary; and (iii) upon request of the Beneficiary, it will execute and deliver to the Beneficiary such other instruments or documents reasonably requested by the Beneficiary for the purpose of securing or exercising its rights herein and it will provide the Beneficiary with true copies or originals of such leases and all amendments, supplements, renewals, or correspondence related thereto.

So long as no event of default exists under this Deed of Trust, the Grantor shall remain in quiet use, possession, and management of the Property, and in the enjoyment of the income, revenue, and profits therefrom.

THIS DEED OF TRUST incorporates the provisions of Section 55-59 of the Code of Virginia and the following provisions of Section 55-60:

Subject to all upon default.

Exemptions waived (to the extent allowable by applicable law).

Substitution of Trustee permitted in Beneficiary's sole discretion.

Any Trustee may act.

Advertisement required: Once a week for two consecutive weeks in a newspaper having general circulation in the City or County in which the Property is located.

In addition to the right to require the Trustee to sell for a breach hereof, the Beneficiary shall also have the cumulative right of collecting said indebtedness by suit in equity or action at law, and/or by requiring the Trustee to take possession of and rent the property, either pending a sale or until the amount secured herein shall have been paid, but no liability shall attach to Trustee for failure so to do. Rents collected by the Trustee shall be applied as the proceeds of sale are to be applied.

So long as any part of the Obligations hereby secured remains unpaid, the Grantor, in addition to and not in limitation of the foregoing covenants, agrees as follows:

1. **Insurance.** The Grantor will maintain fire insurance with extended coverage in the amount of the full replacement cost of the improvements on the Property, and such other insurance as the Beneficiary may from time to time require, with such insurance companies as are acceptable to the Beneficiary, with loss payable to the Beneficiary, without contribution; and will deliver to the Beneficiary the original policy or policies, and, at least ten (10) days before the expiration of any policy, the renewal thereof. In the event the Grantor fails to maintain the required coverage, the Beneficiary shall have the right, but not the obligation, to effect such insurance coverage, pay the premium thereon and the money so paid, with interest thereon at ten percent (10%) per annum, or if lower, the maximum rate allowable by law, shall become part of the Obligations secured hereby. Any insurance proceeds shall be applied to the payment of the indebtedness hereby secured (but without any prepayment penalty) except that if, pursuant to the provisions of the next paragraph, the Beneficiary directs the Grantor to restore the damaged portion of the Property, then, to the extent necessary, such proceeds shall (but only to the extent necessary) be applied to the cost of such restoration, and the Beneficiary may, without paying interest thereon, retain all or any part thereof until the Property has been restored to the satisfaction of the Beneficiary.

2. **Preservation and Maintenance of Property.** The Grantor will keep the Property, including additions and improvements hereafter acquired, in good order and repair, including the making of such replacements as may be necessary for that purpose and, if the Beneficiary so directs, the prompt restoration of any part of the Property which may be damaged by fire or other casualty, irrespective of the availability of adequate insurance proceeds for that purpose.

3. **Nuisances.** The Grantor will not permit or suffer any nuisance to exist or unlawful activity to take place upon the Property or any part thereof.

4. **Further Assurances.** The Grantor will execute, or cause to be executed, such further assurances of title to the Property, and will take, and cause to be taken, such steps, including legal proceedings, as may at any time appear to the Trustee, or to the Beneficiary, to be desirable to perfect the title to the Property in the Trustee.

5. **Books and Records.** The Grantor will keep and maintain at its principal place of business complete and accurate books and records of its earnings and expenses of the Property and copies of all written contracts, leases, and other instruments which affect the Property. Such books, records, contracts, leases, and other instruments shall be subject to examination and inspection at any reasonable time by the Beneficiary and upon default shall be delivered to the Beneficiary at the Beneficiary's request.

6. **Notice of Suits and Proceedings.** The Grantor will immediately notify the Beneficiary by registered or certified mail, return receipt requested, of any taking or condemnation, or any threatened or pending proceedings for the taking or condemnation, of any part of the Property under any power of eminent domain; and in the event that title to, or possession of, the Property or any portion thereof, is taken or condemned under any power of eminent domain, then the Grantor will (and hereby does) assign, and will forthwith upon receipt pay over, to the Beneficiary the proceeds and consideration resulting from taking or condemnation, not to exceed the unpaid balance of the Obligations secured by this Deed of Trust, said proceeds so paid to be applied, without repayment premium, to the indebtedness secured hereby.

7. **Transfer of Property or Controlling Interest in Grantor.** The Grantor will not, without the prior written consent of the Beneficiary, lease, bargain, sell, transfer, assign, or convey the Property, or any portion thereof, or any legal or equitable interest therein, other than leases in the ordinary course. If the Grantor is not a natural person, then the bargain, sale, transfer, or assignment of all or a controlling interest portion of the voting stock, membership or partnership interests, or other equity of the Grantor (including, without limitation, transfers resulting from mergers, consolidations, or liquidations, and whether in one or a number of transactions) without the prior written consent of the Beneficiary shall be deemed to be in contravention of the provisions of the first sentence of this Paragraph 7.

NOTICE - THE DEBT SECURED HEREBY IS SUBJECT TO CALL IN FULL OR THE TERMS THEREOF BEING MODIFIED IN THE EVENT OF SALE OR CONVEYANCE OF THE PROPERTY CONVEYED.

8. **Protection of the Beneficiary's Security.** In the event the Grantor fails to perform any of its covenants or agreements contained in the Agreement or this Deed of Trust, or any action or proceeding is commenced or threatened which affects the Property or title thereto or the interest of the Trustee or the Beneficiary therein, then, in any of such events, the Beneficiary may take such action as the Beneficiary deems necessary, in its sole discretion, to protect its interests, including, without limitation, (i) the employment of attorneys and disbursement of legal fees, (ii) the procurement of insurance as provided in Paragraph 1 hereof, and (iii) if the Property is subject to another deed of trust or lien, whether inferior or superior hereto, the curing of any default in the performances of any of the terms and provisions thereof, or if the indebtedness thereby secured is accelerated, the purchase or payment in full of such indebtedness, all on such terms as the Beneficiary shall, in its sole discretion, deem necessary or advisable. Any amounts disbursed by the Beneficiary pursuant to the provisions of this Paragraph 8 shall

be added to, and deemed a part of, the indebtedness secured hereby and shall bear interest from the date of the disbursement thereof at ten percent (10%) per annum, or if lower, the highest rate allowed by law, and shall, together with the interest thereon, be repayable by the Grantor on demand.

9. **Environmental Protection.** The Grantor covenants and agrees as follows:

As used in this Deed of Trust: "Hazardous Wastes" means all waste materials subject to regulation under the Comprehensive Environmental Response, Compensation, and Liability Act, 42 U.S.C. §§ 9601, et seq., the Resource Conservation and Recovery Act, 42 U.S.C. §§ 6901, et seq., as amended, or applicable state law and any other applicable federal, state, or local laws and their regulations now in force or hereafter enacted relating to hazardous waste disposal; and "Toxic Substances" means and includes any materials which have been shown to have significant adverse effects on human health or which are subject to regulation under the Toxic Substances Control Act, 15 U.S.C. §§ 2601, et seq., as amended, applicable state law, or any other applicable federal, state, or local law now in force or hereafter enacted relating to toxic substances or contaminants. "Toxic Substances" includes, but is not limited to, asbestos, polychlorinated biphenyls (PCBs), petroleum products, and lead-based paints. All such laws relating to hazardous waste disposal and toxic substances are collectively referred herein as "Environmental Laws."

A The Grantor and any other parties, including, but not limited to, tenants, licensees, and occupants, will not be involved in any activity on, in or under the Property, which activity could involve or lead to the use, manufacture, storage, or disposal of Hazardous Wastes or Toxic Substances, or the imposition of liability on the Grantor or any other subsequent or former owner of the Property or the creation of a lien on the Property under any Environmental Laws.

B. The Grantor will comply strictly and in all respects with the requirements of all Environmental Laws and shall promptly notify the Beneficiary in the event of the discovery of Hazardous Wastes or Toxic Substances at the Property. Further, the Grantor will promptly forward to the Beneficiary copies of all orders, notices, permits, applications, or other communications and reports in connection with any discharge, spillage, use, or the discovery of Hazardous Wastes and Toxic Substances or any other matters relating to the Environmental Laws as they may affect the Property.

C. The Grantor agrees that if at any time the Beneficiary has reasonable cause to believe there is Hazardous Wastes or Toxic Substances upon the Property, the Beneficiary may obtain, at the Grantor's cost, an environmental site assessment or environmental audit report from a firm acceptable to the Beneficiary, to assess with a reasonable degree of certainty the presence of any Hazardous Wastes or Toxic Substances, and the cost in connection with the abatement, cleanup, or removal of such.

D. The Grantor agrees that in the event of the presence of any Hazardous Waste or Toxic Substance upon the Property, whether or not the same originates or emanates from the Property, or if the Grantor shall fail to comply with any of the requirements of the Environmental Laws, the Beneficiary may at its election, but without the obligation to do so, give such notices, cause such work to be performed at the Property, or take any and all other actions as the Beneficiary shall deem necessary or advisable in order to abate, remove, and clean up the Hazardous Waste or Toxic Substance or otherwise cure the Grantor's non-compliance.

E. Any amounts disbursed by the Beneficiary pursuant to the provisions of this Paragraph 9 shall be added to, and deemed a part of, the indebtedness secured hereby, shall bear interest from the date of the disbursement thereof at the rate of ten percent (10%) per annum, or if lower, the highest rate allowed by law, and shall, together with the interest thereon, be repayable by the Grantor on demand.

F. The Grantor shall indemnify and defend the Beneficiary and the Trustee, and each of them, from and against all costs, liabilities, penalties, fines, legal fees and fees of experts, arising from any actual or alleged presence on, in or under or discharge of Hazardous Wastes from the Property or violation of any Environmental Laws. This indemnification obligation shall survive payment of the Obligations and discharge of the lien of this Deed of Trust.

10. **Future Advances.** Beneficiary may make future advances to Grantor and may advance or readvance funds to Grantor and all such future advances and readvances shall be fully secured by the lien of this Deed of Trust.

11. **Events of Default and Foreclosure.** If any one or more of the following events (hereinafter collectively referred to as “event of default”) shall occur:

A. Default in the performance of, or compliance with, any of the covenants, conditions, and agreements set forth in the Agreement or in this Deed of Trust (provided however that such a default under this Deed of Trust is subject to a right to cure with 30 days advance written notice unless the Beneficiary reasonably determines that such a delay would materially negatively impact the value of the security and lien granted hereby);

B. Default under any other lien or encumbrance placed on the Property, or any interest therein (legal or equitable), or any part thereof, either inferior or superior in right to the lien of this Deed of Trust;

C. The termination of, or occurrence of any event negatively affecting, the validity of this Deed of Trust or the priority of this Deed of Trust;

D. The passage of any law or the decision of any court rendering or declaring any of the covenants and agreements set out in the Agreement or in this Deed of Trust to be legally unenforceable, inoperative, void, or voidable;

E. The Grantor places or allows to be placed on the Property or any portion of or interest in the Property a lien with priority over the lien of this Deed of Trust, except the lien for real estate taxes not yet due and payable;

then, in any of such events, the Trustee and the Beneficiary shall, in addition to any other rights and remedies provided by law, have the following rights and remedies, any one or more of which shall be exercisable at the option of the Beneficiary and without notice to the Grantor:

(i) The Beneficiary may declare all sums due and owing under the Agreement immediately due and payable, without demand; and

(ii) The Trustee may foreclose by a sale of the Property as follows:

a) The Trustee may take possession of the Property and proceed to sell the same at auction at the premises or at such other place in the city or county in which the Property or the greater part thereof lies, or in the corporate limits of any city surrounded by or contiguous to such county, or in the case of annexed land, in the county of which the land was formerly a part, as the Trustee may select upon such terms and conditions as the Trustee may deem best, after first advertising the time, place, and terms of sale.

b) The power of sale above granted may be exercised at different times as to different portions of the Property, and if for any reason any executory contract of sale shall not be performed, then new contracts may be made with respect to the same portion of the Property (with or without other portions). If the Trustee deems it best for any reason to postpone or continue the sale at any time or from time to time, they may do so, in which event the Trustee shall advertise the postponed sale in the same manner as the original advertisement of sale provided in clause (a) above.

c) Full power and authority is hereby expressly granted and conferred upon the Trustee to make, execute, and deliver all necessary deeds of conveyance for the purpose of vesting in the purchaser or purchasers complete and entire legal and equitable title to the Property, or the portion thereof so sold, and the recitals therein shall be received in all courts of law and equity as prima facie evidence of the matters therein stated; and at such sale the Beneficiary may become a purchaser, and no purchaser shall be required to see to the proper application of the purchase money.

d) The proceeds of such sale shall be applied as provided in Virginia Code Section 55-59.4, as amended, or any successor provision.

12. **Non-Waiver**. No delay, act, or failure to act, by the Trustee and the Beneficiary, or any of them, however long continued, shall be construed as a waiver of any of their rights hereunder or of any default by the Grantor.

13. **No Liability or Obligation on the Trustee or the Beneficiary**. Nothing in this Deed of Trust shall be construed to impose any obligation upon either the Beneficiary or the Trustee to expend any money or to take any other discretionary act herein permitted, and neither the Beneficiary nor the Trustee shall have any liability or obligation for any delay or failure to take any discretionary act. The Trustee shall not be required to see that this Deed of Trust is recorded and shall not be liable for the default or misconduct of any agent or attorney appointed by them in pursuance hereof, or for anything whatever in connection with this trust, except willful misconduct or gross negligence. The Trustee may act upon any instrument or paper believed by them in good faith to be genuine and to be signed by the proper party or parties, and shall be fully protected for any action taken or suffered by them in reliance thereon.

14. **Indemnification by the Grantor**. The Grantor shall protect and indemnify the Trustee and the Beneficiary from and against all liabilities, obligations, claims, damages, penalties, causes of action, costs, and expenses (including, without limitation, reasonable attorneys' fees and disbursements), imposed upon or incurred by or asserted against the Trustee or the Beneficiary by reason of:

A. Ownership of the Property or any interest therein, or receipt of any rent or other sum therefrom,

B. Any accident to, injury to, or death of persons or loss of or damage to Property occurring on or about the Property or the adjoining sidewalks, curbs, vaults or vault space, if any, streets, or ways,

C. Any failure on the part of the Grantor to perform or comply with any of the terms, covenants, conditions, and agreements set forth in the Agreement, Deed of Trust, or any other agreements executed by the Grantor or any other persons liable for the payment of the indebtedness hereby secured,

D. Performance of any labor or services or the furnishing of any materials or other Property in respect of the Property or any part thereof for construction or maintenance or otherwise,

E. Any action brought against the Trustee or the Beneficiary attacking the validity, priority, and/or enforceability of this Deed of Trust, the Agreement, or any other agreements executed by the Grantor or any other persons liable for the Obligations hereby secured.

Any amounts payable to the Trustee or the Beneficiary under this Paragraph 13 which are not paid within thirty (30) days after written demand therefor by the Trustee or the Beneficiary shall bear interest at ten percent (10%) per annum or, if less, the maximum rate per annum then permitted by law and shall be secured by this Deed of Trust. In the event any action, suit, or proceeding is brought against the Trustee or the Beneficiary by reason of any such occurrence, the Grantor, upon the request of the Trustee or the Beneficiary and at the Grantor's expense, shall resist and defend such action, suit, or proceeding or cause the same to be resisted and defended by counsel designated by the Beneficiary. Such obligations under this Paragraph 14 shall survive the termination, satisfaction, or release of this Deed of Trust.

15. **Headings.** The headings of the paragraphs of this Deed of Trust are for the convenience of reference only and are not to be considered a part hereof and shall not limit or otherwise affect any of the terms hereof.

16. **Number and Gender.** The pronouns and verbs set forth herein shall be construed as being of such number and gender as the context may require.

17. **Successors and Assigns.** This Deed of Trust shall be binding upon, and shall inure to the benefit of, the parties hereto and their respective heirs, personal representatives, successors, and assigns, and any descriptive term used herein shall include such heirs, personal representatives, successors, and assigns.

18. **Persons.** The use of the word "persons" in this Deed of Trust includes individuals, corporations, partnerships, and all other entities.

19. **Notices.** Except as may otherwise be provided herein, any notice, request, consent, approval, demand or other communication required or permitted hereunder shall be in writing and shall be given (a) when received (or when actually or constructively refused by or on behalf of addressee), if mailed, registered or certified, return receipt requested, postage prepaid, or (b) when delivered in person against a written receipt therefor, addressed to the parties as follows:

GRANTOR:
Optical Cable Corporation
5290 Concourse Drive
Roanoke, VA 24019

TRUSTEE: At the address in the preamble of this instrument

BENEFICIARY:
Valley Bank
36 W. Church Ave. S.W.
Roanoke, VA 24011

Any party may, by notice given in accordance herewith, change its notice address.

20. **Amendment and Waiver.** No amendment or waiver of any of the terms, provisions, or conditions of this Deed of Trust shall be effective unless in writing and executed by the parties. No delay or failure by any party to enforce any right or obligation hereunder shall be deemed to be a waiver of such right or obligation nor shall any waiver of any specific breach of this Deed of Trust be deemed to be a waiver of any other or additional breach, similar or dissimilar.

21. **Interpretation.** Any provision herein which requires the Beneficiary's consent shall be construed to mean the Beneficiary's consent, which may be withheld at the Beneficiary's sole discretion. The parties hereto acknowledge and agree that each has been given the opportunity to review independently this Deed of Trust with legal counsel, and/or has the requisite experience and sophistication to understand, interpret, and agree to the particular language of the provisions hereof. In the event of an ambiguity in or dispute regarding the interpretation of same, the interpretation of this Deed of Trust shall not be resolved by any rule of interpretation providing for the interpretation against the party who causes the uncertainty to exist or against the draftsman.

22. **Severability.** If any provision of this Deed of Trust or the application thereof to any party or circumstances shall, to any extent, be adjudged invalid or unenforceable in any jurisdiction, then: (a) such provision shall not be affected in any other jurisdiction; (b) the application of the other provisions of this Deed of Trust to said party or circumstances shall not be affected; and (c) the application of this Deed of Trust to any other party or circumstances shall not be affected thereby.

23. **Costs of Recordation.** Grantor shall pay all recording fees and taxes associated with the recording and re-recording of this Deed of Trust, including any amendments or modifications hereafter.

24. **Choice of Law.** This Deed of Trust shall be governed and construed in accordance with Virginia law.

[Signature to follow]

SCHEDULE A

LEGAL DESCRIPTION

PARCEL 1: ALL THOSE LOTS IN HOLLINS MAGISTERIAL DISTRICT, ROANOKE COUNTY, VIRGINIA, MORE PARTICULAR DESCRIBED AS "NEW TRACT 2A-1, CONTAINING 11.284 ACRES" AND "TRACT 3E-1A, CONTAINING 11.238 ACRES", ON PLAT OF SURVEY DATED MARCH 20, 1997, PREPARED BY LUMSDEN ASSOCIATES, P.C., ENTITLED "PLAT SHOWING THE COMBINATION OF TRACT 3C AND TRACT 2A PROPERTY OF OPTICAL CABLE CORPORATION, CREATING HEREON NEW TRACT 2A-1 (11.284 AC.) SITUATED ALONG VALLEYPONTE PARKWAY AT THE TERMINUS OF NORTH & SOUTH CONCOURSE DRIVE, A COPY OF WHICH SURVEY IS RECORDED IN THE CLERK'S OFFICE, CIRCUIT COURT OF ROANOKE COUNTY, VIRGINIA, IN PLAT BOOK 20, PAGE 72; AND,

BEING THAT PROPERTY DESCRIBED IN DEED BOOK 1403, PAGE 469; IN DEED BOOK 1459, PAGE 1925; AND IN DEED BOOK 1521, PAGE 994; OF RECORD IN THE AFORESAID CLERK'S OFFICE; AND,

PARCEL 2: ALL THAT LOT OR PARCEL OF LAND LYING AT THE INTERSECTION OF VALLEYPONTE PARKWAY AND NORTH CONCOURSE DRIVE (FORMERLY CONCOURSE DRIVE) IN THE VALLEYPONTE INDUSTRIAL PARK, CONTAINING .488 ACRE, AS SHOWN ON "PLAT OF SURVEY SHOWING THE SUBDIVISION AND DEDICATION OF THE PROPERTY OF THE BOARD OF SUPERVISORS OF ROANOKE COUNTY", DATED MAY 10, 1990, AND RECORDED IN THE AFORESAID CLERK'S OFFICE, IN PLAT BOOK 12, PAGE 133; AND,

BEING THAT PROPERTY DESCRIBED IN DEED BOOK 1557, PAGE 1371, OF RECORD IN THE AFORESAID CLERK'S OFFICE.

Instrument Prepared by**Record and Return to**

LeClairRyan

10 S. Jefferson Street, Suite 1800

Roanoke, VA 24011

Tax Map Nos. 9688.05-18-2376.000 & 9688.05-28-1550.000

**CORRECTED DEED OF TRUST, SECURITY AGREEMENT AND FIXTURE FILING
(COLLATERAL INCLUDES FIXTURES)**

THIS DEED OF TRUST, SECURITY AGREEMENT AND FIXTURE FILING (this "Deed of Trust"), made this 30th day of May, 2008, by and among **SUPERIOR MODULAR PRODUCTS INCORPORATED**, a Delaware corporation (hereinafter referred to as the "Grantor"); **LECLAIRRYAN**, a Virginia professional corporation, whose business address is 10 South Jefferson, Suite 1800, Roanoke, Virginia 24011 (hereinafter referred to as the "Trustee"); and **VALLEY BANK**, a Virginia banking corporation (hereinafter referred to as the "Beneficiary").

This instrument corrects and amends a previous Deed of Trust, Security Agreement and Fixture Filing recorded in the Office of the Register of Deeds for Buncombe County, North Carolina in Deed Book 4570 at Page 969-981.

The noteholder is Valley Bank, having a mailing address of: 36 W. Church Ave. S.W., Roanoke, VA 24011. The maximum principal amount secured hereby is \$17,000,000.00.

Grantor's organizational identification number: 2359916.

THIS INSTRUMENT IS ALSO A FIXTURE FILING UNDER NORTH CAROLINA GENERAL STATUTES SECTION 25-9-502 AND IS TO BE FILED AND INDEXED IN THE REAL ESTATE RECORDS AND IS ALSO TO BE INDEXED IN THE INDEX OF FINANCING STATEMENTS UNDER THE NAMES OF GRANTOR AS "DEBTOR" AND BENEFICIARY, AS "SECURED PARTY".

RECITALS:

WHEREAS, the Grantor executed that certain credit agreement dated of even date herewith, in the total principal amount of SEVENTEEN MILLION AND 00/100 DOLLARS (\$17,000,000.00), and made payable to the Beneficiary (the "Agreement").

WHEREAS, the Beneficiary has requested the Grantor enter into this Deed of Trust to secure the performance of Grantor's obligations under the Agreement and the Grantor has agreed to the request.

WITNESSETH:

NOW THEREFORE, in consideration of the loans evidenced by the Agreement, and other good and valuable consideration, the receipt of which is hereby acknowledged, the parties agree as follows:

The Grantor does hereby grant and convey, with covenants of general warranty, the property described located at 33 Superior Way, Buncombe County, North Carolina, as is more particularly described in Schedule A attached hereto and by this reference made a part hereof, to Trustee, its successors and assigns, in fee simple forever, upon the trust and for the uses and purposes hereinafter set forth,

together with all buildings and improvements now or hereafter constructed thereon; all the estate and rights, if any, of the Grantor in and to all land lying in public and private streets, roads, and alleyways abutting the above-described property; all easements, rights-of-way, privileges, and appurtenances now or hereafter belonging to or in any way related to the above-described property; all fixtures, machinery, equipment, building materials, and other personal property of every nature whatsoever now or hereafter located in, or on, or used, or intended to be used, in connection with the operation of the above-described property, including, but without limitation, heating, air conditioning, cooking, refrigerating, plumbing, and electrical apparatus and equipment, boilers, engines, motors, generating equipment, piping and plumbing fixtures, ventilating and vacuum cleaning systems, fire extinguishing apparatus, gas and electrical fixtures, elevators, escalators, partitions, mantels, built-in mirrors, disposals, washers, dryers, window shades, blinds, screens, storm sashes, storm doors, awnings, carpeting, underpadding, drapes, plants and shrubbery, and furnishings, all of which personal property, including replacements thereof and additions thereto, shall be deemed part of the realty hereby conveyed (and the Grantor hereby declares such personal property to be part of said realty, whether attached thereto or not, and subject to the lien hereby created); and all proceeds of the conversion, whether voluntary or involuntary, of any of the above-described property into cash or other liquid claims, including, without limitation, all awards, payments or proceeds, including interest thereon, and the right to receive same, which may be made as a result of any casualty, any exercise of the right of eminent domain or deed in lieu thereof, the alteration of the grade of any street and any injury to or decrease in the value of the above-described property, together with all costs and expenses incurred by the Beneficiary, in connection with the collection of such awards, payments, and proceeds, including, without limitation, reasonable attorneys' fees, all of the above-described real and personal property being hereinafter referred to as the "Property,"

IN TRUST to secure the Beneficiary for (a) the payment of a certain indebtedness owed by Grantor in the principal amount of SEVENTEEN MILLION AND 00/100 DOLLARS (\$17,000,000.00), together with interest thereon subject to the terms and conditions set forth in the Agreement, the terms of which are incorporated herein by reference; (b) the payment of all other sums, with interest thereon as provided herein, advanced in accordance with the provisions hereof by the Beneficiary or the Trustee for the protection of the lien and security interest of the Beneficiary in and to the Property; (c) the payment of all late charges, penalties, costs of collection, legal fees and other sums which may become due and

owing by the Grantor hereunder or under the Agreement, and (d) the performance of the covenants and agreements of the Grantor hereunder and under the Agreement. The above-described indebtednesses are hereinafter called the "Obligations."

THIS CONVEYANCE IS MADE UPON THIS SPECIAL TRUST, that if Grantor shall pay or perform all of the Obligations in accordance with the terms of the Agreement and any renewals, extensions or modifications thereof, and shall comply with all of the covenants, terms and conditions set forth in the Credit Agreement and this Deed of Trust, then this conveyance shall be null and void and may be cancelled of record at the request and cost of Grantor. But if at any time there shall occur an event of default, as defined in the Agreement and/or this Deed of Trust, then Beneficiary and Trustee shall be entitled to exercise the remedies set forth in the Agreement and/or this Deed of Trust.

The Grantor also hereby irrevocably assigns and conveys unto the Beneficiary, and grants the Beneficiary a security interest in, all leases now or hereafter existing on any part of the Property and any guaranties thereof and all rents from the Property to secure the payment of all Obligations secured hereunder. The Grantor hereby irrevocably appoints the Beneficiary as its attorney-in-fact to do all things which the Grantor might otherwise do with respect to the Property and the leases therein, including, without limitation, collecting said rents with or without suit and applying the same, less expenses of collection, to any of the obligations secured hereunder in such manner as may be determined by the Beneficiary, or at the option of the Beneficiary, holding the same as security for the payment of all obligations secured hereunder, leasing, in the name of the Grantor, the whole or any part of the Property which may become vacant, and employing agents therefor and paying such agents reasonable compensation for their services; provided, however, that until there be a default under the terms of the Agreement or this Deed of Trust, the Grantor may continue to collect and enjoy said rents without accountability to the Beneficiary. The curing of any default, however, shall not entitle the Grantor to again collect said rents unless consent in writing is obtained by the Beneficiary. The powers and rights granted in this paragraph shall be in addition to the other remedies herein provided in the "event of default" (hereinafter defined) and may be exercised independently of or concurrently with any of the said remedies. Nothing in the foregoing shall be construed to impose any obligation upon the Beneficiary to exercise any power or right granted in this paragraph or to assume any liability under any lease of any part of the Property and no liability shall attach to the Beneficiary for failure or inability to collect any rents under any such lease. The Grantor covenants and warrants that (i) it will comply with all terms and conditions of all leases now existing or that may hereafter come into existence in respect of the Property or any part thereof; (ii) it has not sold, assigned, transferred, mortgaged, or pledged, and will not sell, assign, transfer, mortgage, or pledge, without the Beneficiary's prior written consent, the rents, issues, or profits from the Property and leases thereof to any firm, person, or corporation other than the Beneficiary; and (iii) upon request of the Beneficiary, it will execute and deliver to the Beneficiary such other instruments or documents reasonably requested by the Beneficiary for the purpose of securing or exercising its rights herein and it will provide the Beneficiary with true copies or originals of such leases and all amendments, supplements, renewals, or correspondence related thereto.

So long as no event of default exists under this Deed of Trust, the Grantor shall remain in quiet use, possession, and management of the Property, and in the enjoyment of the income, revenue, and profits therefrom.

In addition to the right to require the Trustee to sell for a breach hereof, the Beneficiary shall also have the cumulative right of collecting said indebtedness by suit in equity or action at law, and/or by requiring the Trustee to take possession of and rent the property, either pending a sale or until the amount secured herein shall have been paid, but no liability shall attach to Trustee for failure so to do. Rents collected by the Trustee shall be applied as the proceeds of sale are to be applied.

So long as any part of the Obligations hereby secured remains unpaid, the Grantor, in addition to and not in limitation of the foregoing covenants, agrees as follows:

1. **Insurance.** The Grantor will maintain fire insurance with extended coverage in the amount of the full replacement cost of the improvements on the Property, and such other insurance as the Beneficiary may from time to time require, with such insurance companies as are acceptable to the Beneficiary, with loss payable to the Beneficiary, without contribution; and will deliver to the Beneficiary the original policy or policies, and, at least ten (10) days before the expiration of any policy, the renewal thereof. In the event the Grantor fails to maintain the required coverage, the Beneficiary shall have the right, but not the obligation, to effect such insurance coverage, pay the premium thereon and the money so paid, with interest thereon at ten percent (10%) per annum, or if lower, the maximum rate allowable by law, shall become part of the Obligations secured hereby. Any insurance proceeds shall be applied to the payment of the indebtedness hereby secured (but without any prepayment penalty) except that if, pursuant to the provisions of the next paragraph, the Beneficiary directs the Grantor to restore the damaged portion of the Property, then, to the extent necessary, such proceeds shall (but only to the extent necessary) be applied to the cost of such restoration, and the Beneficiary may, without paying interest thereon, retain all or any part thereof until the Property has been restored to the satisfaction of the Beneficiary.

2. **Preservation and Maintenance of Property.** The Grantor will keep the Property, including additions and improvements hereafter acquired, in good order and repair, including the making of such replacements as may be necessary for that purpose and, if the Beneficiary so directs, the prompt restoration of any part of the Property which may be damaged by fire or other casualty, irrespective of the availability of adequate insurance proceeds for that purpose.

3. **Nuisances.** The Grantor will not permit or suffer any nuisance to exist or unlawful activity to take place upon the Property or any part thereof.

4. **Further Assurances.** The Grantor will execute, or cause to be executed, such further assurances of title to the Property, and will take, and cause to be taken, such steps, including legal proceedings, as may at any time appear to the Trustee, or to the Beneficiary, to be desirable to perfect the title to the Property in the Trustee.

5. **Books and Records.** The Grantor will keep and maintain at its principal place of business complete and accurate books and records of its earnings and expenses of the Property and copies of all written contracts, leases, and other instruments which affect the Property. Such books, records, contracts, leases, and other instruments shall be subject to examination and inspection at any reasonable time by the Beneficiary and upon default shall be delivered to the Beneficiary at the Beneficiary's request.

6. **Notice of Suits and Proceedings.** The Grantor will immediately notify the Beneficiary by registered or certified mail, return receipt requested, of any taking or condemnation, or any threatened or pending proceedings for the taking or condemnation, of any part of the Property under any power of eminent domain; and in the event that title to, or possession of, the Property or any portion thereof, is taken or condemned under any power of eminent domain, then the Grantor will (and hereby does) assign, and will forthwith upon receipt pay over, to the Beneficiary the proceeds and consideration resulting from taking or condemnation, not to exceed the unpaid balance of the Obligations secured by this Deed of Trust, said proceeds so paid to be applied, without repayment premium, to the indebtedness secured hereby.

7. **Transfer of Property or Controlling Interest in Grantor.** The Grantor will not, without the prior written consent of the Beneficiary, lease, bargain, sell, transfer, assign, or convey the Property, or any portion thereof, or any legal or equitable interest therein, other than leases in the ordinary course. If the Grantor is not a natural person, then the bargain, sale, transfer, or assignment of all or a

controlling interest portion of the voting stock, membership or partnership interests, or other equity of the Grantor (including, without limitation, transfers resulting from mergers, consolidations, or liquidations, and whether in one or a number of transactions) without the prior written consent of the Beneficiary shall be deemed to be in contravention of the provisions of the first sentence of this Paragraph 7.

NOTICE - THE DEBT SECURED HEREBY IS SUBJECT TO CALL IN FULL OR THE TERMS THEREOF BEING MODIFIED IN THE EVENT OF SALE OR CONVEYANCE OF THE PROPERTY CONVEYED.

8. Protection of the Beneficiary's Security. In the event the Grantor fails to perform any of its covenants or agreements contained in the Agreement or this Deed of Trust, or any action or proceeding is commenced or threatened which affects the Property or title thereto or the interest of the Trustee or the Beneficiary therein, then, in any of such events, the Beneficiary may take such action as the Beneficiary deems necessary, in its sole discretion, to protect its interests, including, without limitation, (i) the employment of attorneys and disbursement of legal fees, (ii) the procurement of insurance as provided in Paragraph 1 hereof, and (iii) if the Property is subject to another deed of trust or lien, whether inferior or superior hereto, the curing of any default in the performances of any of the terms and provisions thereof, or if the indebtedness thereby secured is accelerated, the purchase or payment in full of such indebtedness, all on such terms as the Beneficiary shall, in its sole discretion, deem necessary or advisable. Any amounts disbursed by the Beneficiary pursuant to the provisions of this Paragraph 8 shall be added to, and deemed a part of, the indebtedness secured hereby and shall bear interest from the date of the disbursement thereof at ten percent (10%) per annum, or if lower, the highest rate allowed by law, and shall, together with the interest thereon, be repayable by the Grantor on demand.

9. Security Agreement.

(a) This Deed of Trust shall constitute a security agreement with respect to all collateral of Grantor now owned or hereinafter acquired and located upon the Property. Grantor hereby grants to Beneficiary a security interest in the collateral including, without limitation, all boilers, all heating, air conditioning and ventilating components and systems, all lighting, electrical power, plumbing, sprinkler and water components and systems, all carpets, wall coverings, screens and drapes, all mechanical and hydraulic components and systems and all appliances (including stoves, ranges, refrigerators, disposals, dishwashers, washers and dryers, trash compactors and similar appliances) located on and used in connection with the operation or maintenance of the Property.

(b) With respect to those items of the collateral which are or are to become fixtures related to the Property, this Deed of Trust shall constitute a financing statement filed as a fixture filing. The lien upon fixtures granted herein and perfected hereby shall be in addition to and not in lieu of any lien upon fixtures acquired under real property law. Information concerning the security interest granted herein may be obtained at the addresses set forth in the Notices section hereof. For purposes of the security interest herein granted, the address of Debtor (Grantor) is set forth in the Notices section hereof and the address of the Secured Party (Beneficiary) is also set forth in the Notices section hereof.

10. Environmental Protection. The Grantor covenants and agrees as follows:

As used in this Deed of Trust: "Hazardous Wastes" means all waste materials subject to regulation under the Comprehensive Environmental Response, Compensation, and Liability Act, 42 U.S.C. §§ 9601, et seq., the Resource Conservation and Recovery Act, 42 U.S.C. §§ 6901, et seq., as amended, or applicable state law and any other applicable federal, state, or local laws and their

regulations now in force or hereafter enacted relating to hazardous waste disposal; and "Toxic Substances" means and includes any materials which have been shown to have significant adverse effects on human health or which are subject to regulation under the Toxic Substances Control Act, 15 U.S.C. §§ 2601, et seq., as amended, applicable state law, or any other applicable federal, state, or local law now in force or hereafter enacted relating to toxic substances or contaminants. "Toxic Substances" includes, but is not limited to, asbestos, polychlorinated biphenyls (PCBs), petroleum products, and lead-based paints. All such laws relating to hazardous waste disposal and toxic substances are collectively referred herein as "Environmental Laws."

A. The Grantor and any other parties, including, but not limited to, tenants, licensees, and occupants, will not be involved in any activity on, in or under the Property, which activity could involve or lead to the use, manufacture, storage, or disposal of Hazardous Wastes or Toxic Substances, or the imposition of liability on the Grantor or any other subsequent or former owner of the Property or the creation of a lien on the Property under any Environmental Laws.

B. The Grantor will comply strictly and in all respects with the requirements of all Environmental Laws and shall promptly notify the Beneficiary in the event of the discovery of Hazardous Wastes or Toxic Substances at the Property. Further, the Grantor will promptly forward to the Beneficiary copies of all orders, notices, permits, applications, or other communications and reports in connection with any discharge, spillage, use, or the discovery of Hazardous Wastes and Toxic Substances or any other matters relating to the Environmental Laws as they may affect the Property.

C. The Grantor agrees that if at any time the Beneficiary has reasonable cause to believe there is Hazardous Wastes or Toxic Substances upon the Property, the Beneficiary may obtain, at the Grantor's cost, an environmental site assessment or environmental audit report from a firm acceptable to the Beneficiary, to assess with a reasonable degree of certainty the presence of any Hazardous Wastes or Toxic Substances, and the cost in connection with the abatement, cleanup, or removal of such.

D. The Grantor agrees that in the event of the presence of any Hazardous Waste or Toxic Substance upon the Property, whether or not the same originates or emanates from the Property, or if the Grantor shall fail to comply with any of the requirements of the Environmental Laws, the Beneficiary may at its election, but without the obligation to do so, give such notices, cause such work to be performed at the Property, or take any and all other actions as the Beneficiary shall deem necessary or advisable in order to abate, remove, and clean up the Hazardous Waste or Toxic Substance or otherwise cure the Grantor's non-compliance.

E. Any amounts disbursed by the Beneficiary pursuant to the provisions of this Paragraph 9 shall be added to, and deemed a part of, the indebtedness secured hereby, shall bear interest from the date of the disbursement thereof at the rate of ten percent (10%) per annum, or if lower, the highest rate allowed by law, and shall, together with the interest thereon, be repayable by the Grantor on demand.

F. The Grantor shall indemnify and defend the Beneficiary and the Trustee, and each of them, from and against all costs, liabilities, penalties, fines, legal fees and fees of experts, arising from any actual or alleged presence on, in or under or discharge of Hazardous Wastes from the Property or violation of any Environmental Laws. This indemnification obligation shall survive payment of the Obligations and discharge of the lien of this Deed of Trust.

11. **Future Advances.** This Deed of Trust secures all present and future loan disbursements made by Beneficiary Lender under the Agreement, and such amounts may be repaid and reborrowed from time to time in accordance with the terms of the Agreement. The amount of the present disbursement

secured by this Security Instrument is \$ 8,740,000.00. The maximum principal amount that may be secured by this Deed of Trust at any time is \$17,000,000.00. Such future loan disbursements are to be made between the date hereof and the date fifteen (15) years from the date hereof. Disbursements or advances secured hereby shall not be required to be evidenced by a "written instrument or notation" as described in Section 45-68(2) of the North Carolina General Statutes, it being the intent of the parties that the requirements of Section 45-68(2) for a "written instrument or notation" for each advance or disbursement shall not be applicable to disbursements or advances made under the Agreement and under the secured indebtedness.

12. **Events of Default and Foreclosure.** If any one or more of the following events (hereinafter collectively referred to as "event of default") shall occur:

A. Default in the performance of, or compliance with, any of the covenants, conditions, and agreements set forth in the Agreement or in this Deed of Trust (provided however that such a default under this Deed of Trust is subject to a right to cure with 30 days advance written notice unless the Beneficiary reasonably determines that such a delay would materially negatively impact the value of the security and lien granted hereby);

B. Default under any other lien or encumbrance placed on the Property, or any interest therein (legal or equitable), or any part thereof, either inferior or superior in right to the lien of this Deed of Trust;

C. The termination of, or occurrence of any event negatively affecting, the validity of this Deed of Trust or the priority of this Deed of Trust;

D. The passage of any law or the decision of any court rendering or declaring any of the covenants and agreements set out in the Agreement or in this Deed of Trust to be legally unenforceable, inoperative, void, or voidable;

E. The Grantor places or allows to be placed on the Property or any portion of or interest in the Property a lien with priority over the lien of this Deed of Trust, except the lien for real estate taxes not yet due and payable;

then, in any of such events, the Trustee and the Beneficiary shall, in addition to any other rights and remedies provided by law, have the following rights and remedies, any one or more of which shall be exercisable at the option of the Beneficiary and without notice to the Grantor:

(i) The Beneficiary may declare all sums due and owing under the Agreement immediately due and payable, without demand; and

(ii) The Trustee may foreclose by a sale of the Property as follows:

a) In addition to any other rights and remedies provided by law, Beneficiary, following the occurrence of any event of default, Beneficiary may without further notice direct Trustee, and Trustee is hereby authorized and empowered, to enter and take possession of the Property, personally or through his agent, and it shall be lawful for and the duty of the Trustee to sell the Property at public sale for cash, in compliance with the provisions of the General Statutes of North Carolina relating to non-judicial foreclosure sales in effect on the date that foreclosure is commenced.

b) At the time and place fixed for the sale, Trustee shall sell the Property, personally or through his agent, to the highest bidder for cash, and Trustee shall execute a conveyance in fee simple to and deliver possession to the purchaser. After retaining not more than the amount equal to such Trustee's actual costs and expenses (not to exceed \$10,000) as compensation to the Trustee, the Trustee shall apply the proceeds to the sale: (1) first, to pay all reasonable fees, charges and costs of conducting the sale and advertising the Property, and to pay any prior liens and encumbrances (unless the sale is made subject to those liens and encumbrances), and to pay necessary costs (or to reimburse Beneficiary for its advances) to protect and maintain the Property, and to pay taxes, insurance premiums, professional fees, court costs and reasonable attorneys' fees, with interest on Beneficiary's advances as provided in this Deed of Trust or in the Agreement; (2) second, against the Obligations secured hereunder; and (3) third, the remainder of the proceeds, if any, shall be paid to Grantor. Trustee may require the successful bidder at any sale to deposit immediately with Trustee cash or a certified check in an amount not to exceed ten percent (10%) of the bid, provided that notice of such requirement is contained in the advertisement of the sale. The bid may be rejected if the deposit is not immediately made, and the next highest bidder may be declared to be the purchaser. The deposit shall be refunded in the case of a resale; otherwise, it shall be applied to the purchase price.

c) Nothing in this Paragraph 12 dealing with foreclosure procedures which specifies any particular actions to be taken by Trustee or Beneficiary shall be deemed to contradict the requirements and procedures (now or hereinafter existing) of North Carolina law, and any such contradiction shall be resolved in favor of North Carolina law applicable at the time of foreclosure.

13. **Non-Waiver.** No delay, act, or failure to act, by the Trustee and the Beneficiary, or any of them, however long continued, shall be construed as a waiver of any of their rights hereunder or of any default by the Grantor.

14. **No Liability or Obligation on the Trustee or the Beneficiary.** Nothing in this Deed of Trust shall be construed to impose any obligation upon either the Beneficiary or the Trustee to expend any money or to take any other discretionary act herein permitted, and neither the Beneficiary nor the Trustee shall have any liability or obligation for any delay or failure to take any discretionary act. The Trustee shall not be required to see that this Deed of Trust is recorded and shall not be liable for the default or misconduct of any agent or attorney appointed by them in pursuance hereof, or for anything whatever in connection with this trust, except willful misconduct or gross negligence. The Trustee may act upon any instrument or paper believed by them in good faith to be genuine and to be signed by the proper party or parties, and shall be fully protected for any action taken or suffered by them in reliance thereon.

15. **Indemnification by the Grantor.** The Grantor shall protect and indemnify the Trustee and the Beneficiary from and against all liabilities, obligations, claims, damages, penalties, causes of action, costs, and expenses (including, without limitation, reasonable attorneys' fees and disbursements), imposed upon or incurred by or asserted against the Trustee or the Beneficiary by reason of:

A. Ownership of the Property or any interest therein, or receipt of any rent or other sum therefrom,

B. Any accident to, injury to, or death of persons or loss of or damage to Property occurring on or about the Property or the adjoining sidewalks, curbs, vaults or vault space, if any, streets, or ways,

C. Any failure on the part of the Grantor to perform or comply with any of the terms, covenants, conditions, and agreements set forth in the Agreement, Deed of Trust, or any other agreements executed by the Grantor or any other persons liable for the payment of the indebtedness hereby secured,

D. Performance of any labor or services or the furnishing of any materials or other Property in respect of the Property or any part thereof for construction or maintenance or otherwise,

E. Any action brought against the Trustee or the Beneficiary attacking the validity, priority, and/or enforceability of this Deed of Trust, the Agreement, or any other agreements executed by the Grantor or any other persons liable for the Obligations hereby secured.

Any amounts payable to the Trustee or the Beneficiary under this Paragraph 14 which are not paid within thirty (30) days after written demand therefor by the Trustee or the Beneficiary shall bear interest at ten percent (10%) per annum or, if less, the maximum rate per annum then permitted by law and shall be secured by this Deed of Trust. In the event any action, suit, or proceeding is brought against the Trustee or the Beneficiary by reason of any such occurrence, the Grantor, upon the request of the Trustee or the Beneficiary and at the Grantor's expense, shall resist and defend such action, suit, or proceeding or cause the same to be resisted and defended by counsel designated by the Beneficiary. Such obligations under this Paragraph 14 shall survive the termination, satisfaction, or release of this Deed of Trust.

16. **Substitution of Trustee.** Beneficiary shall at any time, and from time to time, have the irrevocable right to remove Trustee without notice or cause, and to appoint Trustee's successor by an instrument in writing, duly acknowledged, and recorded in the Office of the Register of Deeds for Buncombe County; and in the event of the death or resignation of Trustee, the Lender shall have the right to appoint Trustee's successor by such a recorded instrument. Any substitute Trustee so appointed shall be vested with title to the Property, and shall possess all the powers, duties and obligations conferred on Trustee by this Deed of Trust in the same manner and to the same extent as though the substitute Trustee were originally named in this Deed of Trust as Trustee.

17. **Headings.** The headings of the paragraphs of this Deed of Trust are for the convenience of reference only and are not to be considered a part hereof and shall not limit or otherwise affect any of the terms hereof.

18. **Number and Gender.** The pronouns and verbs set forth herein shall be construed as being of such number and gender as the context may require.

19. **Successors and Assigns.** This Deed of Trust shall be binding upon, and shall inure to the benefit of, the parties hereto and their respective heirs, personal representatives, successors, and assigns, and any descriptive term used herein shall include such heirs, personal representatives, successors, and assigns.

20. **Persons.** The use of the word "persons" in this Deed of Trust includes individuals, corporations, partnerships, and all other entities.

21. **Notices.** Except as may otherwise be provided herein, any notice, request, consent, approval, demand or other communication required or permitted hereunder shall be in writing and shall be given (a) when received (or when actually or constructively refused by or on behalf of addressee), if mailed, registered or certified, return receipt requested, postage prepaid, or (b) when delivered in person against a written receipt therefor, addressed to the parties as follows:

GRANTOR:
Superior Modular Products Incorporated
5290 Concourse Drive
Roanoke, VA 24019

TRUSTEE: At the address in the preamble of this instrument

BENEFICIARY:
Valley Bank
36 W. Church Ave. S.W.
Roanoke, VA 24011

Any party may, by notice given in accordance herewith, change its notice address.

22. **Amendment and Waiver.** No amendment or waiver of any of the terms, provisions, or conditions of this Deed of Trust shall be effective unless in writing and executed by the parties. No delay or failure by any party to enforce any right or obligation hereunder shall be deemed to be a waiver of such right or obligation nor shall any waiver of any specific breach of this Deed of Trust be deemed to be a waiver of any other or additional breach, similar or dissimilar.

23. **Interpretation.** Any provision herein which requires the Beneficiary's consent shall be construed to mean the Beneficiary's consent, which may be withheld at the Beneficiary's sole discretion. The parties hereto acknowledge and agree that each has been given the opportunity to review independently this Deed of Trust with legal counsel, and/or has the requisite experience and sophistication to understand, interpret, and agree to the particular language of the provisions hereof. In the event of an ambiguity in or dispute regarding the interpretation of same, the interpretation of this Deed of Trust shall not be resolved by any rule of interpretation providing for the interpretation against the party who causes the uncertainty to exist or against the draftsman.

24. **Severability.** If any provision of this Deed of Trust or the application thereof to any party or circumstances shall, to any extent, be adjudged invalid or unenforceable in any jurisdiction, then: (a) such provision shall not be affected in any other jurisdiction; (b) the application of the other provisions of this Deed of Trust to said party or circumstances shall not be affected; and (c) the application of this Deed of Trust to any other party or circumstances shall not be affected thereby.

25. **Costs of Recordation.** Grantor shall pay all recording fees and taxes associated with the recording and re-recording of this Deed of Trust, including any amendments or modifications hereafter.

26. **Governing Law.** THIS DEED OF TRUST, AND ITS VALIDITY, ENFORCEMENT AND INTERPRETATION, SHALL BE GOVERNED BY AND CONSTRUED, INTERPRETED AND ENFORCED IN ACCORDANCE WITH THE LAWS OF THE STATE IN WHICH THE PROPERTY IS LOCATED (WITHOUT REGARD TO ANY CONFLICT OF LAWS PRINCIPLES) AND APPLICABLE UNITED STATES FEDERAL LAW.

IN WITNESS WHEREOF, Grantor has caused this Deed of Trust to be executed by its proper officer, thereunto duly authorized.

Superior Modular Products Incorporated

By: /s/ Tracy G. Smith
Tracy G. Smith, CFO and Secretary

COMMONWEALTH OF VIRGINIA)
) To-wit:
CITY/COUNTY OF Roanoke)

I certify that the following persons personally appeared before me this day, and acknowledged to me that she voluntarily signed the foregoing document for the purpose stated therein and in the capacity indicated: Tracy G. Smith

Date: 6/4/08

/s/ Cynthia Maria Tourville
Official Signature of Notary

Cynthia Maria Tourville
Notary's printed or typed name, Notary Public

Notary Registration Number: 299461

My commission expires: 3-31-2010

(Official Seal)

SCHEDULE A

Tract 1

Lying in Swannanoa Township, Buncombe County, North Carolina, and being more particularly described as follows:

Beginning at a rebar set in the center of the Southern Railroad right of way, said rebar being the northeast corner of Tract 2 described in that deed dated October 12, 1978 to Julius Blum recorded in Buncombe County Deed book 1201 at page 389, said beginning corner also being the northeast corner of the tract described in the document recorded in Buncombe County Deed Book 1409 at page 119; and running thence South 3 deg. 42 min. West 488.96 feet to a point in the northern right of way of Interstate 40; thence with said margin of said right of way the following three courses and distances, to wit: South 84 deg. 6 min. West 100.51 feet to a right of way monument, South 68 deg. 30 min. West 252.42 feet to a right of way monument and South 76 deg. 17 min. West 236.01 feet to a point; thence leaving said right of way and running North 22 deg. 2 min. West 197.36 feet to a spike set in the centerline of a gravel drive, said point hereinafter the "Drive Point"; and running thence North 60 deg. 44 min. East 141.17 feet to a set spike; thence North 22 deg. 2 min. West 303.26 feet to a point in the center of the Southern Railroad right of way; thence with said center of said right of way, North 80 deg. 14 min. East 670.09 feet to the Beginning. Containing 7.03 acres as shown on a plat thereof prepared by Kenneth O. Pankow, entitled "Survey for Superior Modular Products, Incorporated" dated February 1, 1996, revised through July 11, 1996. [Note – The unrevised version of this plat is recorded in Buncombe County Plat Book 64 at page 196.] Together with a non-exclusive easement for ingress, egress and regress 40 feet in width (the "Present Right of Way"), the centerline of which is described as follows:

Beginning at a set spike which stands North 60 deg. 44 min. East 141.17 feet from the Drive Point and running thence from the beginning point thus established, South 60 deg. 44 min. West 141.17 feet to the Drive Point; thence South 79 deg. 49 min. West 197.58 feet to a set spike; thence on a curve to the right with a radius of 155 feet, a chord bearing and distance of North 89 deg. 47 West 55.91 feet, an arc length of 56.22 feet to a point; thence North 79 deg. 24 min. West 192.58 feet to a point; thence on a curve to the left with a radius of 110 feet, a chord bearing and distance of North 89 deg. 37 min. West 39.03 feet, an arc length of 39.24 feet to a point; thence South 80 deg. 10 min. West 53.17 feet to the center of Buckeye Cove Road. The foregoing right of way is subject to the encroachment thereon by the portion of the building located thereon, as shown on the said plat of Kenneth O. Pankow.

Notwithstanding the foregoing, the Present Right of Way is terminable by Buckeye Limited Partnership or its successor in ownership of the 4.22 Acre Tract shown on said Pankow plat, in the manner set forth hereafter. At such time as there is constructed a roadway (the "Roadway") of as good quality, material and width as that which presently exists within the Present Right of Way, Grantee shall be provided with a document in recordable form granting a perpetual, non-exclusive easement 40 feet in width over the Roadway and upon which Grantee shall release all its rights in the Present Right of Way

by joining therein. The centerline of the Roadway is intended to be substantially as follows: Beginning at the Drive Point and running thence, North 60 deg. 44 min. East 79.49 feet to a point; thence on a curve to the left with a radius of 70 feet, a chord bearing and distance of North 19 deg. 21 min. East, 92.56 feet, an arc length of 101.13 feet to a point; thence North 22 deg. 2 min. West 63.82 feet to a point; thence on a curve to the left with a radius of 125 feet, a chord bearing and distance of North 49 deg. 5 min. West, 113.16 feet, an arc length of 117.99 feet to a point; thence on a curve to the left with a radius of 125 feet, a chord bearing and distance of North 86 deg. 16 min. West 44.02 feet, an arc length of 44.25 feet to a point; thence South 83 deg. 36 min. West 118.42 feet to a point; thence South 78 deg. 15 min. West 254.62 feet to a point; thence on a curve to the left with a radius of 70 feet, a chord bearing and distance of South 56 deg. 55 min. West 50.92 feet, an arc length of 52.12 feet to a point; thence on a curve to right with radius of 90 feet, a chord bearing and distance of South 56 deg. 29 min. West 64.18 feet an arc length of 65.62 feet to a point; thence South 77 deg. 22 min. West 45.71 feet to a point in the center of Buckeye Cove Road. Grantor excepts and reserves herefrom a perpetual non-exclusive easement 40 feet in width over and across the roadway, including those portions which lie within the bounds of the 7.03 acre tract above described. The Roadway shall provide access to both the 7.03 acre tract as well as the 1.76 acre tract shown on the said Pankow plat. Grantor further excepts herefrom the non-exclusive, perpetual right of way over the following described tract for the purpose of utilizing the same as a part of the Roadway, to wit: Beginning at a point standing South 22 deg. 2 min. East 20.16 feet from the Drive Point and running North 60 deg. 44 min. East 44.05 feet to a point; thence on a curve to the left with a radius of 50 feet, a chord bearing and distance of South 19 deg. 21 min. West 66.111 feet, an arc length of 72.23 feet to a point; thence North 22 deg. 2 min. West 44.06 feet to the beginning. Grantee understands that Grantor may, but need not, use the Roadway for access to the 1.76 acre tract in lieu of any other access route.

Being the same property conveyed in that certain Deed of Trust, Security Agreement and Fixture Filing recorded in the Office of the Register of Deeds for Buncombe County, North Carolina in Deed Book 4570 at Page 969-981.

Tract 2

BEING all of Lots 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14 and 15 of Block A; Lots 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 27, 26, and 25 of Block B, and Lots 2, 3, 4, 5, 6, 7, 8, 9 and 10 of Block E as shown on the plat of University Heights recorded in the Office of the Register of Deeds for Buncombe County, North Carolina in Plat Book 7 at Page 86.

BEING IN FACT the same property conveyed in that certain North Carolina General Warranty Deed recorded in the Office of the Register of Deeds for Buncombe County, North Carolina in Plat Book 1944 at Page 559.

SECURITY AGREEMENT

This Security Agreement (as amended, supplemented, amended and restated or otherwise modified from time to time, this "Agreement"), dated as of May 30, 2008 is made by **OPTICAL CABLE CORPORATION**, a Virginia Corporation ("OCC") **SUPERIOR MODULAR PRODUCTS INCORPORATED**, a Delaware corporation ("SMP" and together with OCC, each individually with respect to itself, jointly and severally, and collectively, the "Debtor") in favor of **VALLEY BANK**, a Virginia banking corporation, its affiliates and their successors and assigns (the "Secured Party").

For good and valuable consideration, the receipt and sufficiency of which is acknowledged, and intending to be legally bound, Debtor agrees with Secured Party as follows:

1. Security Interest. Debtor hereby grants to Secured Party a security interest ("Security Interest") in all of Debtor's right, title and interest in and to all of its real and personal property whether now owned or hereafter acquired, and in all proceeds and products thereof, including, without limitation, of the following property in any form including, but not limited to, insurance proceeds, increases and profits received therefrom, all substitutions therefor, goods represented by, and books and records pertaining thereto whether any of the foregoing is now or hereafter acquired ("Collateral"): all money, goods, machinery, equipment, fixtures, inventory, accounts, chattel paper, letter of credit rights, deposit accounts, commercial tort claims, documents, instruments, investment property and general intangibles now owned or hereafter acquired by Debtor and wherever located.

2. Indebtedness Secured. The Security Interest granted by Debtor secures payment of any and all indebtedness and liabilities of Debtor to Secured Party, whether now existing or hereafter incurred, or every kind and character, direct or indirect, joint or several, absolute or contingent, due or to become due, and whether any such indebtedness or liability is from time to time reduced and thereafter increased or entirely extinguished and thereafter reincurred, including, without limitation, any sums advanced by Secured Party for taxes, assessments, insurance and other charges and expenses as hereinafter provided all obligations and liabilities of Debtor under interest rate swap agreements, interest rate cap agreements and interest rate collar agreements or arrangements with Secured Party designed to protect Debtor against fluctuations in interest rates or currency exchange rates (hereinafter, collectively "Indebtedness").

3. Representations and Warranties of Debtor. Debtor represents and warrants and, so long as any Indebtedness remains unpaid, shall be deemed continuously to represent and warrant that: (a) Debtor (OCC with respect to that portion of the Collateral owned by it and SMP with respect to that portion of the Collateral owned by it, and which together constitute all of the Collateral) is the owner of the Collateral free of all security interests, adverse claims or other encumbrances other than Permitted Encumbrances; (b) Debtor is authorized to enter into this Agreement, and this Agreement is not in contravention of any law or any indenture, agreement or

undertaking to which Debtor is a party or by which it is bound; (c) OCC is duly organized, existing and in good standing under the laws of the Virginia and SMP is duly organized, existing and in good standing under the laws of Delaware; (d) OCC's business is carried on 5290 Concourse Drive, Roanoke, VA 24019 and SMP's business is carried on at 33 Superior Way/112 Buckeye Cove Road, Sannanoa, North Carolina 28778, (e) Debtor's chief executive office is located at 5290 Concourse Drive, Roanoke, VA 24019, and Debtor's records concerning the Collateral are kept, at the addresses specified on Schedule I hereto; (f) each Account, Chattel Paper, Document, Instrument, General Intangible which is an outstanding obligation is genuine and enforceable in accordance with its terms against the party obligated to pay it ("Account Debtor"); and (f) any amounts represented by Debtor to Secured Party as owing by each or any Account Debtor is the correct amount owing not subject to any material defense, offset, claim or counterclaim against Debtor.

4. Covenants of Debtor. So long as any Indebtedness remains unpaid, Debtor (a) will defend the Collateral against the claims and demands of all other parties, including any Account Debtor, will keep the Collateral free from all security interests or other encumbrances other than Permitted Encumbrances, and will not sell, transfer, lease, or otherwise dispose of any Collateral or any interest without the prior written consent of Secured Party, except that, until the occurrence of an Event of Default as specified in paragraph 10 hereof, Debtor may sell, transfer, lease, assign, deliver or otherwise dispose of any Collateral in the ordinary course of business; (b) will notify Secured Party promptly in writing of any change in Debtor's addresses, specified on Schedule I hereto or in Debtor's name, identity or structure; (c) will notify Secured Party promptly in writing of any change in the location of any material Collateral or of the records with respect thereto or any additional locations at which the Collateral or records are kept, and will permit Secured Party or its agents to inspect such records; (d) in connection herewith, will execute and deliver to Secured Party such financing statements, and other documents as may be requested by Secured Party, will pay all costs of title searches, and filing financing statements and other documents in all public offices requested by Secured Party, and will do such other things as Secured Party may reasonably request; (e) will keep, in accordance with GAAP, consistently applied, accurate and complete books and records concerning the Collateral, will mark any and all such records concerning the Collateral, at Secured Party's request to indicate the Security Interest, and, upon reasonable notice and in accordance with the Credit Agreement, will permit Secured Party or its agents to audit and make extracts from and copy such records or any of Debtor's books, ledgers, reports, correspondence or other records; (f) will not, without Secured Party's written consent, make or agree to make any alteration, modification or cancellation of, or substitution for, or credits, adjustments or allowances on, any Collateral other than in the ordinary course of business; (g) will promptly notify Secured Party of any material default in payment or performance of its obligations with respect to any of the Collateral; (h) will keep the Collateral in good condition and repair; and will not use the Collateral in violation of any provisions of this Agreement, of any applicable statute, regulation or ordinance or of any policy insuring the Collateral; (i) will pay all taxes, assessments and other charges of every nature which may be imposed, levied or assessed against Debtor or any of Debtor's assets, including the Collateral, prior to the date of attachment of any penalties or liens with respect thereto (other than liens attaching prior to payment becoming due, if payment is made when due); provided, however,

Debtor shall not be required to pay any such tax, assessment or other charge so long as (i) its validity is being contested in good faith by appropriate proceedings diligently conducted and (ii) Debtor maintains adequate reserves for any such tax, assessment or other charge in accordance with GAAP; and (j) will insure the Collateral against risks, in coverage, form and amount, and by insurer, satisfactory to Secured Party, and, at Secured Party's request, will cause each policy to be payable to Secured Party as a named insured or loss payee, as its interest may appear, and deliver each policy or certificate of insurance to Secured Party, in each case, in accordance with the Credit Agreement.

5. Verification of Collateral. Secured Party shall have the right to verify all or any Collateral in any manner and through any medium Secured Party may reasonably consider appropriate, and Debtor agrees to furnish all assistance and information and perform any acts which Secured Party may reasonably require in connection therewith.

6. Notification and Payments. After the occurrence of an Event of Default, Secured Party may notify all or any Account Debtors of the Security Interest and may also direct such Account Debtors to make all payments on Collateral to Secured Party. After the occurrence of an Event of Default, all payments on and from Collateral received by Secured Party directly or from Debtor shall be applied to the Indebtedness in such order and manner and at such time as Secured Party shall, in its sole discretion, determine. After the occurrence of an Event of Default, Secured Party may notify any or all Account Debtors, and other parties obligated to pay the Collateral, of the Security Interest granted hereby and may also direct any and all such parties to make all payments of the Collateral to Secured Party, and Debtor shall join in such direction, if requested by Secured Party, and Secured Party may demand of Debtor in writing, before or after notification to Account Debtors and without waiving in any manner the Security Interest, that any payments on and from the Collateral received by Debtor: (i) shall be held by Debtor in trust for Secured Party in the same medium in which received; (ii) shall not be commingled with any assets of Debtor; and (iii) shall be delivered to Secured Party in the form received, properly indorsed to permit collection, not later than the third Business Day following the day of their receipt; and Debtor shall comply with such demand. Debtor shall also promptly notify Secured Party of the return to or repossession by Debtor of Goods underlying any Collateral, and Debtor shall hold the same in trust for Secured Party and shall dispose of the same as Secured Party directs.

7. Registered Holder of Collateral. After the occurrence of an Event of Default, if any Collateral consists of investment securities, Debtor authorizes Secured Party to transfer the same or any part thereof into its own name or that of its nominee so that Secured Party or its nominee may appear of record as the sole owner thereof.

8. Income from and Interest on Collateral Consisting of Instruments.

(a) Until the occurrence of an Event of Default, Debtor reserves the right to receive all income from or interest on the Collateral consisting of Instruments or Investment Property, and if Secured Party receives any such income or interest prior to such Event of Default, Secured Party shall pay the same promptly to Debtor.

(b) After the occurrence of an Event of Default, Debtor will not demand or receive any income from or interest on such Collateral, and if Debtor receives any such income or interest without any demand by it, the same shall be held by Debtor in trust for Secured Party in the same medium in which received, shall not be commingled with any assets of Debtor and shall be delivered to Secured Party in the form received, properly indorsed to permit collection, not later than the third Business Day following the day of its receipt. Secured Party may apply the net cash receipts from such income or interest to payment of any of the Indebtedness; provided, that Secured Party shall account for and pay over to Debtor any such income or interest remaining after payment in full of the Indebtedness.

9. Increases, Profits, Payments or Distributions.

(a) After the occurrence of an Event of Default, Debtor authorizes Secured Party: (i) to receive any increase in or profits on the Collateral (including, without limitation, any Investment Property issued as a result of any stock split or dividend, any capital distributions and the like), and to hold the same as part of the Collateral; and (ii) to receive any payment or distribution on the Collateral upon redemption by, or dissolution and liquidation of, the issuer or any Investment Property; to surrender such Collateral or any part thereof in exchange therefor; and to hold the net cash receipts from any such payment or distribution as part of the Collateral.

(b) After the occurrence of an Event of Default, if Debtor receives any such increase, profits, payments or distributions, Debtor will receive and deliver same promptly to Secured Party on the same terms and conditions set forth in paragraph 8(b) hereof respecting income or interest, to be held by Secured Party as part of the Collateral.

10. Event of Default.

(a) An Event of Default hereunder shall be the occurrence of an "Event of Default" under and as defined in the Credit Agreement or under any of the other Loan Documents.

(b) Upon the happening of any Event of Default, Secured Party's rights and remedies with respect to the Collateral shall be those of a Secured Party under the Uniform Commercial Code in effect from time to time in the Commonwealth of Virginia (the "UCC"), and under any other applicable law in addition to those rights granted herein and in any other agreement now or hereafter in effect between Debtor and Secured Party;

(c) Debtor agrees to pay all costs and expenses incurred by Secured Party in enforcing this Agreement, in preserving, processing, selling, collecting upon or in realizing upon any Collateral and in enforcing and collecting any Indebtedness, including, without limitation, if Secured Party retains counsel for any such purpose, actual attorney's fees and expenses.

11. Notices. All notices, requests, demands or other communications to or upon Debtor or Secured Party shall be made in accordance with Section 10.1 of the Credit Agreement.

12. Miscellaneous.

(a) Debtor hereby authorizes Secured Party, at Debtor's expense, to file such financing statement or statements, or other documents relating to the Collateral without Debtor's signature thereon as Secured Party at its option may deem appropriate, and appoints Secured Party as Debtor's attorney-in-fact (without requiring Secured Party) to execute any such financing statement or other documents in Debtor's name and to perform all other acts which Secured Party deems appropriate to perfect and continue the Security Interest and to protect and preserve the Collateral. Such financing statements may describe the Collateral in the same manner as described herein or may contain a description of collateral that describes such property in any other manner as Secured Party may determine, in its sole discretion, is necessary, advisable or prudent to ensure the perfection or priority of the Security Interest in the Collateral granted to Secured Party hereunder, including, describing such property as "all assets whether now owned or hereafter acquired" or "all personal property whether now owned or hereafter acquired" (regardless of whether any particular asset comprised in the Collateral falls within the scope of Article 9 of the UCC). Debtor hereby ratifies and authorizes the filing by Secured Party in any relevant jurisdiction of any initial financing statements or amendments thereto relating to the Collateral if filed prior to the date hereof;

(b) (i) As further security for payment of the Indebtedness, Debtor hereby grants to Secured Party a security interest in and lien on any and all property of Debtor which is or may hereafter be in Secured Party's possession in any capacity which lien shall be subject and subordinate to prior existing liens, if any, and with respect to all of such property, Secured Party shall have the same rights hereunder as it has with respect to the Collateral;

(ii) Without limiting any other right of Secured Party, whenever Secured Party has the right to declare any Indebtedness to be immediately due and payable (whether or not it has so declared), Secured Party at its sole election may set off against the Indebtedness any and all monies then owed to Debtor by Secured Party in any capacity, whether or not due, and Secured Party shall be deemed to have exercised such right of set-off immediately at the time of such election even though any charge therefor is made or entered on Secured Party's records subsequent thereto;

(c) Upon Debtor's failure to perform any of its duties hereunder, Secured Party may, but shall not be obligated to, perform any and all such duties, and Debtor shall pay an amount equal to the expense thereof to Secured Party forthwith upon written demand by Secured Party;

(d) Secured Party may demand, collect and sue on the Collateral (in either Debtor's or Secured Party's name at the latter's option) with the right to enforce, compromise, settle or discharge the Collateral, and may endorse Debtor's name on any and all checks, commercial paper, and any other Instruments pertaining to or constituting the Collateral;

(e) No course of dealing and no delay or omission by Secured Party in exercising any right or remedy hereunder with respect to any Indebtedness shall operate as a waiver thereof or of any other right or remedy, and no single or partial exercise thereof shall preclude any other or further exercise thereof or the exercise of any other right or remedy. Secured Party may remedy any Default or Event of Default by Debtor hereunder or with respect to any Indebtedness in any reasonable manner without waiving the Default or Event of Default remedied and without waiving any other prior or subsequent Default or Event of Default by Debtor. All rights and remedies of Secured Party hereunder are cumulative and may be exercised in any order and in any combination with Secured Party's rights under the UCC or otherwise;

(f) Secured Party shall have no obligation to take, and Debtor shall have the sole responsibility for taking, any and all steps to preserve rights against any and all prior parties to any Instrument, Investment Property or Chattel Paper, or Proceeds thereof, and whether or not in Secured Party's possession. Debtor waives protest of any Instrument constituting Collateral at any time held by Secured Party on which Debtor is in any way liable and waives notices of any other action taken by Secured Party;

(g) The rights and benefits of Secured Party hereunder shall, if Secured Party so agrees, inure to any party acquiring any interest in the Indebtedness or any part thereof;

(h) No modification, rescission, waiver, release or amendment of any provision of this Agreement shall be made except by a written agreement subscribed by Debtor and by a duly authorized officer of Secured Party;

(i) All capitalized terms used herein without definition shall have the meanings ascribed to such terms under the Credit Agreement, dated as of May 30, 2008, between Debtor and Secured Party (including all schedules, subschedules, annexes and exhibits thereto), as the same may be amended, restated, supplemented, replaced, or otherwise modified from time to time (the "Credit Agreement"), or if not defined therein, under the UCC;

(j) Upon receipt of an affidavit of an officer of Secured Party as to the loss, theft, destruction or mutilation of this Agreement or any other security document which is not of public record and, in the case of any such loss, theft, destruction or mutilation, upon cancellation of any promissory note or other security document, Debtor will issue, in lieu thereof, a replacement note or other security document in the same principal amount thereof and otherwise of like tenor.

(k) This Agreement shall remain in full force and effect until all of the Indebtedness contracted for or any extensions or renewals thereof (whether made before or after receipt of such notice) together with interest accruing thereon after such notice, shall be irrevocably paid in full.

13. General Waivers. Debtor hereby waive(s) presentment, notice of dishonor and protest of all instruments included in or evidencing the Indebtedness or the Collateral and any and all other notices and demands whatsoever. The undersigned waives all demands, notices and protests of every kind which are not expressly required under this Agreement which are permitted by law to be waived, and which would, if not waived, impair Secured Party's enforcement of this Agreement or release any collateral from Secured Party's security interest hereunder. By way of example, but not in limitation of Secured Party's rights under this Agreement, Secured Party does not have to give any undersigned notice of any of the following:

- (a) notice of acceptance of this Agreement;
- (b) notice of loans made, credit extended, Collateral received or delivered;
- (c) any Event of Default;
- (d) except as otherwise provided herein, enforcement of this Agreement against the Collateral; or
- (e) any other action taken in reliance on this Agreement.

Debtor waives all rules of suretyship law and any other law whatsoever which is legally permitted to be waived and which would, if not waived, impair Secured Party's enforcement of its security interests.

14. Waiver of Jury Trial. DEBTOR AND SECURED PARTY HEREBY WAIVE THEIR RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THIS AGREEMENT, THE CREDIT AGREEMENT AND OTHER LOAN DOCUMENTS. DEBTOR AND SECURED PARTY ACKNOWLEDGE THAT THIS WAIVER IS A MATERIAL INDUCEMENT TO ENTER INTO A BUSINESS RELATIONSHIP, THAT EACH HAS RELIED ON THE WAIVER IN ENTERING INTO THIS AGREEMENT, THE CREDIT AGREEMENT AND OTHER LOAN DOCUMENTS AND THAT EACH WILL CONTINUE TO RELY ON THE WAIVER IN THEIR RELATED FUTURE DEALINGS. DEBTOR AND SECURED PARTY WARRANT AND REPRESENT THAT EACH HAS HAD THE OPPORTUNITY TO REVIEW THIS JURY WAIVER WITH LEGAL COUNSEL, AND THAT EACH KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS.

15. Severability. If any provision of this Agreement shall be held invalid under any applicable laws, such invalidity shall not affect any other provision of this Agreement that can be given effect without the invalid provision, and, to this end, the provisions hereof are severable.

16. Governing Law. This Agreement and the transactions evidenced hereby shall be construed under the internal laws of the Commonwealth of Virginia without regard to principles of conflict of law. Debtor agrees that any suit for the enforcement of this Agreement, the Credit Agreement or any of the other Loan Documents may be brought in the courts of Roanoke City, Virginia or any Federal Court for the Western District of Virginia sitting therein and consents to the nonexclusive jurisdiction of such court and service of process in any such suit being made upon Debtor by mail at the address of Debtor set forth in Section 10.1 of the Credit Agreement. Debtor hereby waives any objection that it may now or hereafter have to the venue of any such suit or any such court or that such suit is brought in an inconvenient forum.

17. Execution by Secured Party. This Agreement shall take effect immediately upon execution by Debtor and the execution hereof by Secured Party shall not be required as a condition to the effectiveness of this Agreement. The provision for execution by Secured Party is solely for the purpose of filing this Agreement to the extent required or permitted by law.

[signature page follows]

Debtor:

OPTICAL CABLE CORPORATION

By: /s/ Tracy G. Smith

Name: Tracy G. Smith

Title: Vice President and Chief Financial Officer

SUPERIOR MODULAR PRODUCTS INCORPORATED

By: /s/ Tracy G. Smith

Name: Tracy G. Smith

Title: CFO and Secretary

Secured Party:

VALLEY BANK

By: /s/ Scott L. Leffel

Name: Scott L. Leffel

Title: Vice President

SCHEDULE I

Locations of Debtor:

[to be completed by Borrower's counsel]

REVOLVING LOAN NOTE

\$6,000,000.00

May 30, 2008
Roanoke, Virginia
Note #156809

FOR VALUE RECEIVED, OPTICAL CABLE CORPORATION, a Virginia corporation and SUPERIOR MODULAR PRODUCTS INCORPORATED, a Delaware corporation (each individually with respect to itself, jointly and severally, and collectively, the "Borrower"), hereby promises to pay to the order of VALLEY BANK, a Virginia banking corporation, its affiliates and their successors and assigns (the "Bank") at its Head Office, in lawful money of the United States and in immediately available funds, the principal amount of up to SIX MILLION AND NO/100 DOLLARS (\$6,000,000.00), or such sum as may be advanced and outstanding from time to time, and to pay interest from the date of this note (herein referred to as the "Note") on the unpaid principal amount outstanding under this Note, in like money, at the time, in amounts, and at the rate per annum as provided in Section 3.1(a) of the credit agreement of even date herewith between the Borrower and the Bank, as modified, replaced or restated (the "Credit Agreement").

This Note is referred to as the Revolving Loan Note in the Credit Agreement. The Credit Agreement contains, among other things, provisions for acceleration of the maturity of this Note upon the happening of certain stated events and for prepayments on account of the principal of this Note prior to maturity of this Note upon the terms and conditions specified in the Credit Agreement.

Capitalized terms contained in this Note which are not otherwise defined herein shall have the meaning ascribed to them in the Credit Agreement.

This Note is governed by and subject to additional terms and conditions of the Credit Agreement and is secured by the Collateral described in the Credit Agreement and the other Loan Documents, reference to which is hereby made for a description of the Collateral and the rights of the Borrower and the Bank with respect to the Collateral and the remedies of the Bank pertaining thereto. In the event of a conflict between any term or condition contained in this Note and the Credit Agreement, such term or condition of the Credit Agreement shall control. The proceeds of any Collateral may be applied against the liabilities of the Borrower to the Bank as provided in the Loan Documents.

If an Event of Default occurs, the Bank shall have the option to exercise all of the rights and remedies provided in the Credit Agreement. To the extent permitted by law, upon default, the Bank reserves the right, in addition to all other remedies permitted by law or in the Credit Agreement, to set off the amount due under this Note or due under any other obligation to the Bank against any and all accounts, whether checking or savings or otherwise, credits, money, stocks, bonds or other security or property of any nature whatsoever on deposit with, held by, owned by, or in the possession of, the Bank, or any of its affiliates to the credit of or for the account of the Borrower or any other party to the Credit Agreement, without notice to or consent by the Borrower or any such party. The remedies provided in this Note, the Credit Agreement, and any other agreement between the Bank and the Borrower are cumulative and are not exclusive of any remedies provided by law.

If any portion of a payment is at least ten days past due, the Borrower promises to pay a late charge of five percent of the

amount which is past due. In addition, to the extent not prohibited by applicable law, the undersigned promises to pay the following: (1) all expenses, including, without limitation, any and all court or collection costs, and reasonable attorney's fees, whether suit be brought or not, incurred in collecting this Note or in otherwise protecting the Bank's interests; (2) all costs incurred in evaluating, preserving or disposing of any Collateral granted as security for the payment of this Note, including the cost of any audits, appraisals, appraisal updates, reappraisals or environmental inspections which the Bank from time to time in its sole discretion may deem necessary; (3) any premiums for property insurance purchased on behalf of the Borrower or on behalf of the owner or owners of the Collateral pursuant to any Loan Document relating to the Collateral; (4) any expenses or costs incurred in defending any claim arising out of the execution of this Note or the obligation which it evidences, or otherwise involving the employment by the Bank of attorneys with respect to this Note and the obligations it evidences; and (5) any other charges permitted by applicable law. The Borrower shall pay such authorized charges on demand or, at the Bank's option, such charges may be added to the unpaid balance of the Note and shall accrue interest at the stated rate of interest.

The Borrower waives presentment, demand, protest, notice of protest and notice of dishonor and waives all exemptions as to the obligations evidenced by this Note. The Borrower waives any rights to require the Bank to proceed against any other party or person or any Collateral before proceeding against the Borrower, or any other party. The Bank may, without notice, without affecting the liability of the Borrower hereunder or under the Credit Agreement, and at any time or times, grant extensions of the time for payment or other indulgences to any party or permit the renewal or modification of this Note, or permit the substitution, exchange or release of any Collateral for this Note and may add or release any party primarily or secondarily liable. The Bank may apply all monies made available to it from any part of the proceeds of the disposition of any Collateral or by exercise of the right of setoff either to the obligations under this Note or to any other obligations of the Borrower to the Bank, as provided in the Credit Agreement. The undersigned specifically waives any rights afforded to it by Sections 49-25 and 49-26 of the Code of Virginia of 1950 as amended.

TO THE EXTENT LEGALLY PERMISSIBLE, THE BORROWER WAIVES ANY RIGHT TO TRIAL BY JURY IN ANY LITIGATION RELATING TO TRANSACTIONS UNDER THIS NOTE, WHETHER SOUNDING IN CONTRACT, TORT OR OTHERWISE.

Any provision of this Note which is prohibited or unenforceable shall be ineffective only to the extent of such prohibition or unenforceability without invalidating the remaining provisions of this Note. No amendment, termination or waiver of any provision of this Note, nor consent to any departure by the Borrower from any term of this Note, shall in any event be effective unless it is in writing and signed by an authorized employee of the Bank, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. No failure or delay on the part of the Bank to exercise any right, power or remedy under this Note shall be construed as a waiver of the right to exercise the same or any other right at any time.

This Note shall apply to and bind the Borrower and its successors and assigns and shall inure to the benefit of the Bank, its successors and assigns. This Note shall be governed by the internal laws of the Commonwealth of Virginia and applicable federal law. The Borrower acknowledges that the events and occurrences relating to this Note bear a reasonable relationship to the laws of the Commonwealth of Virginia. The validity, terms, performance and enforcement of this Note shall be governed by applicable federal law and the internal laws of the Commonwealth of Virginia.

By signing below, the Borrower agrees to the terms of this Note.

BORROWER:

OPTICAL CABLE CORPORATION

By: /s/ Tracy G. Smith

Name: Tracy G. Smith

Title: Vice President and Chief Financial Officer

SUPERIOR MODULAR PRODUCTS INCORPORATED

By: /s/ Tracy G. Smith

Name: Tracy G. Smith

Title: CFO and Secretary

TERM LOAN A NOTE

\$2,240,000.00

May 30, 2008
Roanoke, Virginia
Note #164267

FOR VALUE RECEIVED, OPTICAL CABLE CORPORATION, a Virginia corporation and SUPERIOR MODULAR PRODUCTS INCORPORATED, a Delaware corporation (each individually with respect to itself, jointly and severally, and collectively, the "Borrower"), hereby promises to pay to the order of VALLEY BANK, a Virginia banking corporation, its affiliates and their successors and assigns (the "Bank") at its Head Office, in lawful money of the United States and in immediately available funds, the principal amount of TWO MILLION TWO HUNDRED FORTY THOUSAND AND NO/100 DOLLARS (\$2,240,000.00), or such sum as may be advanced and outstanding from time to time, and to pay interest from the date of this note (herein referred to as the "Note") on the unpaid principal amount outstanding under this Note, in like money, at the time, in amounts, and at the rate per annum as provided in Section 3.1(b) of the Credit Agreement of even date herewith between the Borrower and the Bank, as modified, replaced or restated (the "Credit Agreement").

This Note is referred to as the Term Loan A Note in the Credit Agreement. The Credit Agreement contains, among other things, provisions for acceleration of the maturity of this Note upon the happening of certain stated events and for prepayments on account of the principal of this Note prior to maturity of this Note upon the terms and conditions specified in the Credit Agreement.

Capitalized terms contained in this Note which are not otherwise defined herein shall have the meaning ascribed to them in the Credit Agreement.

This Note is governed by and subject to additional terms and conditions of the Credit Agreement and is secured by the Collateral described in the Credit Agreement and the other Loan Documents, reference to which is hereby made for a description of the Collateral and the rights of the Borrower and the Bank with respect to the Collateral and the remedies of the Bank pertaining thereto. In the event of a conflict between any term or condition contained in this Note and the Credit Agreement, such term or condition of the Credit Agreement shall control. The proceeds of any Collateral may be applied against the liabilities of the Borrower to the Bank as provided in the Loan Documents.

If an Event of Default occurs, the Bank shall have the option to exercise all of the rights and remedies provided in the Credit Agreement. To the extent permitted by law, upon default, the Bank reserves the right, in addition to all other remedies permitted by law or in the Credit Agreement, to set off the amount due under this Note or due under any other obligation to the Bank against any and all accounts, whether checking or savings or otherwise, credits, money, stocks, bonds or other security or property of any nature whatsoever on deposit with, held by, owned by, or in the possession of, the Bank, or any of its affiliates to the credit of or for the account of the Borrower or any other party to the Credit Agreement, without notice to or consent by the Borrower or any such party. The remedies provided in this Note, the Credit Agreement, and any other agreement between the Bank and the Borrower are cumulative and are not exclusive of any remedies provided by law.

If any portion of a payment is at least ten days past due, the Borrower promises to pay a late charge of five percent of the amount which is past due. In addition, to the extent not prohibited by applicable law, the undersigned promises to pay the following: (1) all expenses, including, without limitation, any and all court or collection costs, and reasonable attorney's fees, whether suit be brought or not, incurred in collecting this Note or in otherwise protecting the Bank's interests; (2) all costs incurred in evaluating, preserving or disposing of any Collateral granted as security for the payment of this Note, including the cost of any audits, appraisals, appraisal updates, reappraisals or environmental inspections which the Bank from time to time in its sole discretion may deem necessary; (3) any premiums for property insurance purchased on behalf of the Borrower or on behalf of the owner or owners of the Collateral pursuant to any Loan Document relating to the Collateral; (4) any expenses or costs incurred in defending any claim arising out of the execution of this Note or the obligation which it evidences, or otherwise involving the employment by the Bank of attorneys with respect to this Note and the obligations it evidences; and (5) any other charges permitted by applicable law. The Borrower shall pay such authorized charges on demand or, at the Bank's option, such charges may be added to the unpaid balance of the Note and shall accrue interest at the stated rate of interest.

The Borrower waives presentment, demand, protest, notice of protest and notice of dishonor and waives all exemptions as to the obligations evidenced by this Note. The Borrower waives any rights to require the Bank to proceed against any other party or person or any Collateral before proceeding against the Borrower, or any other party. The Bank may, without notice, without affecting the liability of the Borrower hereunder or under the Credit Agreement, and at any time or times, grant extensions of the time for payment or other indulgences to any party or permit the renewal or modification of this Note, or permit the substitution, exchange or release of any Collateral for this Note and may add or release any party primarily or secondarily liable. The Bank may apply all monies made available to it from any part of the proceeds of the disposition of any Collateral or by exercise of the right of setoff either to the obligations under this Note or to any other obligations of the Borrower to the Bank, as provided in the Credit Agreement. The undersigned specifically waives any rights afforded to it by Sections 49-25 and 49-26 of the Code of Virginia of 1950 as amended.

TO THE EXTENT LEGALLY PERMISSIBLE, THE BORROWER WAIVES ANY RIGHT TO TRIAL BY JURY IN ANY LITIGATION RELATING TO TRANSACTIONS UNDER THIS NOTE, WHETHER SOUNDING IN CONTRACT, TORT OR OTHERWISE.

Any provision of this Note which is prohibited or unenforceable shall be ineffective only to the extent of such prohibition or unenforceability without invalidating the remaining provisions of this Note. No amendment, termination or waiver of any provision of this Note, nor consent to any departure by the Borrower from any term of this Note, shall in any event be effective unless it is in writing and signed by an authorized employee of the Bank, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. No failure or delay on the part of the Bank to exercise any right, power or remedy under this Note shall be construed as a waiver of the right to exercise the same or any other right at any time.

This Note shall apply to and bind the Borrower and its successors and assigns and shall inure to the benefit of the Bank, its successors and assigns. This Note shall be governed by the internal laws of the Commonwealth of Virginia and applicable federal law. The Borrower acknowledges that the events and occurrences relating to this Note bear a reasonable relationship to the laws of the Commonwealth of Virginia. The validity, terms, performance and enforcement of this Note shall be governed by applicable federal law and the internal laws of the Commonwealth of Virginia.

By signing below, the Borrower agrees to the terms of this Note.

BORROWER:

OPTICAL CABLE CORPORATION

By: /s/ Tracy G. Smith

Name: Tracy G. Smith

Title: Vice President and Chief Financial Officer

SUPERIOR MODULAR PRODUCTS INCORPORATED

By: /s/ Tracy G. Smith

Name: Tracy G. Smith

Title: CFO and Secretary

TERM LOAN B NOTE

\$6,500,000.00

May 30, 2008
Roanoke, Virginia
Note #156779

FOR VALUE RECEIVED, OPTICAL CABLE CORPORATION, a Virginia corporation and SUPERIOR MODULAR PRODUCTS INCORPORATED, a Delaware corporation (each individually with respect to itself, jointly and severally, and collectively, the "Borrower"), hereby promises to pay to the order of VALLEY BANK, a Virginia banking corporation, its affiliates and their successors and assigns (the "Bank") at its Head Office, in lawful money of the United States and in immediately available funds, the principal amount of SIX MILLION FIVE HUNDRED THOUSAND AND NO/100 DOLLARS (\$6,500,000.00), or such sum as may be advanced and outstanding from time to time, and to pay interest from the date of this note (herein referred to as the "Note") on the unpaid principal amount outstanding under this Note, in like money, at the time, in amounts, and at the rate per annum as provided in Section 3.1(c) of the Credit Agreement of even date herewith between the Borrower and the Bank, as modified, replaced or restated (the "Credit Agreement").

This Note is referred to as the Term Loan B Note in the Credit Agreement. The Credit Agreement contains, among other things, provisions for acceleration of the maturity of this Note upon the happening of certain stated events and for prepayments on account of the principal of this Note prior to maturity of this Note upon the terms and conditions specified in the Credit Agreement.

Capitalized terms contained in this Note which are not otherwise defined herein shall have the meaning ascribed to them in the Credit Agreement.

This Note is governed by and subject to additional terms and conditions of the Credit Agreement and is secured by the Collateral described in the Credit Agreement and the other Loan Documents, reference to which is hereby made for a description of the Collateral and the rights of the Borrower and the Bank with respect to the Collateral and the remedies of the Bank pertaining thereto. In the event of a conflict between any term or condition contained in this Note and the Credit Agreement, such term or condition of the Credit Agreement shall control. The proceeds of any Collateral may be applied against the liabilities of the Borrower to the Bank as provided in the Loan Documents.

If an Event of Default occurs, the Bank shall have the option to exercise all of the rights and remedies provided in the Credit Agreement. To the extent permitted by law, upon default, the Bank reserves the right, in addition to all other remedies permitted by law or in the Credit Agreement, to set off the amount due under this Note or due under any other obligation to the Bank against any and all accounts, whether checking or savings or otherwise, credits, money, stocks, bonds or other security or property of any nature whatsoever on deposit with, held by, owned by, or in the possession of, the Bank, or any of its affiliates to the credit of or for the account of the Borrower or any other party to the Credit Agreement, without notice to or consent by the Borrower or any such party. The remedies provided in this Note, the Credit Agreement, and any other agreement between the Bank and the Borrower are cumulative and are not exclusive of any remedies provided by law.

If any portion of a payment is at least ten days past due, the Borrower promises to pay a late charge of five percent of the amount which is past due. In addition, to the extent not prohibited by applicable law, the undersigned promises to pay the following: (1) all expenses, including, without limitation, any and all court or collection costs, and reasonable attorney's fees, whether suit be brought or not, incurred in collecting this Note or in otherwise protecting the Bank's interests; (2) all costs incurred in evaluating, preserving or disposing of any Collateral granted as security for the payment of this Note, including the cost of any audits, appraisals, appraisal updates, reappraisals or environmental inspections which the Bank from time to time in its sole discretion may deem necessary; (3) any premiums for property insurance purchased on behalf of the Borrower or on behalf of the owner or owners of the Collateral pursuant to any Loan Document relating to the Collateral; (4) any expenses or costs incurred in defending any claim arising out of the execution of this Note or the obligation which it evidences, or otherwise involving the employment by the Bank of attorneys with respect to this Note and the obligations it evidences; and (5) any other charges permitted by applicable law. The Borrower shall pay such authorized charges on demand or, at the Bank's option, such charges may be added to the unpaid balance of the Note and shall accrue interest at the stated rate of interest.

The Borrower waives presentment, demand, protest, notice of protest and notice of dishonor and waives all exemptions as to the obligations evidenced by this Note. The Borrower waives any rights to require the Bank to proceed against any other party or person or any Collateral before proceeding against the Borrower, or any other party. The Bank may, without notice, without affecting the liability of the Borrower hereunder or under the Credit Agreement, and at any time or times, grant extensions of the time for payment or other indulgences to any party or permit the renewal or modification of this Note, or permit the substitution, exchange or release of any Collateral for this Note and may add or release any party primarily or secondarily liable. The Bank may apply all monies made available to it from any part of the proceeds of the disposition of any Collateral or by exercise of the right of setoff either to the obligations under this Note or to any other obligations of the Borrower to the Bank, as provided in the Credit Agreement. The undersigned specifically waives any rights afforded to it by Sections 49-25 and 49-26 of the Code of Virginia of 1950 as amended.

TO THE EXTENT LEGALLY PERMISSIBLE, THE BORROWER WAIVES ANY RIGHT TO TRIAL BY JURY IN ANY LITIGATION RELATING TO TRANSACTIONS UNDER THIS NOTE, WHETHER SOUNDING IN CONTRACT, TORT OR OTHERWISE.

Any provision of this Note which is prohibited or unenforceable shall be ineffective only to the extent of such prohibition or unenforceability without invalidating the remaining provisions of this Note. No amendment, termination or waiver of any provision of this Note, nor consent to any departure by the Borrower from any term of this Note, shall in any event be effective unless it is in writing and signed by an authorized employee of the Bank, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. No failure or delay on the part of the Bank to exercise any right, power or remedy under this Note shall be construed as a waiver of the right to exercise the same or any other right at any time.

This Note shall apply to and bind the Borrower and its successors and assigns and shall inure to the benefit of the Bank, its successors and assigns. This Note shall be governed by the internal laws of the Commonwealth of Virginia and applicable federal law. The Borrower acknowledges that the events and occurrences relating to this Note bear a reasonable relationship to the laws of the Commonwealth of Virginia. The validity, terms, performance and enforcement of this Note shall be governed by applicable federal law and the internal laws of the Commonwealth of Virginia.

By signing below, the Borrower agrees to the terms of this Note.

BORROWER:

OPTICAL CABLE CORPORATION

By: /s/ Tracy G. Smith

Name: Tracy G. Smith

Title: Vice President and Chief Financial Officer

SUPERIOR MODULAR PRODUCTS INCORPORATED

By: /s/ Tracy G. Smith

Name: Tracy G. Smith

Title: CFO and Secretary

CAPITAL ACQUISITIONS TERM LOAN NOTE

\$2,260,000.00

May 30, 2008
Roanoke, Virginia
Note #164291

FOR VALUE RECEIVED, OPTICAL CABLE CORPORATION, a Virginia corporation and SUPERIOR MODULAR PRODUCTS INCORPORATED, a Delaware corporation (each individually with respect to itself, jointly and severally, and collectively, the "Borrower"), hereby promises to pay to the order of VALLEY BANK, a Virginia banking corporation, its affiliates and their successors and assigns (the "Bank") at its Head Office, in lawful money of the United States and in immediately available funds, the principal amount of up to TWO MILLION TWO HUNDRED SIXTY THOUSAND AND NO/100 DOLLARS (\$2,600,000.00), or such sum as may be advanced and outstanding from time to time, and to pay interest from the date of this note (herein referred to as the "Note") on the unpaid principal amount outstanding under this Note, in like money, at the time, in amounts, and at the rate per annum as provided in Section 3.1(d) of the Credit Agreement of even date herewith between the Borrower and the Bank, as modified, replaced or restated (the "Credit Agreement").

This Note is referred to as the Capital Acquisitions Term Loan Note in the Credit Agreement. The Credit Agreement contains, among other things, provisions for acceleration of the maturity of this Note upon the happening of certain stated events and for prepayments on account of the principal of this Note prior to maturity of this Note upon the terms and conditions specified in the Credit Agreement.

Capitalized terms contained in this Note which are not otherwise defined herein shall have the meaning ascribed to them in the Credit Agreement.

This Note is governed by and subject to additional terms and conditions of the Credit Agreement and is secured by the Collateral described in the Credit Agreement and the other Loan Documents, reference to which is hereby made for a description of the Collateral and the rights of the Borrower and the Bank with respect to the Collateral and the remedies of the Bank pertaining thereto. In the event of a conflict between any term or condition contained in this Note and the Credit Agreement, such term or condition of the Credit Agreement shall control. The proceeds of any Collateral may be applied against the liabilities of the Borrower to the Bank as provided in the Loan Documents.

If an Event of Default occurs, the Bank shall have the option to exercise all of the rights and remedies provided in the Credit Agreement. To the extent permitted by law, upon default, the Bank reserves the right, in addition to all other remedies permitted by law or in the Credit Agreement, to set off the amount due under this Note or due under any other obligation to the Bank against any and all accounts, whether checking or savings or otherwise, credits, money, stocks, bonds or other security or property of any nature whatsoever on deposit with, held by, owned by, or in the possession of, the Bank, or any of its affiliates to the credit of or for the account of the Borrower or any other party to the Credit Agreement, without notice to or consent by the Borrower or any such party. The remedies provided in this Note, the Credit Agreement, and any other agreement between the Bank and the Borrower are cumulative and are not exclusive of any remedies provided by law.

If any portion of a payment is at least ten days past due, the Borrower promises to pay a late charge of five percent of the amount which is past due. In addition, to the extent not prohibited by applicable law, the undersigned promises to pay the following: (1) all expenses, including, without limitation, any and all court or collection costs, and reasonable attorney's fees, whether suit be brought or not, incurred in collecting this Note or in otherwise protecting the Bank's interests; (2) all costs incurred in evaluating, preserving or disposing of any Collateral granted as security for the payment of this Note, including the cost of any audits, appraisals, appraisal updates, reappraisals or environmental inspections which the Bank from time to time in its sole discretion may deem necessary; (3) any premiums for property insurance purchased on behalf of the Borrower or on behalf of the owner or owners of the Collateral pursuant to any Loan Document relating to the Collateral; (4) any expenses or costs incurred in defending any claim arising out of the execution of this Note or the obligation which it evidences, or otherwise involving the employment by the Bank of attorneys with respect to this Note and the obligations it evidences; and (5) any other charges permitted by applicable law. The Borrower shall pay such authorized charges on demand or, at the Bank's option, such charges may be added to the unpaid balance of the Note and shall accrue interest at the stated rate of interest.

The Borrower waives presentment, demand, protest, notice of protest and notice of dishonor and waives all exemptions as to the obligations evidenced by this Note. The Borrower waives any rights to require the Bank to proceed against any other party or person or any Collateral before proceeding against the Borrower, or any other party. The Bank may, without notice, without affecting the liability of the Borrower hereunder or under the Credit Agreement, and at any time or times, grant extensions of the time for payment or other indulgences to any party or permit the renewal or modification of this Note, or permit the substitution, exchange or release of any Collateral for this Note and may add or release any party primarily or secondarily liable. The Bank may apply all monies made available to it from any part of the proceeds of the disposition of any Collateral or by exercise of the right of setoff either to the obligations under this Note or to any other obligations of the Borrower to the Bank, as provided in the Credit Agreement. The undersigned specifically waives any rights afforded to it by Sections 49-25 and 49-26 of the Code of Virginia of 1950 as amended.

TO THE EXTENT LEGALLY PERMISSIBLE, THE BORROWER WAIVES ANY RIGHT TO TRIAL BY JURY IN ANY LITIGATION RELATING TO TRANSACTIONS UNDER THIS NOTE, WHETHER SOUNDING IN CONTRACT, TORT OR OTHERWISE.

Any provision of this Note which is prohibited or unenforceable shall be ineffective only to the extent of such prohibition or unenforceability without invalidating the remaining provisions of this Note. No amendment, termination or waiver of any provision of this Note, nor consent to any departure by the Borrower from any term of this Note, shall in any event be effective unless it is in writing and signed by an authorized employee of the Bank, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. No failure or delay on the part of the Bank to exercise any right, power or remedy under this Note shall be construed as a waiver of the right to exercise the same or any other right at any time.

This Note shall apply to and bind the Borrower and its successors and assigns and shall inure to the benefit of the Bank, its successors and assigns. This Note shall be governed by the internal laws of the Commonwealth of Virginia and applicable federal

law. The Borrower acknowledges that the events and occurrences relating to this Note bear a reasonable relationship to the laws of the Commonwealth of Virginia. The validity, terms, performance and enforcement of this Note shall be governed by applicable federal law and the internal laws of the Commonwealth of Virginia.

By signing below, the Borrower agrees to the terms of this Note.

BORROWER:

OPTICAL CABLE CORPORATION

By: /s/ Tracy G. Smith

Name: Tracy G. Smith

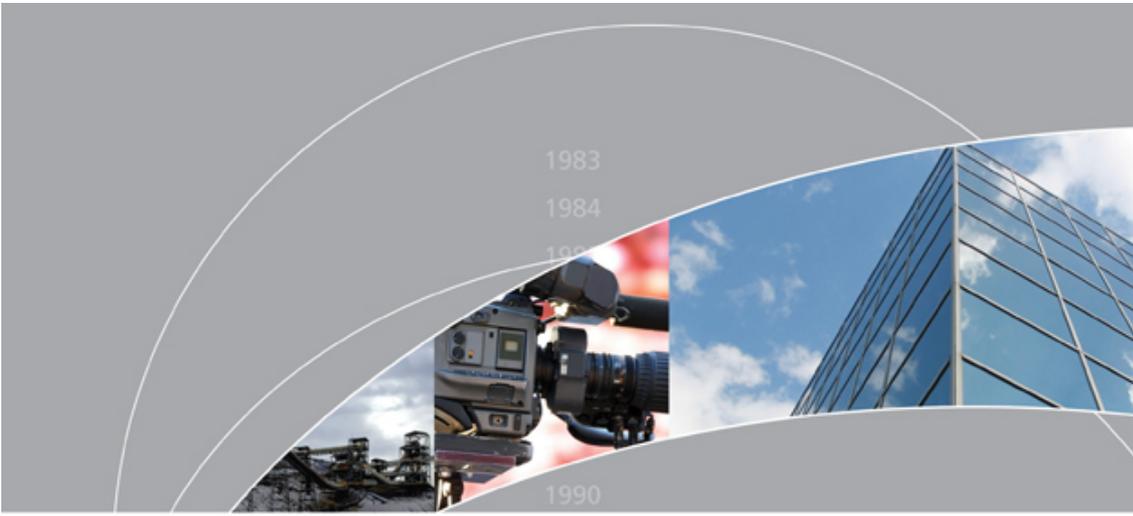
Title: Vice President and Chief Financial Officer

SUPERIOR MODULAR PRODUCTS INCORPORATED

By: /s/ Tracy G. Smith

Name: Tracy G. Smith

Title: CFO and Secretary



Connecting your world for 25 years —
and we have only just begun!



2008 ANNUAL REPORT

Patch Cords

Cable Assemblies

Fiber Optic Cables

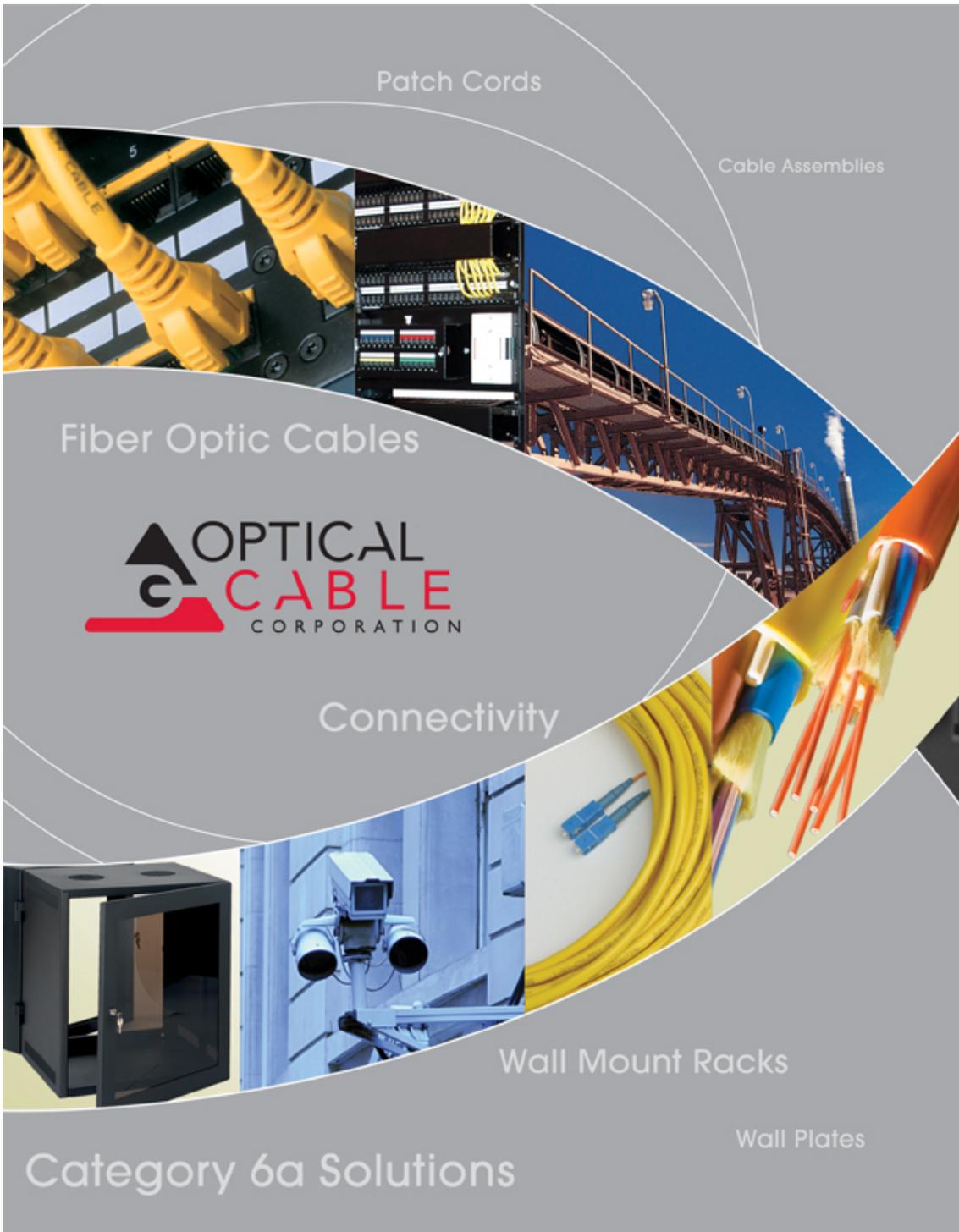


Connectivity

Wall Mount Racks

Wall Plates

Category 6a Solutions



OPTICAL CABLE CORPORATION

Annual Report

2008

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Selected Consolidated Financial Information
(in thousands, except per share data)

	Years ended October 31,				
	2008	2007	2006	2005	2004
Consolidated Statement of Income Information:					
Net sales	\$60,998	\$45,503	\$45,330	\$45,899	\$43,218
Cost of goods sold	36,838	28,333	29,908	28,067	26,515
Gross profit	24,160	17,170	15,422	17,832	16,703
Selling, general and administrative expenses	20,642	15,300	14,900	16,026	15,457
Royalty income, net	(636)	—	—	—	—
Amortization of intangible assets	469	—	—	—	—
Income from operations	3,685	1,870	522	1,806	1,246
Other income (expense), net:					
Interest income (expense), net	(147)	21	(10)	(21)	(113)
Other, net	(24)	27	(9)	37	(19)
Income before income taxes	3,514	1,918	503	1,822	1,114
Income tax expense	1,302	665	152	650	364
Net income	<u>\$ 2,212</u>	<u>\$ 1,253</u>	<u>\$ 351</u>	<u>\$ 1,172</u>	<u>\$ 750</u>
Net income per share:					
Basic and diluted	<u>\$ 0.36</u>	<u>\$ 0.21</u>	<u>\$ 0.06</u>	<u>\$ 0.20</u>	<u>\$ 0.13</u>
Weighted average shares:					
Basic	<u>6,062</u>	<u>6,089</u>	<u>5,954</u>	<u>5,776</u>	<u>5,587</u>
Diluted	<u>6,062</u>	<u>6,096</u>	<u>5,966</u>	<u>5,800</u>	<u>5,618</u>
Consolidated Balance Sheet Information:					
Cash and cash equivalents	\$ 3,910	\$ 3,139	\$ 555	\$ 3,290	\$ 4,342
Working capital	23,765	15,937	14,441	15,159	15,360
Total assets	54,837	37,281	34,791	34,944	32,113
Bank debt	10,953	—	991	—	—
Total shareholders' equity	34,832	31,978	30,435	29,345	27,675

Dear Shareholders:

Revolutionizing an Industry for 25 Years

Twenty-five years ago Optical Cable Corporation was born. And since 1983 we have revolutionized an industry, designing and manufacturing some of the best fiber optic cable products in the world—including products for environments previously believed to be forbidding to fiber optic solutions.

Today, our products are at work worldwide in applications ranging from commercial, enterprise networks, datacenters, residential and campus installations, to customized products for specialty applications and harsh environments, including military, industrial, mining and broadcast applications. With products trusted to operate in the harshest environments in the world, we have maintained our position as the premier manufacturer of ground tactical fiber optic cable for the U.S. military and our allies.

For 25 years we have made the fiber optic cable products others were unable or unwilling to make—changing the way the world looks at fiber optic cable. We have also positioned Optical Cable as a leader in our markets, enabling vital communications for the users of our products, and positively contributing to the communities in which we operate.

The accomplishments of the last 25 years are the direct result of the efforts of our people. Their hard work and dedication have molded Optical Cable into the success it is today—and will shape Optical Cable’s continued success in the future.

As we celebrate our 25th anniversary and reflect on our past accomplishments, this has also been a time to dream and envision a greater future—building on the solid foundation of our past.

Optical Cable Corporation—Now a Cabling and Connectivity Solutions Provider!

In addition to marking an important milestone, 2008 also became a year of strategic transformation as we completed an acquisition perfectly aligned with our long-term strategy and vision. Such transformational acquisitions are rare, and we are excited by the prospects this addition to the Optical Cable Corporation family brings to us.

Optical Cable Corporation acquired SMP Data Communications (also known as Superior Modular Products Incorporated) on May 30, 2008. SMP Data Communications is a leading developer and manufacturer of copper and fiber optic connectivity products with industry-leading performance primarily for use in the enterprise market, including a broad range of commercial and residential applications. SMP Data Communications is internationally recognized for its role in establishing copper connectivity data communications standards, and offering innovative and patented technologies.

Our combined product offerings are exceptionally complementary, enabling us to go to market with a comprehensive and integrated suite of data communications cabling and connectivity products. Our fiber optic product lines are branded Optical Cable Corporation and our copper product lines are branded SMP Data Communications. We have integrated the sales and marketing functions into a single team, and have also integrated a number of other functions under a single management structure, including accounting, finance, information technology and human resources.

Optical Cable Corporation is now a leading manufacturer of a broad range of fiber optic and copper data communications cabling and connectivity *solutions* primarily for the enterprise market, offering an integrated suite of high quality, warranted products which operate as a system solution or seamlessly integrate with other providers' offerings. From fiber optic cable, copper and fiber optic connectors, and copper and fiber optic patch cords, to racks, cabinets, datacom enclosures, patch panels, face plates, multi-media boxes and cable and connectivity management accessories—we now provide our customers with the entire range of products they need—with the top-tier quality they expect from Optical Cable Corporation.

Outstanding Financial Performance

In addition to positioning Optical Cable for future success, I am excited to report to you that Optical Cable has achieved increases in net sales, gross profits and net income in fiscal year 2008, as compared to the prior year, growing both organically and through acquisition.

During fiscal year 2008:

- Our net sales increased 34.1% to a record \$61.0 million, compared to net sales of \$45.5 million in the prior year, with net sales of fiber optic cables showing particular strength—increasing 16.4% to \$53.0 million, compared to \$45.5 million in the prior year.
- Gross profits increased 40.7% to \$24.2 million, up from \$17.2 million in fiscal year 2007. At the same time, gross profit margins increased to 39.6% in 2008, up from 37.7% in fiscal year 2007.
- Net income increased a sharp 76.6% to \$2.2 million, or \$0.36 per basic and diluted share, compared to \$1.3 million, or \$0.21 per basic and diluted share, for fiscal year 2007.
- We negotiated new bank credit facilities with availability of \$17.0 million, used our credit to acquire SMP Data Communications in May 2008, and we ended the year with \$3.9 million cash on hand and bank credit availability of \$6.0 million.
- We successfully completed our review and assessment of internal controls and processes to comply with Section 404(a) of the Sarbanes-Oxley Act of 2002.

These achievements were made possible by the efforts of Optical Cable's employees and partners, as well as by appropriate strategic positioning in our markets and the past investments we made to significantly upgrade Optical Cable's capabilities.

Looking Forward to 2009

As we look forward, there is no doubt fiscal year 2009 will be incredibly challenging. And, it is unlikely Optical Cable can escape the negative impact of the economic recession and market contraction the United States and the world is currently experiencing. We cannot control all aspects of our environment. However, we can control our actions. And the Optical Cable Team will be working in fiscal year 2009 to leverage our strategic positioning and our expanded product lines to maximize sales and earnings in whatever external environment we find ourselves.

We begin fiscal year 2009 with a strong balance sheet and the liquidity we believe we need to navigate these difficult times. We have positioned Optical Cable for long-term success, and I am confident we will emerge from this economic recession better and stronger and poised for increases in financial performance.

During the last 25 years, Optical Cable Corporation has revolutionized an industry, become a data communications cabling and connectivity solutions provider, and created a platform for future success—and we have only just begun!

/s/ Neil D. Wilkin, Jr.

Neil D. Wilkin, Jr.

Chairman of the Board,

President and Chief Executive Officer

January 29, 2009

Management's Discussion and Analysis of Financial Condition and Results of Operation

Forward-Looking Information

This report 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, copper and other precious metals, and plastics and other materials affected by petroleum product pricing); fluctuations in transportation costs; our dependence on customized equipment for the manufacture of our products and a limited number of production facilities; 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 for competing technologies, relative to our product offering; 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; inability to recruit needed personnel; poor labor relations; the inability to successfully integrate the operations of our new subsidiaries; 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 continue 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, making investments in or with, and/or acquiring parties that compete with and/or have conflicts with customers of ours; impact of weather or natural disasters in the areas of the world in which we operate and market our products; economic downturns and/or 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.

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.

Overview of Optical Cable Corporation

We are a leading manufacturer of a broad range of fiber optic and copper data communication cabling and connectivity solutions, primarily for the enterprise market, offering an integrated suite of high quality, warranted products which operate as a system solution or seamlessly integrate with other providers' offerings. Our product offerings include designs for uses ranging from commercial, enterprise

network, datacenter, residential and campus installations to customized products for specialty applications and harsh environments, including military, industrial, mining and broadcast applications. Optical Cable Corporation products are designed to meet the most demanding needs of end-users, delivering a high degree of reliability and outstanding performance characteristics.

Optical Cable Corporation, founded in 1983, is internationally recognized for pioneering 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, and creating a broad product offering built on the evolution of these fundamental technologies.

On May 30, 2008, Optical Cable Corporation acquired Superior Modular Products Incorporated, doing business as SMP Data Communications (“SMP Data Communications”). Founded in 1990, SMP Data Communications is a wholly owned subsidiary of Optical Cable Corporation that develops copper and fiber passive connectivity hardware components for use in the enterprise market, including a broad range of commercial and residential applications. SMP Data Communications is internationally recognized for its role in establishing copper connectivity data communications standards, through its innovative and patented technologies.

Our combined product offerings are exceptionally complementary. While Optical Cable Corporation and SMP Data Communications are separate legal entities, we go to market as one company, offering a comprehensive and integrated suite of high quality, warranted cabling and connectivity products, primarily for the enterprise market. Our fiber optic product lines are branded Optical Cable Corporation and copper product lines are branded SMP Data Communications. In addition to the integrated management of sales and marketing functions, a number of other functions are integrated under a single management structure, including accounting, finance, information technology and human resources. At the current time, manufacturing, engineering and quality are managed separately at our Roanoke, Virginia and Asheville, North Carolina facilities.

We are headquartered in Roanoke, Virginia with offices and manufacturing and warehouse facilities located both in Roanoke, Virginia and near Asheville, North Carolina. We primarily manufacture our high quality fiber optic cables at our ISO 9001:2000 registered and MIL-STD-790F certified facility located in Roanoke, Virginia and we primarily manufacture our high quality fiber optic and copper connectivity products at our ISO 9001:2000 registered facility located near Asheville, North Carolina.

Acquisitions

On May 30, 2008, we acquired all of the common stock of Superior Modular Products Incorporated, doing business as SMP Data Communications from Preformed Line Products Company (Nasdaq GM: PLPC) for a purchase price of \$11.5 million, subject to certain minimum working capital requirements and related purchase price adjustments. The most significant changes in our consolidated balance sheet between October 31, 2007 and October 31, 2008 are the result of that acquisition. Additions to our net asset balances resulting from the acquisition as of May 30, 2008 exclusive of debt incurred in connection with the acquisition, are presented in the table below, and total an increase in net assets of \$11.2 million. We estimated the fair value of the net assets acquired of \$15.9 million which represented an excess of the value of the identified net tangible and intangible assets acquired of \$4.7 million over the total acquisition cost of \$11.2 million (which consists of the agreed upon purchase price of \$11.5 million, less \$1,045,000 in working capital adjustment at closing, plus transaction costs of \$769,000). In accordance with Statement of Financial Accounting Standards No. 141, *Business Combinations* (“SFAS 141”), the excess fair market value of net assets of \$15.9 million over the total acquisition cost of \$11.2 million (or negative goodwill) was used to reduce the carrying value of long-term assets, including property and equipment, patents and other intangibles. SMP Data Communications’ assets and liabilities as of the date of acquisition did not change materially through October 31, 2008. Also included in the table below are total net

sales and gross profit of SMP Data Communications for the period from May 31 through October 31, 2008. Concurrent with the merger, certain operational areas of SMP Data Communications were combined with those of Optical Cable Corporation as was the related cost and therefore, additional discrete cost information about the operations of SMP Data Communications was not maintained.

	<u>As of May 30, 2008</u>
Accounts receivable, net	\$ 3,107,923
Property and equipment	3,711,690
Inventories	3,941,478
Intangible assets	2,719,782
Other assets, including cash of \$5,705	428,592
Total assets	<u>\$ 13,909,465</u>
Accounts payable and accrued expenses	1,805,632
Accrued compensation and payroll taxes	303,929
Deferred income taxes, net	575,970
Total liabilities	<u>\$ 2,685,531</u>
Total net assets	<u>\$ 11,223,934</u>
	<u>Period from May 31 to October 31, 2008</u>
Net sales	\$ 8,040,387
Gross profit	1,640,842

For the period from May 31 through October 31, 2008, our operating results after the acquisition of SMP Data Communications were reduced by the requirements of SFAS 141 to record the finished goods inventory at approximate net selling price and to revalue patents and other long-lived assets owned by SMP Data Communications to fair value. The increased depreciation and amortization associated with the increase in value of the patents and other long-lived assets resulted in increased expenses before taxes for the period of \$488,000. Additionally, the sale of the revalued finished goods inventory during the period resulted in additional cost of goods sold totaling \$312,000. These increased expenses were partially offset by the recognition of approximately \$636,000 in royalty income, net of related expenses other than amortization.

The acquisition of SMP Data Communications in May 2008, was a strategic acquisition for us, allowing us to provide our customers with the suite of cabling and connectivity solutions they desire. Ultimately, we believe our broader product and solutions offering will result in increased sales, possibly increased market share and ultimately increased income before income taxes. However, given the current economic recession and until we begin to realize anticipated sales synergies, we do not believe the acquisition of SMP Data Communications will likely be significantly accretive in the short-term.

On August 1, 2008, we acquired 70% of the authorized membership interests of Centric Solutions LLC (“Majority-owned Subsidiary”), a start-up limited liability company focused on sales turnkey cabling and connectivity solutions for the datacenter market. Majority-owned Subsidiary operates and goes to market separately from Optical Cable Corporation. Our total investment, including a \$300,000 installment to be paid in 2009, was \$1.5 million. For the three months ended October 31, 2008, the Majority-owned Subsidiary incurred operating losses net of taxes of \$255,000 all of which were absorbed by us in consolidation as the owners of the minority interests do not currently have positive equity accounts required by the Operating Agreement to enable them to share in operating losses.

Unless otherwise specifically noted, the discussion which follows describes our operations including the impact of the acquisition of SMP Data Communications and Majority-owned Subsidiary.

Summary of Company Performance for Fiscal Year 2008

During fiscal year 2008, we achieved record net sales and we achieved increased gross profit compared to the prior year. For fiscal year 2008, net sales increased 34.1% to \$61.0 million compared to \$45.5 million for fiscal year 2007. Our fiber optic cable sales increased 16.4% to \$53.0 million in fiscal year 2008, up from \$45.5 million in fiscal year 2007. The acquisition of SMP Data Communications in May 2008 added an additional \$8.0 million to our net sales. During fiscal year 2008, our gross profit increased 40.7% to \$24.2 million compared to \$17.2 million during fiscal year 2007. Our gross profit margin, or gross profit as a percentage of net sales, increased to 39.6% during fiscal year 2008, compared to 37.7% during last year. Since SMP Data Communications historically has lower gross profit margins than Optical Cable Corporation, the acquisition of SMP Data Communications diluted our consolidated gross profit margin in fiscal year 2008 from 42.5% pre-consolidation.

Our reported net income increased 76.6% to \$2.2 million, or \$0.36 per share during fiscal year 2008, up from net income of \$1.3 million, or \$0.21 per share, for fiscal year 2007. Our acquisitions during the year negatively impacted our net income.

We experienced an increase in net sales during fiscal year 2008 in both our specialty markets and our commercial markets compared to last year. In addition to the acquisition of SMP Data Communications, the timing of projects, and other factors affecting project demand over the short-term, contributed to the increase in net sales overall.

During fiscal year 2008, we continued to experience positive impacts (as we have over the past five consecutive quarters) on our gross profit margins related to net sales associated with production in our Roanoke, Virginia facility that we believe are attributable, in part, to improvements in our manufacturing efficiencies, including improvements resulting from the successful integration of our ERP system.

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. All of our sales to customers located outside of the United States are denominated in U.S. dollars. We can experience fluctuations in the percentages of net sales to customers from period to period based on the timing of large orders, which can also impact the portion of our sales attributable to customers located outside of 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), collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and sale price is fixed or determinable. Our customers generally do not have the right of return unless a product is defective or damaged and is within the parameters of the product warranty in effect for the sale.

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

Results of Operations

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

	Fiscal Years Ended October 31,		Percent Change	Fiscal Years Ended October 31,		Percent Change
	2008	2007		2007	2006	
Net sales	\$61,000,000	\$45,500,000	34.1%	\$45,500,000	\$45,300,000	0.4%
Gross profit	24,200,000	17,200,000	40.7	17,200,000	15,400,000	11.3
SG&A expenses	20,600,000	15,300,000	34.9	15,300,000	14,900,000	2.7
Net income	2,200,000	1,300,000	76.6	1,300,000	351,000	257.3

Net Sales

Net sales increased 34.1% to \$61.0 million in fiscal year 2008 up from \$45.5 million in fiscal year 2007.

Net sales of fiber optic cables, exclusive of the impact of the acquisitions, increased 16.4% to \$53.0 million during fiscal year 2008 compared to net sales of \$45.5 million during fiscal year 2007. Increases in volumes of fiber meters shipped when comparing shipments for fiscal year 2008 to fiscal year 2007 support the increases in net sales when comparing the two years. Fluctuations in net sales may also be impacted by the mix of products sold during a period; however, when comparing these two years, it is evident that volumes shipped was the significant reason for the increase.

The acquisition of SMP Data Communications on May 30, 2008, added \$8.0 million to our net sales during fiscal year 2008. There were no net sales added to our net sales as a result of the acquisition of the Majority-owned Subsidiary during fiscal year 2008.

The increase in net sales during fiscal year 2008 when compared to last year was attributable to increases in both our commercial markets, which grew just under 3%, and our specialty markets, which grew over 32%, exclusive of net sales generated by SMP Data Communications. SMP Data Communications sales historically are comprised largely of sales into what we consider to be our commercial market. While we experienced net sales strength in fiscal year 2008, we believe there is significant softening of what we describe as our commercial market as a result of the current economic recession and its impact on our industry. We believe that some or all of our specialty markets may be adversely impacted as well. We believe that we will begin to see the impact of the current economic recession during early fiscal year 2009. However, at this time, we are unable to determine the extent of the impact of the recession on our future sales.

Net sales increased to \$45.5 million in fiscal year 2007 from \$45.3 million in fiscal year 2006. Net sales outside the United States increased 22.7% to \$12.9 million compared to \$10.5 million in fiscal year 2006, while net sales in the United States for fiscal year 2007 decreased 6.4% to \$32.6 million compared to \$34.8 million in fiscal year 2006. We experienced an increase in net sales during fiscal year 2007 in our specialty markets compared to fiscal year 2006, but the increase was partially offset by decreases in net sales in our commercial market. Net sales to customers outside the United States continued to show substantial strength during fiscal year 2007 compared to fiscal year 2006, while net sales to customers in the United States decreased due to lower sales in our commercial market.

Net sales to customers located outside of the United States were 32%, 28% and 23% of total net sales for fiscal years 2008, 2007 and 2006, respectively. Net sales to customers located outside of the United States continued to show substantial strength in fiscal year 2008, increasing 32.5% compared to the same period last year, while net sales to customers located in the United States increased 10.0%, in each case exclusive of the net sales generated by our new subsidiary. We believe our international sales in recent years has been positively impacted by the restructuring of our international sales team and the retargeting of our international sales efforts. We believe that our international sales have also benefited in recent years from the weakening of the U.S. dollar relative to foreign currencies. At this time, we are unable to predict whether the recent trend toward the strengthening of the U.S. dollar will result in a decrease of our international sales.

Gross Profit

Gross profit increased 40.7% to \$24.2 million in fiscal year 2008 from \$17.2 million in fiscal year 2007. Gross profit margin, or gross profit as a percentage of net sales, increased to 39.6% for fiscal year 2008, compared to 37.7% for fiscal year 2007. Quarterly gross profit margins during fiscal year 2008 were 42.1%, 42.6%, 37.7% and 37.4% during the first, second, third and fourth quarters, respectively. Our lower gross profit margins in the second half of fiscal year 2008 reflected the fact that SMP Data Communications has historically had gross profit margin percentages lower than the historical gross profit margins of Optical Cable Corporation. Our gross profit margins from our fiber optic cable product lines, exclusive of the acquisition of SMP Data Communications, during fiscal year 2008 were: 42.1%, 42.6%, 42.0% and 43.4% during the first, second, third and fourth quarters, respectively. Gross profit margin during the second half of fiscal year 2008 was also impacted by SFAS 141 purchase accounting adjustments with respect to the valuation of inventory acquired in the acquisition of SMP Data Communications as discussed previously. SFAS 141 required work-in-process and finished goods inventory acquired in the acquisition to be recorded at approximate net selling price, reducing the gross profit normally realized upon the sale of such inventory by approximately \$312,000.

Exclusive of the impact of the acquisition of SMP Data Communications, gross profit increased 31.2% to \$22.5 million for fiscal year 2008, compared to \$17.2 million for fiscal year 2007. Our gross profit margin increased to 42.5% for fiscal year 2008, compared to 37.7% for the same period last year, exclusive of the impact of the acquisition.

We believe the acquisition of SMP Data Communications will continue to place downward pressure on our historical gross profit margins in future periods—even though all inventories revalued to fair market value in connection with the acquisition (pursuant to SFAS 141) have been sold as of October 31, 2008. However, at this time we are unable to determine if this is a trend or predict the amount by which our future gross profit margins will be impacted.

During fiscal year 2008, we continued to experience positive impacts on our gross profit margins that we believe are attributable, in part, to the improvements in our manufacturing efficiencies, including improvements resulting from the successful integration of our ERP system at our Roanoke, Virginia facility. Our gross profit margin percentages are heavily dependent upon product mix on a quarterly basis and may deviate from expectations based on both anticipated and unanticipated changes in product mix. We believe that our trend toward greater efficiency as a result of our ERP system will stabilize in fiscal year 2009.

Gross profit increased 11.3% to \$17.2 million in fiscal year 2007 from \$15.4 million in fiscal year 2006. Gross profit margin, or gross profit as a percentage of net sales, increased to 37.7% for fiscal year 2007 compared to 34.0% for fiscal year 2006.

Selling, General and Administrative Expenses

SG&A expenses increased to \$20.7 million in fiscal year 2008 from \$15.3 million in fiscal year 2007. SG&A expenses as a percentage of net sales were 33.8% in fiscal year 2008 compared to 33.6% in fiscal year 2007. The increase was primarily due to the acquisition of SMP Data Communications. Excluding the impact of the acquisition of SMP Data Communications (but including various post-acquisition costs associated with the integration of SMP Data Communications), the increase in SG&A expenses during fiscal year 2008 compared to last year was primarily due to increased compensation and commission costs, increased marketing and sales related expenditures and the post-acquisition costs associated with the integration of SMP Data Communications, including various professional fees. Compensation costs increased in fiscal year 2008 compared to fiscal year 2007 largely as a result of increases in employee incentives totaling \$1.5 million due to the financial results during fiscal year 2008, including increases in sales commissions due to higher fiber optic cable sales and other incentives based on increased financial performance when comparing fiscal years 2008

and 2007. Marketing and sales related expenses increased approximately \$402,000 in connection with increased marketing efforts particularly with respect to our expanded product offering. Increased professional fees included in our SG&A expenses, including the integration of SMP Data Communications, totaled in excess of \$400,000.

SG&A expenses increased 2.7% to \$15.3 million in fiscal year 2007 from \$14.9 million in 2006. SG&A expenses as a percentage of net sales were 33.6% in fiscal year 2007 compared to 32.9% in 2006. The higher percentage in fiscal year 2007 reflects the fact that net sales for the period increased less than 1.0% compared to 2006, while SG&A expenses increased 2.7% compared to 2006. The largest element of the net increase in SG&A expenses during 2007 compared to 2006 was compensation costs. Compensation costs have increased when comparing fiscal year 2007 to fiscal year 2006 primarily as a result of increases in amounts accrued for employee performance-based incentives based on improved financial results during fiscal year 2007.

Royalty Income, Net

We recognized royalty income, net of related expenses, totaling \$636,000 during fiscal year 2008. We earn royalty income on licenses associated with patents acquired in the acquisition of SMP Data Communications.

Amortization of Intangible Assets

We recognized \$469,000 of amortization expense, associated with intangible assets purchased in the acquisition of SMP Data Communications, for the year ended October 31, 2008.

Other Income (Expense), Net

We recognized other income, net of \$465,000 in fiscal year 2008 compared to other income, net of \$48,000 in fiscal year 2007. Other income, net is primarily comprised of royalty income of \$635,000 (net of related royalty expenses and other expenses) from patents obtained in connection with the acquisition of SMP Data Communications, interest income totaling \$99,000, interest expense totaling \$247,000 related to monies borrowed in connection with the acquisition of SMP Data Communications, and other miscellaneous items which may fluctuate from period to period.

We recognized other income, net in fiscal year 2007 of \$48,000 compared to other expense, net of \$19,000 in fiscal year 2006.

Income Before Income Taxes

We reported income before income tax expense of \$3.5 million for fiscal year 2008 compared to income before income tax expense of \$1.9 million in fiscal year 2007. The increase was primarily due to the increase in gross profit of \$7.0 million in fiscal year 2008 compared to fiscal year 2007, partially offset by the \$5.3 million increase in SG&A expenses.

Income before income taxes was \$1.9 million in fiscal year 2007 compared to income before income taxes of \$503,000 in fiscal year 2006. This increase was primarily due to the increase in gross profit of \$1.7 million, partially offset by an increase in SG&A expenses of \$400,000.

Income Tax Expense

Income tax expense totaled \$1.3 million for fiscal year 2008 compared to income tax expense of \$665,000 for fiscal year 2007. Our effective tax rate was 37.0% in fiscal year 2008 compared to 34.7% in fiscal year 2007. Generally, fluctuations in our effective tax rates are primarily due to the amount and timing of various tax deductions and benefits. The primary reason for the increase in our effective rate related to the fact that we established reserves for uncertain tax positions during fiscal year 2008 that were not applicable during fiscal year 2007.

The Extraterritorial Income Exclusion ("EIE") exempted from federal income taxation a portion of the net profit realized from sales outside the United States of products manufactured in the United States. The EIE was calculated by a complex analysis of all export sales and profits for the year. Fluctuations in the ratio of export sales and profitability to total sales and profitability created changes in the EIE. The EIE benefit was phased out as a result of The American Jobs Creation Act of 2004 (the "Jobs Act"). The Jobs Act generally repealed the EIE regime for transactions after December 31, 2004. The Jobs Act extended EIE benefits at a reduced rate for two additional years, and EIE benefits indefinitely for transactions pursuant to a binding contract in effect on September 17, 2003. As passed, the Jobs Act provided transition relief by allowing taxpayers to retain a portion

of their otherwise-applicable EIE benefits: 100% for transactions during calendar year 2004, 80% for transactions during calendar year 2005 and 60% for transactions during calendar year 2006. At the same time, the Jobs Act allows for a new deduction based on qualified domestic production activities. For fiscal years 2008, 2007 and 2006, we realized a benefit from the new deduction totaling \$113,000, \$26,000 and \$10,000, respectively. The deduction increased in fiscal year 2008 as a result of increases in taxable income and an increase in the percentage of the allowed deduction.

Although the EIE was phased out in calendar year 2006, we continued to realize a benefit from the EIE related to the first quarter of our 2007 fiscal year (specifically in November and December of 2006)—a benefit that was positively impacted by the increase in net sales to customers outside of the United States during the first quarter of fiscal 2007.

Income tax expense totaled \$665,000 in fiscal year 2007 compared to income tax expense of \$152,000 in 2006. Our effective tax rate for fiscal year 2007 was 34.7%, compared to an effective tax rate of 30.3% during fiscal year 2006.

Net Income

Net income increased 76.6% to \$2.2 million in fiscal year 2008 compared to net income of \$1.3 million in fiscal year 2007. This increase was due primarily to the increase in income before income tax expense of \$1.6 million for fiscal year 2008 compared with fiscal year 2007, partially offset by the increase in income tax expense of \$636,000 when comparing fiscal year 2008 to fiscal year 2007.

Net income increased 257.3% to \$1.3 million in fiscal year 2007 compared to \$351,000 in 2006. This increase was primarily due to the factors previously described as contributing to the increase in income before income taxes, partially offset by an increase in income tax expense of \$513,000 in 2007 compared to 2006.

Financial Condition

Total assets increased \$17.6 million, or 47.1%, to \$54.8 million at October 31, 2008, from \$37.3 million at October 31, 2007. This increase is primarily due to a \$13.9 million increase in total assets in connection with the acquisition of SMP Data Communications (see note 2). The increase in total assets was also due to a \$1.7 million increase in inventories, an \$846,000 increase in note receivable, and a \$766,000 increase in cash and cash equivalents, exclusive of the effects of the acquisition of SMP Data Communications. Further detail regarding the increase in cash and cash equivalents is provided in our discussion of "Liquidity and Capital Resources." The increase in inventory resulted mainly from efforts to maintain optimal stocking levels for manufacturing efficiencies. The increase in note receivable is the result of advances made by us to a start-up connector company (see Liquidity and Capital Resources herein).

Total liabilities increased \$14.7 million or 277.3% to \$20.0 million at October 31, 2008, from \$5.3 million at October 31, 2007. This increase was primarily due to the \$11.0 million increase in long-term debt, \$8.7 million of which pertains to monies borrowed to acquire SMP Data Communications on May 30, 2008 (see note 2) and \$2.3 million of which pertains to monies borrowed in October 2008 as a precautionary measure to ensure adequate cash flow for the Company due to uncertain economic conditions relative to the stability of the financial institutions in the United States, together with a \$2.1 million increase in liabilities (exclusive of deferred taxes) related liabilities assumed in the acquisition of SMP Data Communications (see note 2). The increase in total liabilities was also due to a \$1.3 million increase in accounts payable and accrued expenses (including accrued compensation and payroll taxes) exclusive of the acquisition, largely due to an increase in the accrual for employee performance-based incentives based on our financial results during fiscal year 2008.

Total shareholders' equity at October 31, 2008 increased \$2.9 million, or 8.9% during fiscal year 2008. The increase resulted from net income retained of \$2.2 million and share-based compensation totaling \$679,000, partially offset by the repurchase and retirement of 9,100 shares of our common stock for \$37,000.

Liquidity and Capital Resources

Our primary capital needs during fiscal year 2008 have been to fund working capital requirements, capital expenditures, advances to a start-up connector company described further herein, and the acquisitions of SMP Data Communications and Majority-owned Subsidiary (see note 2). Our primary source of capital for these purposes has been existing cash and cash equivalents, cash provided by operations and our bank credit facilities. As of October 31, 2008, we had outstanding loan balances under three of our credit facilities totaling \$11.0 million. As of October 31, 2007, we had no outstanding loan balance under our bank credit facilities.

Our cash totaled \$3.9 million as of October 31, 2008, an increase of \$771,000, compared to \$3.1 million as of October 31, 2007. The increase in cash for the fiscal year ended October 31, 2008, primarily resulted from net cash provided by operating activities of \$3.2 million and proceeds of \$2.3 million from a loan used as a precautionary measure to ensure adequate cash flow for the Company due to uncertain economic conditions relative to the stability of financial institutions in the United States, partially offset by the acquisition of SMP Data Communications. When we acquired SMP Data Communications, we paid \$1.9 million of the purchase price from existing cash and borrowed \$8.7 million for the remainder of the purchase price. Other transaction costs associated with the acquisition, totaling \$769,000, were paid from existing cash and cash equivalents and cash provided by operations. The decrease in cash also resulted from capital expenditures totaling \$1.2 million and advances under a note receivable (described further herein) totaling \$846,000.

On October 31, 2008, we had working capital of \$23.8 million, compared to \$15.9 million as of October 31, 2007. The ratio of current assets to current liabilities as of October 31, 2008, was 3.9 to 1 compared to 4.3 to 1 as of October 31, 2007. The increase in working capital during fiscal year 2008 was primarily due to increases in current assets and current liabilities as a result of the acquisition of SMP Data Communications as described further in the section entitled "Acquisitions" set forth above.

Net Cash

Net cash provided by operating activities was \$3.2 million in fiscal year 2008 compared to net cash provided by operating activities of \$6.0 million in fiscal year 2007, and net cash used in operating activities of \$58,000 in fiscal year 2006.

Net cash provided by operating activities during fiscal year 2008 primarily resulted from net income of \$2.2 million and certain adjustments to reconcile net income to net cash provided by operating activities, including depreciation and amortization of \$2.3 million and share-based compensation expense of \$679,000, offset by a deferred tax benefit of \$832,000. Additionally, the increase in accounts payable and accrued expenses (including accrued compensation and payroll taxes) totaling \$1.2 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 an increase in inventories of \$1.7 million.

Net cash provided by operating activities during fiscal year 2007 primarily resulted from net income of \$1.3 million and certain adjustments to reconcile net income to net cash provided by operating activities, including depreciation and amortization of \$1.6 million and share-based compensation expense of \$732,000. Additionally, the decrease in inventories totaling \$1.3 million and the increase in accounts payable and accrued expenses (including accrued compensation and payroll taxes) totaling \$1.7 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 an increase in accounts receivable, net of \$883,000. The increase in accounts receivable, net resulted from increased sales generated in the fourth quarter of fiscal year 2007 when compared to fiscal year 2006.

Net cash used in operating activities during fiscal year 2006 primarily resulted from certain adjustments to reconcile net income to net cash used in operating activities, including depreciation and amortization of \$1.4 million and share-based compensation expense of \$733,000, offset by a decrease in accrued compensation and payroll taxes totaling \$1.3 million and a decrease in accounts payable and accrued expenses totaling \$858,000.

Share-based compensation expense increased compared to 2005 as a result of the adoption of SFAS 123(R) and the January 28, 2006 restricted stock grant while accrued compensation decreased compared to 2005 as a result of decreases in employee incentives due to the fact that the financial results during fiscal year 2006 were less favorable than planned.

Net cash used in investing activities totaled \$13.3 million in fiscal year 2008 compared to \$2.0 million in fiscal year 2007 and \$3.6 million in 2006. Net cash used in investing activities during fiscal year 2008 resulted from the acquisition of SMP Data Communications, purchases of property and equipment and advances made to a start-up company described further herein. Net cash used in investing activities during fiscal years 2007 and 2006 resulted primarily from purchases of property and equipment, deposits for the purchase of property and equipment and advances made to a start-up company described further herein.

Net cash provided by financing activities was \$10.8 million in fiscal year 2008 compared to net cash used in financing activities of \$1.4 million in fiscal year 2007 and net cash provided by financing activities of \$878,000 in fiscal year 2006. Net cash provided by financing activities in fiscal year 2008 resulted from proceeds from notes payable to our bank under our credit facilities in the amount of \$11.0 million. Net cash used in financing activities in fiscal year 2007 resulted from repayment of a note payable to our bank under one of our lines of credit in the amount of \$991,000 and the repurchase and retirement of 141,273 shares of our common stock for \$723,000, partially offset by proceeds received from the exercise of warrants to purchase our common stock totaling \$281,000. Net cash provided by financing activities in fiscal year 2006 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 former credit facility and obtaining our new credit facilities.

AOS Loan

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 was incorporated in December 2003. The Borrower currently has limited revenues and assets and is incurring net losses. As of October 31, 2008, total assets of the Borrower, based on unaudited financial information, was equivalent to approximately 6.5% of our consolidated total assets. As of October 31, 2007, total assets of the Borrower, based on audited financial information, was equivalent to approximately 5.2% of our consolidated total assets. Total revenue of the Borrower, based on unaudited financial information, was equivalent to approximately 10.5% of our net sales for the year ended October 31, 2008. Total revenue of the Borrower, based on audited financial information was equivalent to approximately 6.7% of our net sales for the year ended October 31, 2007.

Our loan to, and the related transactions with, the Borrower was and is part of a strategy to preserve future options for us with respect to (i) expansion of our product line offering, (ii) additional channels to market for military and harsh environment fiber optic cable products, and (iii) responding to potential changes to existing strategic partnerships as deemed necessary or appropriate by management in reaction to changes in the competitive landscape (specifically with respect to fiber optic cable products for the military and harsh environment applications).

Through October 31, 2008 and 2007, we had advanced a total of \$4.3 million and \$3.5 million, net (including accrued interest and accounts receivable from product sales), respectively, to the Borrower. The note receivable, which, as extended, matures January 31, 2009, 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 \$1.5 million. 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 or extended prior to January 31, 2009. We did not make any additional advances to the Borrower subsequent to October 31, 2008.

The loan from the Borrower meets the definition of an impaired loan in accordance with Statement of Financial Accounting Standards No. 114 *Accounting by Creditors for Impairment of a Loan, as amended* due to the fact that the original maturity date has been extended and periodic interest payments have not been made according to the original terms of the agreement.

We obtained a valuation of the collateral and have determined that no recognition of an impairment charge is necessary based on the fair value of the collateral. Nonetheless, we discontinued recognizing interest income beginning in the third quarter of fiscal year 2006 related to the loan based on uncertainty as to when the interest would be collected and we have provided an allowance for certain interest income amounts that were recorded as advances on the loan previously.

The recorded investment in the impaired note receivable is \$4.4 million and \$3.5 million as of October 31, 2008 and 2007, respectively. The related allowance for doubtful accounts is \$58,000 as of October 31, 2008 and 2007, respectively. There were no additions or write-downs charged to bad debt expense for the year ended October 31, 2008 or 2007.

Valley Bank Credit Facilities

On May 30, 2008, we established \$17.0 million in credit facilities (collectively, the "Credit Facilities") with Valley Bank to provide for our working capital needs and to finance the acquisition of SMP Data Communications. The new Credit Facilities provide a working capital line of credit (the "Revolving Loan"), a real estate term loan (the "Virginia Real Estate Loan"), a supplemental real estate term loan (the "North Carolina Real Estate Loan"), and a capital acquisitions term loan (the "Capital Acquisitions Term Loan"). Of our \$17.0 million in total credit facilities we currently have approximately \$6.0 million unused and available.

The Revolving Loan provides up to \$6.0 million for our working capital needs and bears interest at LIBOR plus 2.15%, but provides a lower rate option if we maintain specific depository amounts with Valley Bank. We may borrow up to 85% of our consolidated eligible accounts receivable, (excluding foreign accounts receivable), plus 35% of certain consolidated uninsured foreign receivables (or 100% of insured foreign receivables, without duplication) up to a maximum of \$1,500,000 plus 25% of our consolidated eligible inventory. The Revolving Loan expires on February 28, 2010. As of October 31, 2008, we had no outstanding borrowings under our Revolving Loan and \$6.0 million in available credit.

The Virginia Real Estate Loan provides up to \$6.5 million and was fully funded on May 30, 2008. The Virginia Real Estate Loan accrues interest at 6% and payments of principal and interest are based on a 25 year amortization. Payments on The Virginia Real Estate Loan will be made in 59 equal installments of principal and interest in the amount of \$42,241 for the period from July 1, 2008 through May 1, 2013. The balance of the Virginia Real Estate Loan will be due June 1, 2013. As of October 31, 2008, we had outstanding borrowings of \$6.5 million under our Virginia Real Estate Loan.

The North Carolina Real Estate Loan provides up to \$2,240,000 and was fully funded on May 30, 2008. The North Carolina Real Estate Loan accrues interest at 6% and payments of principal and interest are based on a 25 year amortization. Payments on the North Carolina Real Estate Loan will be made in 59 equal installments of principal and interest in the amount of \$14,557 for the period from July 1, 2008 through May 1, 2013. The balance of the North Carolina Real Estate Loan will be due June 1, 2013. As of October 31, 2008, we had outstanding borrowings of \$2.2 million under our North Carolina Real Estate Loan.

The Capital Acquisitions Term Loan provides up to \$2,260,000 and was fully funded on October 6, 2008 as a precautionary measure to ensure adequate cash flow for us due to uncertain economic conditions relative to the stability of the financial institutions in the United States. The Capital Acquisitions Term Loan bears interest at a

fixed rate of 6% and principal and interest payments are amortized over 7 years. Payments on the Capital Acquisitions Term Loan are for interest only for the period from October 6, 2008 through May 1, 2009. The outstanding principal on May 31, 2009 will convert to 72 equal payments of principal and interest, commencing on July 1, 2009. As of October 31, 2008, we had outstanding borrowings of \$2.3 million on our Capital Acquisitions Term Loan.

The Credit Facilities are secured by a first priority lien on all of our personal property and assets as well as a first lien deed of trust on our real property, in both cases including the assets of the Company's subsidiary, SMP Data Communications.

Capital Expenditures

We did not have any material commitments for capital expenditures as of October 31, 2008. During our 2008 fiscal year budgeting process, we included an estimate for capital expenditures for the year of \$2.0 million. We actually incurred capital expenditures totaling \$1.2 million, excluding the acquisition of subsidiaries, for items including new manufacturing equipment, improvements to existing manufacturing equipment, new information technology equipment and software, upgrades to existing information technology equipment and software, furniture and other capitalizable expenditures for property, plant and equipment for fiscal year 2008. We estimate capital expenditures to be \$2.0 million in fiscal year 2009. These expenditures will be funded out of our working capital or our existing credit facilities. This amount includes estimates for capital expenditures for similar types of items as those purchased in fiscal year 2008. Capital expenditures are reviewed and approved based on a variety of factors including, but not limited to, current cash flow considerations, the expected return on investment, project priorities, impact on current or future product offerings, availability of personnel necessary to implement and begin using acquired equipment, and economic conditions in general. Historically, we have spent less than our budgeted capital expenditures in any given year.

Corporate acquisitions and other strategic investments are considered outside of our annual capital expenditure budgeting process. On August 1, 2008, we acquired 70% of the authorized membership interests of a limited liability company focused on sales turnkey cabling and connectivity solutions for the datacenter market. Of the total purchase price for our membership interest of \$1.5 million, all but \$300,000 had been paid as of October 31, 2008. This remaining payment is scheduled to be paid on April 1, 2009.

Future Cash Flow Considerations

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.

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, our trend has been that an average of approximately 45% of our net sales occurred during the first half of the fiscal year and an average of approximately 55% of our net sales occurred during the second half of the fiscal year for fiscal years 1996 through 2008, excluding fiscal years 2001 and 2002. Fiscal years 2001 and 2002 are excluded because we believe net sales 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. 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. Since fiscal year 2001, we have seen that 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.

Critical Accounting Policies and Estimates

Our discussion and analysis of financial condition and results of operations is based on the consolidated financial statements and accompanying notes that have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these consolidated 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 consolidated 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 consolidated financial statements 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, commitments and contingencies and business combinations.

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. The estimates for sales returns did not materially differ from actual results for the year ended October 31, 2008.

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 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 amortize or 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.

The Company records intangible assets acquired in accordance with Statement of Financial Standards No. 142, Goodwill and Intangible Assets ("SFAS 142"). In accordance with SFAS 142, the Company amortizes intangible assets over their respective finite lives up to their estimated residual values.

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.

Business Combinations

For purchase acquisitions accounted for as a business combination, the Company is required to record the assets acquired, including identified intangible assets and liabilities assumed at their fair value, which in many instances involves estimates based on third party valuations, such as appraisals, or internal valuations based on discounted cash flow analyses or other valuation techniques. For additional discussion concerning our valuation of intangible assets, see note 7 Intangible Assets and Royalty Income, net.

Quantitative and Qualitative Disclosures About Market Risk

We do not engage in transactions in derivative financial instruments or derivative commodity instruments. As of October 31, 2008, 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.

Future Accounting Considerations

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, but has been delayed for treatment of non-financial assets and liabilities until fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. We are currently evaluating the impact of SFAS No. 157.

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.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141(R), *Business Combinations* (“SFAS 141(R)”). SFAS 141(R) requires all business combinations completed after the effective date to be accounted for by applying the acquisition method (previously referred to as the purchase method). Companies applying this method will have to identify the acquirer, determine the acquisition date and purchase price and recognize at their acquisition-date fair values the identifiable assets acquired, liabilities assumed, and any noncontrolling interests in the acquiree. In the case of a bargain purchase, the acquirer is required to reevaluate the measurements of the recognized assets and liabilities at the acquisition date and recognize a gain on that date if an excess remains. SFAS 141(R) becomes effective for acquisitions during fiscal annual reporting periods beginning after December 15, 2008. We are currently evaluating the impact of SFAS 141(R).

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB 51* (“SFAS 160”). SFAS 160 amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. The statement requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure on the face of the consolidated statement of income, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. In addition, this statement establishes a single method of accounting for changes in a parent’s ownership interest in a subsidiary that do not result in deconsolidation and requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. SFAS 160 becomes effective for fiscal periods beginning after December 15, 2008. We are currently evaluating the impact of SFAS 160.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an Amendment of FASB Statement No. 133* (“SFAS 161”). SFAS 161 amends and expands the disclosure requirements of SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, in order to provide users of financial statements with an enhanced understanding of (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and (c) how derivative instruments and related hedge items affect an entity’s financial position, financial performance, and cash flows. The statement requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk related contingent features in derivative agreements. SFAS 161 is effective for fiscal years beginning after November 15, 2008. The adoption of the Statement is not expected to have any impact on our results of operations, financial position or liquidity.

In April 2008, the FASB issued FASB Staff Position No. 142-3, *Determination of the Useful Life of Intangible Assets* (“FSP 142-3”). FSP 142-3 amends the factors that an entity should consider in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. FSP 142-3 requires an entity to consider its own historical experience in renewing or extending the term of the arrangement, consistent with its expected use of the asset. In the absence of historical experience, an entity should consider assumptions that market participants would use about renewal or extension as adjusted for entity-specific factors. FSP 142-3 is effective for fiscal years beginning 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.

In May 2008, the FASB issued Statement of Financial Accounting Standards No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (“SFAS 162”). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements or nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. The Statement will be effective 60 days following the SEC’s approval of the PCAOB’s amendments to AU Section 11, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*. The adoption of the Statement is not expected to have any impact on our results of operations, financial position or liquidity.

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.

Disagreements with Accountants

We did not have any disagreements with our accountants on any accounting or financial disclosure made during our fiscal year ended October 31, 2008.

Consolidated Balance Sheets

October 31, 2008 and 2007

	October 31,	
	2008	2007
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,910,120	\$ 3,138,878
Trade accounts receivable, net of allowance for doubtful accounts of \$150,941 in 2008 and \$246,803 in 2007	12,034,547	9,056,964
Other receivables	868,359	199,985
Income taxes refundable	63,102	—
Inventories	13,022,260	7,340,370
Prepaid expenses and other assets	539,448	371,194
Deferred income taxes	1,484,798	707,388
Total current assets	31,922,634	20,814,779
Property and equipment, net	16,128,657	12,896,564
Note receivable	4,336,280	3,490,677
Intangible assets, net	2,250,365	—
Other assets, net	199,049	79,220
Total assets	\$ 54,836,985	\$ 37,281,240
Liabilities and Shareholders' Equity		
Current liabilities:		
Current installments of long-term debt	\$ 262,122	\$ —
Accounts payable and accrued expenses	5,218,702	2,968,620
Accrued compensation and payroll taxes	2,677,104	1,495,294
Income taxes payable	—	413,664
Total current liabilities	8,157,928	4,877,578
Long-term debt, excluding current installments	10,690,979	—
Deferred income taxes - noncurrent	946,752	425,188
Other noncurrent liabilities	209,122	—
Total liabilities	20,004,781	5,302,766
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 6,208,861 shares in 2008 and 6,090,331 shares in 2007	4,362,267	3,683,754
Retained earnings	30,469,937	28,294,720
Total shareholders' equity	34,832,204	31,978,474
Commitments and contingencies		
Total liabilities and shareholders' equity	\$ 54,836,985	\$ 37,281,240

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income
Years ended October 31, 2008, 2007 and 2006

	Years ended October 31,		
	2008	2007	2006
Net sales	\$60,998,083	\$45,502,705	\$45,330,397
Cost of goods sold	36,837,994	28,332,900	29,908,252
Gross profit	24,160,089	17,169,805	15,422,145
Selling, general and administrative expenses	20,642,130	15,299,861	14,900,094
Royalty income, net	(635,638)	—	—
Amortization of intangible assets	469,417	—	—
Income from operations	3,684,180	1,869,944	522,051
Other income (expense), net:			
Interest income	99,415	119,238	38,324
Interest expense	(246,538)	(98,382)	(48,449)
Other, net	(23,577)	27,166	(9,123)
Other income (expense), net	(170,700)	48,022	(19,248)
Income before income taxes	3,513,480	1,917,966	502,803
Income tax expense	1,301,728	665,328	152,173
Net income	<u>\$ 2,211,752</u>	<u>\$ 1,252,638</u>	<u>\$ 350,630</u>
Net income per share:			
Basic and diluted	<u>\$ 0.36</u>	<u>\$ 0.21</u>	<u>\$ 0.06</u>

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity
Years ended October 31, 2008, 2007 and 2006

	<u>Common Stock</u>		<u>Retained Earnings</u>	<u>Total Shareholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>		
Balances at October 31, 2005	5,800,975	\$1,930,944	\$27,413,967	\$29,344,911
Share-based compensation, net	205,701	732,861	—	732,861
Exercise of warrants (\$4.88 per share)	1,340	6,538	—	6,538
Net income	—	—	350,630	350,630
Balances at October 31, 2006	6,008,016	2,670,343	27,764,597	30,434,940
Share-based compensation, net	166,016	732,458	—	732,458
Repurchase and retirement of common stock (at cost)	(141,273)	—	(722,515)	(722,515)
Exercise of warrants (\$4.88 per share)	57,572	280,953	—	280,953
Net income	—	—	1,252,638	1,252,638
Balances at October 31, 2007	6,090,331	3,683,754	28,294,720	31,978,474
Share-based compensation, net	127,630	678,513	—	678,513
Repurchase and retirement of common stock (at cost)	(9,100)	—	(36,535)	(36,535)
Net income	—	—	2,211,752	2,211,752
Balances at October 31, 2008	<u>6,208,861</u>	<u>\$4,362,267</u>	<u>\$30,469,937</u>	<u>\$34,832,204</u>

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows
Years ended October 31, 2008, 2007 and 2006

	Years ended October 31,		
	2008	2007	2006
Cash flows from operating activities:			
Net income	\$ 2,211,752	\$ 1,252,638	\$ 350,630
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	2,282,878	1,603,741	1,400,498
Bad debt expense (recovery)	(42,023)	28,197	(89,116)
Deferred income tax expense (benefit)	(831,816)	286,512	(165,173)
Share-based compensation expense	678,513	732,458	732,861
Loss on disposal of machinery and equipment	—	1,255	—
(Increase) decrease in:			
Trade accounts receivable	172,363	(883,440)	(298,276)
Other receivables	(283,710)	(84,161)	42,516
Income taxes refundable	(63,102)	—	—
Inventories	(1,740,412)	1,274,501	91,210
Prepaid expenses and other assets	(124,098)	80,472	(67,222)
Accrued interest on note receivable	—	—	(36,393)
Other assets, net	(64,769)	133,953	147,629
Increase (decrease) in:			
Accounts payable and accrued expenses	89,278	977,341	(858,077)
Accrued compensation and payroll taxes	877,881	733,709	(1,337,571)
Income taxes payable	(413,664)	(140,325)	28,649
Other noncurrent liabilities	209,122	—	—
Net cash provided by (used in) operating activities	<u>2,958,193</u>	<u>5,996,851</u>	<u>(57,835)</u>
Cash flows from investing activities:			
Purchase of and deposits for the purchase of property and equipment	(1,245,923)	(829,739)	(2,290,372)
Investment in other assets	—	—	(136,376)
Note receivable	(845,603)	(1,151,220)	(1,128,150)
Acquisition of subsidiary, net of cash acquired	(11,218,229)	—	—
Net cash used in investing activities	<u>(13,309,755)</u>	<u>(1,980,959)</u>	<u>(3,554,898)</u>
Cash flows from financing activities:			
Outstanding checks in excess of funds on deposit	279,520	—	—
Proceeds from long-term debt and notes payable to bank	11,000,000	—	990,724
Repayment of long-term debt and notes payable to bank	(46,899)	(990,724)	—
Payments for financing costs	(73,282)	—	(119,390)
Repurchase of common stock	(36,535)	(722,515)	—
Proceeds from exercise of warrants	—	280,953	6,538
Net cash provided by (used in) financing activities	<u>11,122,804</u>	<u>(1,432,286)</u>	<u>877,872</u>
Net increase (decrease) in cash and cash equivalents	771,242	2,583,606	(2,734,861)
Cash and cash equivalents at beginning of year	3,138,878	555,272	3,290,133
Cash and cash equivalents at end of year	<u>\$ 3,910,120</u>	<u>\$ 3,138,878</u>	<u>\$ 555,272</u>
Supplemental disclosure of cash flow information:			
Cash payments for interest	<u>\$ 180,292</u>	<u>\$ 4,991</u>	<u>\$ 10,425</u>
Income taxes paid, net	<u>\$ 2,435,961</u>	<u>\$ 519,142</u>	<u>\$ 288,697</u>
Noncash investing and financing activities:			
Capital expenditures accrued in accounts payable	<u>\$ 75,652</u>	<u>\$ 8,257</u>	<u>\$ 117,081</u>

See accompanying notes to consolidated financial statements.

(1) Description of Business and Summary of Significant Accounting Policies

(a) Description of Business

Optical Cable Corporation and its subsidiaries (collectively, the “Company”) is a leading manufacturer of a broad range of fiber optic and copper data communication cabling and connectivity solutions, primarily for the enterprise market, offering an integrated suite of high quality, warranted products. The Company’s product offerings include designs for uses ranging from commercial, enterprise network, datacenter, residential and campus installations to customized products for specialty applications, and harsh environments, including military, industrial, mining and broadcast applications.

On May 30, 2008, Optical Cable Corporation acquired Superior Modular Products Incorporated, doing business as SMP Data Communications (“SMP Data Communications”). Founded in 1990, SMP Data Communications is a wholly owned subsidiary of Optical Cable Corporation that develops copper and fiber passive connectivity hardware components for use in the enterprise market, including a broad range of commercial and residential applications.

On August 1, 2008, Optical Cable Corporation acquired 70% of the authorized membership interests of Centric Solutions LLC (“Majority-owned Subsidiary”). Majority-owned Subsidiary is a start-up business founded in 2008 to provide turnkey cabling and connectivity solutions for the datacenter market.

The Company’s cabling and connectivity products are used for high bandwidth transmission of data, video and audio communications. The enterprise market into which the Company primarily sells its products, includes local area network and premises markets. The Company’s product offering includes products well-suited for use in various other short- to moderate-distance applications as well. The Company’s products are sold worldwide. Also see note 11.

(b) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Optical Cable Corporation and its wholly owned and majority-owned subsidiaries (collectively, the “Company”). All significant intercompany balances and transactions have been eliminated in consolidation.

(c) Cash and Cash Equivalents

All of the Company’s cash accounts are insured by the Federal Deposit Insurance Corporation (FDIC). As of October 31, 2008 and 2007, the Company had bank deposits in excess of the insured limit totaling \$2,499,319 and \$3,038,578, respectively.

Outstanding checks in excess of funds on deposit (bank overdrafts) totaled \$279,520 as of October 31, 2008 and are included in accounts payable and accrued expenses in the accompanying consolidated balance sheet as of October 31, 2008. There were no outstanding checks in excess of funds on deposit as of October 31, 2007.

For purposes of the statements of cash flows, the Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. As of October 31, 2008 and 2007, the Company had cash equivalents, in the form of overnight repurchase agreements and money market funds, totaling \$4.0 million and \$3.5 million, respectively.

(d) Trade Accounts Receivable and Allowance for Doubtful Accounts

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.

(e) Inventories

Inventories are stated at the lower of cost (first-in, first-out basis, except for optical fibers for which specific identification is used) or market, or net realizable value. The determination of cost includes raw materials, direct labor and manufacturing overhead. The cost of optical fibers, included in raw materials, is determined using specific identification for optical fibers. The cost of work in process and finished goods inventories is determined either as average cost or standard cost, depending upon the product type. A standard cost system is used to estimate the actual costs of inventory for certain product types. Actual costs and production cost levels may vary from the standards established and such variances are charged to cost of goods sold or capitalized to inventory. Also see note 4.

(f) Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization are provided for using both straight-line and declining balance methods over the estimated useful lives of the assets. Estimated useful lives are thirty to thirty-nine years for buildings and three to seven years for building improvements, machinery and equipment and furniture and fixtures. Also see note 6.

External direct costs of materials and services consumed in developing or obtaining internal use computer software; payroll and payroll-related costs for employees who are directly associated with and who devote time to an internal use computer software project, to the extent of the time spent directly on the project; and interest costs incurred when developing computer software for internal use are capitalized. Capitalized software development costs were approximately \$246,000 and approximately \$263,000 as of October 31, 2008 and 2007, respectively.

(g) Revenue Recognition

The Company recognizes revenue when products are shipped or delivered to the customer and the customer takes ownership and assumes risk of loss (based on shipping terms), collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and sales price is fixed or determinable. Customers generally do not have the right of return unless a product is defective or damaged and is within the parameters of the product warranty in effect for the sale.

The Company recognizes royalty income, net of related expenses, on an accrual basis and estimates royalty income earned based on historical experience.

(h) Shipping and Handling Costs

Shipping and handling costs include the costs incurred to physically move finished goods from the Company's warehouse to the customers' designated location and the costs to store, move and prepare the finished goods for shipment. All amounts billed to a customer in a sales transaction related to shipping and handling are classified as sales revenue. Shipping and handling costs of approximately \$2,373,000, \$1,853,000 and \$1,980,000 are included in selling, general and administrative expenses for the years ended October 31, 2008, 2007 and 2006, respectively.

(i) Research and Development

Research and development costs are expensed as incurred. Research and development costs totaled \$528,000 for the fiscal year ended October 31, 2008, and are included in selling, general and administrative expenses in the consolidated statements of income. There were no significant research and development costs for the fiscal years ended October 31, 2007 and 2006.

(j) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss, capital loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Also see note 12.

Beginning with the adoption of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, ("FIN 48") as of November 1, 2007, the Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. Prior to the adoption of FIN 48, the Company recognized the effect of income tax positions only if such positions were probable of being sustained. The Company records interest and penalties related to unrecognized tax benefits as a component of income tax expense.

(k) Impairment or Disposal of Long-Lived Assets

Long-lived assets, such as property and equipment and purchased intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. When applicable, assets to be disposed of are reported separately in the consolidated balance sheet at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated.

(l) Stock Option Plan and Other Share-Based Compensation

Effective November 1, 2005, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123(R), *Share Based Payment*, ("SFAS 123(R)") and related

interpretations, using the modified prospective method. SFAS 123(R) requires companies to recognize the cost of employee services received in exchange for awards of equity instruments based upon the grant-date fair value of those awards. Using the modified prospective method of adopting SFAS 123(R), the Company began recognizing compensation expense beginning in its fiscal year 2006 for the remaining unvested portions of stock option awards granted prior to November 1, 2005. All such stock option awards were granted prior to July 2002.

(m) Net Income Per Share

Basic net income per share excludes dilution and is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted net income 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 of the Company. Also see note 14.

(n) Commitments and Contingencies

Liabilities for loss contingencies arising from product warranties and defects, claims, assessments, litigation, fines and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment can be reasonably estimated.

(o) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(2) Business Combinations

On May 30, 2008, the Company acquired all of the common stock of Superior Modular Products Incorporated, doing business as SMP Data Communications from Preformed Line Products Company ("PLP"), for a purchase price of \$11.5 million, subject to certain minimum working capital requirements and related purchase price adjustments. SMP Data Communications is a leading supplier of fiber optic and copper connectivity products for the data communications industry and has office, manufacturing and warehouse facilities located near Asheville, North Carolina. With the acquisition of SMP Data Communications, the Company now has the fiber optic and copper connectivity products necessary for it to offer an integrated suite of high quality cabling and connectivity solutions to its customers world-wide.

The acquisition was accounted for under Statement of Financial Accounting Standards No. 141, *Business Combinations* ("SFAS 141"), and therefore the results of operations of SMP Data Communications are included in consolidated results of operations since May 31, 2008. The Company estimated the fair value of the net assets acquired of \$15.9 million which represented an excess of the value of the identified net tangible and intangible assets acquired of \$4.7 million over the total acquisition cost of \$11.2 million (which consists of the agreed upon purchase price of \$11.5 million, less \$1,045,121 in working capital adjustments, plus transaction costs of \$769,054). In accordance with SFAS 141, the excess fair market value of net assets over the total acquisition cost (or negative goodwill) was used to reduce the carrying value of long-term assets, including property and equipment, patents and other intangibles. As more fully discussed in note 9, the Company utilized bank financing to partially fund the acquisition.

The Company records goodwill and intangible assets in accordance with Statement of Financial Standards No. 142, *Goodwill and Intangible Assets* ("SFAS 142"). The Company accounts for

intangible assets in accordance with SFAS 142 which requires that intangible assets with indefinite useful lives not be amortized, but instead be tested for impairment at least annually or whenever changes in circumstances indicate that the carrying value of the intangible asset may not be recoverable. SFAS 142 also requires the Company to amortize intangible assets over their respective finite lives up to their estimated residual values.

The following table summarizes the aggregate estimated fair values of the assets and liabilities acquired in the transaction, net of allocated reductions required by SFAS 142 for estimated excess fair value of assets and liabilities over the total acquisition cost (negative goodwill):

Accounts receivable, net	\$ 3,107,923
Property and equipment	3,711,690
Inventories	3,941,478
Intangible assets	2,719,782
Other assets, including cash of \$5,705	428,592
Total assets	<u>\$13,909,465</u>
Accounts payable and accrued expenses	1,805,632
Accrued compensation and payroll taxes	303,929
Deferred income taxes, net	575,970
Total liabilities	<u>\$ 2,685,531</u>
Total net assets	<u>\$11,223,934</u>

The Company is continuing to evaluate the purchase price allocations and will adjust the allocations relative to the fair market values of the assets and liabilities, as necessary, during fiscal year 2009.

Presented below is the pro forma impact on the unaudited results of operations for the years ended October 31, 2008 and 2007 as though the transaction was completed as of November 1, 2007 and 2006, respectively. The pro forma adjustments include the amortization of the fair market value adjustments to property and equipment, patents and other intangibles; the turn of inventory adjusted to fair value; and the estimated interest cost related to the transaction, all reduced by the estimated income tax benefits.

SMP Data Communications previously reported on a calendar year basis and its results of operations are included in the fiscal year pro forma information for its year ended December 31, 2007, combined with the results of operations of Optical Cable Corporation for its fiscal year ended October 31, 2007. Therefore, the results of SMP Data Communications for the two months ended December 31, 2007 are included in the pro forma results for both fiscal years.

Total sales and net income for these two months totaled \$3.4 million (unaudited) and \$101,000 (unaudited), respectively.

	Years ended October 31,	
	2008	2007
	(in 000s, except per share data) (unaudited)	
Net sales	\$ 72,756	\$ 67,055
Gross profit	26,708	21,049
SG&A expenses	23,548	20,779
Royalty income, net	1,480	1,930
Amortization of intangible assets	958	958
Other expense, net	486	463
Income taxes	1,224	275
Net income	1,972	504
Net income per share (basic and diluted)	\$ 0.33	\$ 0.08

On August 1, 2008, Optical Cable Corporation acquired 70% of the authorized membership interests of the Majority-owned Subsidiary. Majority-owned Subsidiary is a start-up business founded in 2008 to provide turnkey cabling and connectivity solutions to the datacenter market. Optical Cable Corporation's total investment, including a \$300,000 installment to be paid in 2009, was \$1.5 million. For the three months ended October 31, 2008, the Majority-owned Subsidiary generated no revenues and incurred operating losses, net of taxes, of \$254,944 all of which were absorbed by the Company in consolidation as the owners of the minority interests do not currently have positive equity accounts required by the Operating Agreement to enable them to share in operating losses. Total assets of the Majority-owned Subsidiary of approximately \$1.3 million are included in the total consolidated assets of the Company. As the Majority-owned Subsidiary had no transactions prior to Optical Cable Corporation's acquisition and did not have a predecessor, the historical or proforma results would be those of the Company.

(3) Allowance for Doubtful Accounts for Trade Accounts Receivable

A summary of changes in the allowance for doubtful accounts for trade accounts receivable for the years ended October 31, 2008, 2007 and 2006 follows:

	Years ended October 31,		
	2008	2007	2006
Balance at beginning of year	\$ 246,803	\$ 238,455	\$ 454,550
Reserves of acquired subsidiary	45,615	—	—
Bad debt expense (recovery)	(42,023)	28,197	(89,116)
Losses charged to allowance	(114,754)	(21,850)	(150,240)
Recoveries added to allowance	15,300	2,001	23,261
Balance at end of year	<u>\$ 150,941</u>	<u>\$ 246,803</u>	<u>\$ 238,455</u>

(4) Inventories

Inventories as of October 31, 2008 and 2007 consist of the following:

	October 31,	
	2008	2007
Finished goods	\$ 3,514,015	\$ 2,484,892
Work in process	3,044,385	1,609,425
Raw materials	6,146,556	3,091,307
Production supplies	317,304	154,746
Total	<u>\$ 13,022,260</u>	<u>\$ 7,340,370</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, including military and other harsh environment applications. The Borrower offers complementary products to the Company's product offering and was incorporated in December 2003. The Borrower currently has limited revenues and assets and is incurring net losses. The Borrower is not yet generating positive operating cash flows. As of October 31, 2008, total assets of the Borrower, based on unaudited financial information was equivalent to approximately 6.5% of the Company's consolidated total assets. As of October 31, 2007, total assets of the Borrower, based on audited 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 10.5% of the Company's consolidated net sales for the fiscal year ended October 31, 2008. Total revenue of the Borrower, based on audited financial information, was equivalent to approximately 6.7% of the Company's net sales for the fiscal year ended October 31, 2007.

The Company's loan to, and related transactions with, the Borrower was and is part of a strategy to preserve future options for the Company with respect to (i) expansion of the Company's product line offering for certain niche markets, (ii) additional channels to market for military and harsh environment fiber optic cable products, and (iii) responding to potential changes to existing strategic partnerships as deemed necessary or appropriate by management in reaction to changes in the competitive landscape (specifically with respect to fiber optic cable products for the military and harsh environment applications).

Through October 31, 2008 and 2007, the Company had advanced a total of \$4,336,280 and \$3,490,677, net (including accrued interest and accounts receivable from product sales), respectively, to the Borrower. The note receivable, which has an extended maturity date of January 31, 2009, 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. The Company did not make any additional advances to the Borrower subsequent to October 31, 2008.

The loan from the Borrower meets the definition of an impaired loan in accordance with Statement of Financial Accounting Standards No. 114 *Accounting by Creditors for Impairment of a Loan, as amended* due to the fact that the original maturity date has been extended and periodic interest payments have not been made according to the original terms of the agreement.

The Company obtained a valuation of the collateral and has determined that no recognition of an impairment charge is necessary based on the fair value of the collateral. Nonetheless, the Company discontinued recognizing interest income beginning in the third quarter of fiscal year 2006 related to the loan based on uncertainty as to when the interest would be collected and the Company has provided an allowance for certain interest income amounts that were recorded as advances on the loan previously.

The recorded investment in the impaired note receivable is \$4,393,981 and \$3,548,378 as of October 31, 2008 and 2007, respectively. The related allowance for doubtful accounts is \$57,701 as of October 31, 2008 and 2007, respectively. There were no additions or write-downs charged to bad debt expense for the year ended October 31, 2008 or 2007.

The Company sold fiber optic cables to the Borrower totaling \$774,765, \$324,999 and \$231,685 during fiscal years 2008, 2007 and 2006, respectively. The Company included \$95,275 related to the sale of product to the Borrower in note receivable in the accompanying consolidated balance sheet as of October 31, 2007. The Company did not include any amount related to fiscal year 2008 sales of product to the Borrower in note receivable in the accompanying consolidated balance sheet as of October 31, 2008. Rather, such amounts are included in trade accounts receivable, to the extent they have not been settled as of October 31, 2008.

As of October 31, 2008, \$324,740 is included in trade accounts receivable, net related to sales by the Company to the Borrower. There are no specifically identified amounts included in the allowance for doubtful accounts related to these trade accounts receivable from the Borrower.

(6) Property and Equipment, Net

Property and equipment, net as of October 31, 2008 and 2007 consists of the following:

	<u>October 31,</u>	
	<u>2008</u>	<u>2007</u>
Land	\$ 3,144,068	\$ 2,745,327
Building and improvements	7,533,523	7,079,308
Machinery and equipment	17,541,015	13,523,790
Furniture and fixtures	944,907	886,606
Construction in progress	498,463	447,204
Total property and equipment, at cost	29,661,976	24,682,235
Less accumulated amortization and depreciation	(13,533,319)	(11,785,671)
Property and equipment, net	<u>\$ 16,128,657</u>	<u>\$ 12,896,564</u>

(7) Intangible Assets

Following is a summary of acquired intangible assets (see note 2) as of October 31, 2008:

	Gross carrying amount	Weighted- average amortization period in years	Accumulated amortization
Amortizing intangible assets:			
Developed technology	\$2,297,804	5	\$ 443,043
Tradenname	229,791	10	14,362
Customer list	192,187	10	12,012
Total	<u>\$2,719,782</u>		<u>\$ 469,417</u>

Aggregate amortization expense for amortizing intangible assets was \$469,417 for the year ended October 31, 2008. Estimated amortization expense for the next five years is: \$832,724 in fiscal year 2009, \$603,273 in fiscal year 2010, \$438,510 in fiscal year 2011, \$136,123 in fiscal year 2012 and \$70,055 in fiscal year 2013. Amortization of intangible assets is calculated using an accelerated method over the estimated useful lives of the intangible assets.

(8) 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 October 31, 2008 and 2007, the Company's accrual for estimated product warranty claims totaled \$210,000 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 for the years ended October 31, 2008, 2007 and 2006 totaled \$401,270, \$102,173 and \$198,869, respectively.

The following table summarizes the changes in the Company's accrual for product warranties during the fiscal years ended October 31, 2008 and 2007:

	Years ended October 31,	
	2008	2007
Balance at beginning of year	\$ 75,000	\$ 75,000
Liabilities accrued for warranties issued during the year	334,152	119,481
Warranty claims paid during the period	(266,270)	(102,173)
Changes in liability for pre-existing warranties during the year	67,118	(17,308)
Balance at end of year	<u>\$ 210,000</u>	<u>\$ 75,000</u>

(9) Long-term Debt and Notes Payable to Bank

On May 30, 2008, the Company established \$17.0 million in credit facilities (collectively, the "Credit Facilities") with Valley Bank to provide for the working capital needs of the Company and to finance the acquisition of SMP Data Communications. The new Credit Facilities provide a working capital line of credit (the "Revolving Loan"), a real estate term loan (the "Virginia Real Estate Loan"), a supplemental real estate term loan (the "North Carolina Real Estate Loan"), and a capital acquisitions term loan (the "Capital Acquisitions Term Loan").

The Revolving Loan provides up to \$6.0 million for the Company's working capital needs and bears interest at LIBOR plus 2.15%, but provides a lower rate option if the Company maintains specific depository amounts with Valley Bank. The Company may borrow up to 85% of the Company's consolidated eligible accounts receivable, (excluding foreign accounts receivable), plus 35% of certain consolidated uninsured foreign receivables (or 100% of insured foreign receivables, without duplication) up to a maximum of \$1,500,000 plus 25% of the Company's consolidated eligible inventory. The Revolving Loan expires on February 28, 2010. As of October 31, 2008, the Company had no outstanding borrowings on its Revolving Loan and \$6.0 million in available credit.

The Virginia Real Estate Loan provides up to \$6.5 million and was fully funded on May 30, 2008. The Virginia Real Estate Loan accrues interest at 6% and payments of principal and interest are based on a 25 year amortization. Payments on the Virginia Real Estate Loan will be made in 59 equal installments of principal and interest in the amount of \$42,241 for the period from July 1, 2008 through May 1, 2013. The balance of the Virginia Real Estate Loan will be due June 1, 2013. As of October 31, 2008, the Company had outstanding borrowings of \$6,465,121 on its Virginia Real Estate Loan.

The North Carolina Real Estate Loan provides up to \$2,240,000 and was fully funded on May 30, 2008. The North Carolina Real Estate Loan accrues interest at 6% and payments of principal and interest are based on a 25 year amortization. Payments on the North Carolina Real Estate Loan will be made in 59 equal installments of principal and interest in the amount of \$14,557 for the period from July 1, 2008 through May 1, 2013. The balance of the North Carolina Real Estate Loan will be due June 1, 2013. As of October 31, 2008, the Company had outstanding borrowings of \$2,227,980 on its North Carolina Real Estate Loan.

The Capital Acquisitions Term Loan provides up to \$2,260,000 and was fully funded on October 6, 2008 as a precautionary measure to ensure adequate cash flow for the Company due to uncertain economic conditions relative to the stability of financial institutions in the United States. The Capital Acquisitions Term Loan bears interest at a fixed rate of 6% and principal and interest payments are amortized over 7 years. Payments on the Capital Acquisitions Term Loan are for interest only for the period from October 6, 2008 through May 1, 2009. The outstanding principal on May 31, 2009 will convert to 72 equal payments of principal and interest, commencing on July 1, 2009. As of October 31, 2008, the Company had outstanding borrowings of \$2,260,000 on its Capital Acquisitions Term Loan.

The aggregate maturities of long-term debt for each of the five years subsequent to October 31, 2008 are: \$262,122 in fiscal year 2009, \$495,464 in fiscal year 2010, \$526,460 in fiscal year 2011, \$557,755 in fiscal year 2012 and \$8,398,853 in fiscal year 2013.

The Credit Facilities are secured by a first priority lien on all of the Company's personal property and assets as well as a first lien deed of trust on the Company's real property, in both cases including the assets of the Company's subsidiary, SMP Data Communications.

(10) Employee Benefits

Health Insurance Coverage

The Company contracts for health insurance coverage for employees and their dependents through third-party administrators. During the years ended October 31, 2008, 2007 and 2006, total expense of \$1,966,818, \$1,550,207 and \$1,468,466, respectively, was incurred under the Company's insured health care program.

401(k) Plan

The Company maintains 401(k) retirement savings plans for the benefit of its eligible employees. Substantially all of the Company's employees who meet certain service and age requirements are eligible to participate in the plans. The Company's plan documents provide that the Company's matching contributions are determined as a percentage of employee contributions or are discretionary. The Company made matching contributions to the plan that were expensed during the Company's fiscal year ended October 31, 2008 totaling \$245,876. The Company made or accrued matching contributions to the plan of \$137,916 and \$137,017 for the years ended October 31, 2007 and 2006, respectively.

Stock Incentives for Key Employees and Non-Employee Directors

Optical Cable Corporation uses stock incentives to increase the personal financial interest key employees and Non-employee Directors 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 and reserved 750,000 shares of common stock for issuance pursuant to the Optical Cable Corporation 1996 Stock Incentive Plan (the "1996 Plan"). No further awards will be made under the 1996 Plan as it terminated in accordance with the terms of the plan document on the tenth anniversary of its effective date of March 1, 1996. 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.

In March of 2005, the Company adopted and the Company's shareholders approved the Optical Cable Corporation 2005 Stock Incentive Plan (the "2005 Plan"). The 2005 Plan is intended to be the successor of the 1996 Plan. The Company has authorized and reserved 1,000,000 shares of common stock for issuance pursuant to the 2005 Plan. As of October 31, 2008, there were approximately 480,000 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 granted to both employees and non-employee members of the Company's Board of Directors) recognized in the consolidated statements of income for the years ended October 31, 2008, 2007 and 2006 was \$761,082, \$831,979 and \$763,609, respectively.

Stock Option Awards

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 vested incrementally over one to five years, and remain exercisable for ten years from the date of grant. All options outstanding are fully vested and exercisable as of October 31, 2008.

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 Option Assumptions

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

Stock option activity for the years ended October 31, 2008, 2007 and 2006 is as follows:

	<u>Number of options</u>	<u>Weighted- average exercise price</u>	<u>Weighted-average remaining contractual term (in yrs)</u>
Stock options outstanding at October 31, 2005	319,483	\$ 19.74	
Forfeited	(83,894)	53.61	
Stock options outstanding at October 31, 2006	235,589	7.68	
Forfeited	(31,133)	7.20	
Stock options outstanding at October 31, 2007	204,456	7.76	
Forfeited	(26,251)	8.87	
Stock options outstanding at October 31, 2008	<u>178,205</u>	\$ 7.59	3.27

As of October 31, 2008, there was no aggregate intrinsic value of options outstanding and options exercisable. 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 \$4.59 as of October 31, 2008, and the exercise price multiplied by the number of options outstanding.

All remaining compensation cost related to stock options granted to employees and non-employees prior to July 2002 was fully recognized in fiscal year 2007. Therefore, the Company did not record compensation expense related to its stock option awards during the fiscal year ended October 31, 2008. Compensation cost related to stock option awards for fiscal years ended October 31, 2007 and 2006 totaled \$28,963 and \$156,448, respectively.

Restricted Stock Awards

The Company has granted (under the 1996 Plan and the 2005 Plan), and anticipates granting from time to time (under the 2005 Plan), restricted stock awards pursuant to approval by the Compensation Committee of the Board of Directors. A portion of the restricted stock awards granted under the 1996 and the 2005 Plans 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. Previously recognized compensation cost on the market condition-based shares will not be reversed if the shares are forfeited as a result of not meeting the market condition.

Restricted Stock Award activity for the years ended October 31, 2008, 2007 and 2006 is as follows:

	Years Ended October 31,		
	2008	2007	2006
<u>1996 and 2005 Plans</u>			
Shares granted	186,178	191,071	230,000
Forfeited or withheld for taxes	74,820	38,819	32,298

The Company recorded total compensation expense related to its restricted stock awards granted to employees totaling \$662,311, \$730,755 and \$567,561 during the fiscal years ended October 31, 2008, 2007 and 2006, respectively.

As of October 31, 2008, 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 \$1.7 million.

In March 2004, the Company adopted and the Company's shareholders approved the 2004 Non-employee Directors Stock Plan (the "Non-employee Directors Stock Plan"). In March 2005, the Company adopted and the Company's shareholders approved amendments to the Non-employee Directors Stock Plan. The Non-employee Directors Stock Plan authorizes the Board of Directors to pay all or a part of director fees, in the form of stock grants, to Board members who are not full-time employees of the Company. The Company has reserved 250,000 shares of common stock for issuance pursuant to awards under the Non-employee Directors Stock Plan. As of October 31, 2008, there were approximately 199,000 remaining shares available for grant under the Non-employee Directors Stock Plan.

During the years ended October 31, 2008, 2007 and 2006, restricted stock awards under the Non-employee Directors Stock Plan totaling 16,272, 13,764 and 8,000 shares, respectively, were approved by the Board of Directors of the Company. The shares vested immediately upon grant, but could not be sold, transferred, pledged, or otherwise encumbered or disposed of until six months after the date of the 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 \$98,771, \$72,261 and \$39,600 during the years ended October 31, 2008, 2007 and 2006, respectively.

(11) Business and Credit Concentrations, Major Customers and Geographic Information

The Company has a single reportable segment for purposes of segment reporting, exclusive of the recently acquired Majority-owned Subsidiary (see note 2).

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 October 31, 2008 and 2007 have been adequately provided for in the consolidated financial statements.

For the year ended October 31, 2008, 11.1%, or approximately \$6,784,000 of consolidated net sales were attributable to one major domestic distributor. No other single customer or distributor accounted for more than 10% of consolidated net sales for the year ended October 31, 2008. As of October 31, 2008, no single customer or distributor had an outstanding balance payable to the Company in excess of 5% of total consolidated shareholders' equity.

For the year ended October 31, 2007, 11.7%, or approximately \$5,331,000 of net sales were attributable to one major domestic distributor. No other single customer or distributor accounted for more than 10% of net sales for the year ended October 31, 2007. As of October 31, 2007, no single customer or distributor had an outstanding balance payable to the Company in excess of 5% of total shareholders' equity.

For the year ended October 31, 2006, 15.7%, or approximately \$7,092,000 of net sales were attributable to one major domestic distributor. No other single customer or distributor accounted for more than 10% of net sales for the year ended October 31, 2006.

For the years ended October 31, 2008, 2007 and 2006, approximately 68%, 72% and 77%, respectively, of net sales were from customers located in the United States, while approximately 32%, 28% and 23%, respectively, were from customers located outside of the United States. Net sales attributable to the United States and all other countries in total for the years ended October 31, 2008, 2007 and 2006 were as follows:

	Years ended October 31,		
	2008	2007	2006
United States	\$ 41,274,479	\$ 32,583,326	\$ 34,800,563
Outside the United States	19,723,604	12,919,379	10,529,834
Total net sales	<u>\$ 60,998,083</u>	<u>\$ 45,502,705</u>	<u>\$ 45,330,397</u>

No individual country outside the United States accounted for more than 10% of total net sales in fiscal years 2008, 2007 or 2006. In addition, none of the Company's long-lived assets are located outside the United States.

(12) Income Taxes

Income tax expense for the years ended October 31, 2008, 2007 and 2006 consists of:

<u>Fiscal year ended October 31, 2008</u>	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
U.S. Federal	\$1,787,990	\$ (763,007)	\$ 1,024,983
State	345,554	(68,809)	276,745
Totals	<u>\$2,133,544</u>	<u>\$ (831,816)</u>	<u>\$ 1,301,728</u>
<u>Fiscal year ended October 31, 2007</u>	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
U.S. Federal	\$ 351,731	\$ 298,671	\$ 650,402
State	27,085	(12,159)	14,926
Totals	<u>\$ 378,816</u>	<u>\$ 286,512</u>	<u>\$ 665,328</u>
<u>Fiscal year ended October 31, 2006</u>	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
U.S. Federal	\$ 294,079	\$ (150,355)	\$ 143,724
State	23,267	(14,818)	8,449
Totals	<u>\$ 317,346</u>	<u>\$ (165,173)</u>	<u>\$ 152,173</u>

Reported income tax expense for the years ended October 31, 2008, 2007 and 2006 differs from the “expected” tax expense, computed by applying the U.S. Federal statutory income tax rate of 34% to income before income taxes as follows:

	Years ended October 31,		
	2008	2007	2006
“Expected” tax expense	\$1,194,583	\$652,108	\$170,954
Increase (reduction) in income tax expense resulting from:			
Benefits from extraterritorial income exclusion	—	(6,800)	(86,620)
Benefits from Sec. 199 manufacturing deduction	(113,119)	(25,567)	(9,525)
State income taxes, net of federal benefit	182,652	9,851	5,576
Other differences, net	37,612	35,736	71,788
Reported income tax expense	<u>\$1,301,728</u>	<u>\$665,328</u>	<u>\$152,173</u>

The tax effects of temporary differences that give rise to significant portions of the Company’s deferred tax assets and deferred tax liabilities as of October 31, 2008 and 2007 are presented below:

	October 31,	
	2008	2007
Deferred tax assets:		
Accounts receivable, due to allowances for doubtful accounts and sales returns	\$ 124,507	\$ 126,159
Inventories, due to allowance for damaged and slow-moving inventories and additional costs inventoried for tax purposes pursuant to the Tax Reform Act of 1986	639,963	412,876
Liabilities recorded for accrued expenses, deductible for tax purposes when paid	629,463	29,136
Share-based compensation expense	110,981	174,593
Interest receivable	184,809	89,563
Investment in Majority-owned Subsidiary	143,822	—
Other	47,673	1,076
Total gross deferred tax assets	<u>1,881,218</u>	<u>833,403</u>
Deferred tax liabilities:		
Plant and equipment, due to differences in depreciation and capital gain recognition	(1,327,749)	(515,769)
Other receivables, due to accrual for financial reporting purposes	(15,423)	(35,434)
Total gross deferred tax liabilities	<u>(1,343,172)</u>	<u>(551,203)</u>
Net deferred tax asset	<u>\$ 538,046</u>	<u>\$ 282,200</u>

Based on the Company’s historical and projected pretax earnings and other relevant factors, management believes that it is more likely than not that the Company’s deferred tax assets at October 31, 2008 will be realized.

Effective November 1, 2007, the Company adopted the Financial Accounting Standards Board (“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. The adoption of FIN 48 did not have a material impact on the Company's financial position, results of operation or liquidity.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

Unrecognized tax benefits balance at November 1, 2007	\$ 45,307
Gross increases for tax positions of prior years	91,224
Gross decreases for tax positions of prior years	—
Settlements	—
Lapse of statute of limitations	—
Unrecognized tax benefits balance at October 31, 2008	<u>\$136,531</u>

As of October 31, 2008 and November 1, 2007, the Company had approximately \$37,818 and \$12,459, respectively, of accrued interest related to uncertain tax positions. Total amount of unrecognized tax benefits that would affect the Company's effective tax rate if recognized is \$88,858 and \$29,518 as of October 31, 2008 and November 1, 2007, respectively. The Company does not expect its unrecognized tax benefits to change significantly in the next 12 months.

The Company files income tax returns in the U.S. federal jurisdiction and in various state jurisdictions. The statute of limitations remains open for U.S. and certain state income tax examinations for tax years 2005 through 2007.

(13) Fair Value of Financial Instruments

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, trade accounts receivable, income taxes refundable, other receivables, accounts payable and accrued expenses, including accrued compensation and payroll taxes, income taxes payable and the current installments of long-term debt, approximate fair value because of the short maturity of these instruments. The carrying value of the Company's long-term debt, excluding current installments, approximates the fair value based on similar long-term debt issues available to the Company as of October 31, 2008.

(14) Net Income Per Share

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

<u>Fiscal year ended October 31, 2008</u>	<u>Net income (numerator)</u>	<u>Shares (denominator)</u>	<u>Per share amount</u>
Basic net income per share	\$2,211,752	6,061,570	\$ 0.36
Effect of dilutive stock options	—	362	
Diluted net income per share	<u>\$2,211,752</u>	<u>6,061,932</u>	<u>\$ 0.36</u>
<u>Fiscal year ended October 31, 2007</u>	<u>Net income (numerator)</u>	<u>Shares (denominator)</u>	<u>Per share amount</u>
Basic net income per share	\$1,252,638	6,089,486	\$ 0.21
Effect of dilutive stock options and warrants	—	6,043	
Diluted net income per share	<u>\$1,252,638</u>	<u>6,095,529</u>	<u>\$ 0.21</u>
<u>Fiscal year ended October 31, 2006</u>	<u>Net income (numerator)</u>	<u>Shares (denominator)</u>	<u>Per share amount</u>
Basic net income per share	\$ 350,630	5,954,397	\$ 0.06
Effect of dilutive stock options and warrants	—	11,292	
Diluted net income per share	<u>\$ 350,630</u>	<u>5,965,689</u>	<u>\$ 0.06</u>

Stock options that could potentially dilute net income per share in the future that were not included in the computation of diluted net income per share (because to do so would have been antidilutive for the periods presented) totaled 173,205, 199,457 and 230,589 for the years ended October 31, 2008, 2007 and 2006, respectively.

(15) 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 anticipated that the purchases would be made over a 12-month period, but there is no definite time period for repurchase. As of October 31, 2008, the Company had repurchased and retired 150,373 shares of its outstanding common stock. The repurchase of these shares and the costs associated with the repurchase, including brokerage and legal fees, totaled \$759,050. As of October 31, 2008, 6,208,861 shares of the Company's common stock were outstanding.

Subsequent to October 31, 2008, the Company repurchased and retired 107,424 shares of its outstanding common stock. The repurchase of these shares and the costs associated with the repurchase, including brokerage and legal fees, totaled \$324,967, or \$3.03 per share.

On November 2, 2001, the Board of Directors of the Company adopted a Shareholder Rights Plan (the "Rights Plan") and declared a dividend of one preferred share purchase right (a "Right") on each outstanding share of common stock. Under the terms of the Rights Plan, if a person or group who is deemed an Acquiring Person as defined in the Rights Plan acquires 15% (or other applicable percentage, as provided in the Rights Plan) or more of the outstanding common stock, each Right will entitle its holder (other than such person or members of such group) to purchase, at the Right's then current exercise price, a number of shares of common stock having a market value of twice such price. In addition, if the Company is acquired in a merger or other business transaction after a person or group who is deemed an Acquiring Person has acquired such percentage of the outstanding common stock, each Right will entitle its holder (other than such person or members of such group) to purchase, at the Right's then current exercise price, a number of the acquiring company's common shares having a market value of twice such price.

Upon the occurrence of certain events, each Right will entitle its holder to buy one one-thousandth of a Series A preferred share ("Preferred Share"), at an exercise price of \$200, subject to adjustment. Each Preferred Share will entitle its holder to 1,000 votes and will have an aggregate dividend rate of 1,000 times the amount, if any, paid to holders of common stock. The Rights will expire on November 2, 2011, unless the date is extended or unless the Rights are earlier redeemed or exchanged at the option of the Board of Directors for \$0.0001 per Right. Generally, each share of common stock issued after November 5, 2001 will have one Right attached. The adoption of the Rights Plan has no impact on the financial position or results of operations of the Company.

The Company has reserved 100,000 of its authorized preferred stock for issuance upon exercise of the Rights.

(16) 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.

(17) New Accounting Standards

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, but has been delayed for treatment of non-financial assets and liabilities until fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The Company is currently evaluating the impact of SFAS No. 157.

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. The Company is currently evaluating the impact of SFAS 159.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141(R), *Business Combinations* ("SFAS 141(R)"). SFAS 141(R) requires all business combinations completed after the effective date to be accounted for by applying the acquisition method (previously referred to as the purchase method). Companies applying this method will have to identify the acquirer, determine the acquisition date and purchase price and recognize at their acquisition-date fair values the identifiable assets acquired, liabilities assumed, and any noncontrolling interests in the acquiree. In the case of a bargain purchase the acquirer is required to reevaluate the measurements of the recognized assets and liabilities at the acquisition date and recognize a gain on that date if an excess remains. SFAS 141(R) becomes effective for acquisitions during fiscal annual reporting periods beginning after December 15, 2008. The Company is currently evaluating the impact of SFAS 141(R).

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB 51* ("SFAS 160").

SFAS 160 amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. The statement requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure on the face of the consolidated statement of income, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. In addition, this statement establishes a single method of accounting for changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation and requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. SFAS 160 becomes effective for fiscal periods beginning after December 15, 2008. The Company is currently evaluating the impact of SFAS 160.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an Amendment of FASB Statement No. 133* ("SFAS 161"). SFAS 161 amends and expands the disclosure requirements of SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, in order to provide users of financial statements with an enhanced understanding of (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and (c) how derivative instruments and related hedge items affect an entity's financial position, financial performance, and cash flows. The statement requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk related contingent features in derivative agreements. SFAS 161 is effective for fiscal years beginning after November 15, 2008. The adoption of the Statement is not expected to have any impact on the Company's results of operations, financial position or liquidity.

In April 2008, the FASB issued FASB Staff Position No. 142-3, *Determination of the Useful Life of Intangible Assets* ("FSP 142-3"). FSP 142-3 amends the factors that an entity should consider in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. FSP 142-3 requires an entity to consider its own historical experience in renewing or extending the term of the arrangement, consistent with its expected use of the asset. In the absence of historical experience, an entity should consider assumptions that market participants would use about renewal or extension as adjusted for entity-specific factors. FSP 142-3 is effective for fiscal years beginning after December 15, 2008. The adoption of the Statement is not expected to have any impact on the Company's results of operations, financial position or liquidity.

In May 2008, the FASB issued Statement of Financial Accounting Standards No. 162, *The Hierarchy of Generally Accepted Accounting Principles* ("SFAS 162"). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements that are presented in conformity with generally accepted accounting principles in the United States. The Statement will be effective 60 days following the SEC's approval of the PCAOB's amendments to AU Section 11, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*. The adoption of the Statement is not expected to have any impact on the Company's results of operations, financial position or liquidity.

There are no other new accounting standards issued, but not yet adopted by the Company, which are expected to be applicable to its financial position, operating results or financial statement disclosures.

(18) Quarterly Results of Operations (Unaudited)

The following is a summary of the unaudited quarterly results of operations for the years ended October 31, 2008 and 2007:

<u>Fiscal year ended October 31, 2008</u>	<u>Quarter ended</u>			
	<u>January 31</u>	<u>April 30</u>	<u>July 31</u>	<u>October 31</u>
Net sales	\$12,661,543	13,495,302	16,414,872	18,426,366
Gross profit	5,332,534	5,744,224	6,194,425	6,888,906
Income before income taxes	1,368,653	1,375,565	747,831	21,431
Net income (loss)	861,949	878,327	481,546	(10,070)
Basic and diluted net income per share	0.14	0.15	0.08	0.00

<u>Fiscal year ended October 31, 2007</u>	<u>Quarter ended</u>			
	<u>January 31</u>	<u>April 30</u>	<u>July 31</u>	<u>October 31</u>
Net sales	\$ 9,276,329	\$ 11,132,925	\$ 11,693,947	\$ 13,399,504
Gross profit	2,975,994	4,069,029	4,701,497	5,423,285
Income (loss) before income taxes	(518,644)	370,462	852,689	1,213,459
Net income (loss)	(331,985)	236,762	537,719	810,142
Basic and diluted net income (loss) per share	(0.06)	0.04	0.09	0.13

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Optical Cable Corporation:

We have audited the accompanying consolidated balance sheets of Optical Cable Corporation and Subsidiaries as of October 31, 2008 and 2007, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the years in the three-year period ended October 31, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Optical Cable Corporation and Subsidiaries as of October 31, 2008 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended October 31, 2008, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, on November 1, 2007, the Company adopted FASB Interpretation No. 48 "*Accounting for Uncertainties in Income Taxes*."

/s/ KPMG LLP

Roanoke, Virginia
January 29, 2009

Optical Cable Corporation

Corporate Headquarters

Optical Cable Corporation
5290 Concourse Drive
Roanoke, VA 24019

Legal Counsel

Woods Rogers PLC
10 South Jefferson Street
Suite 1400
Roanoke, VA 24011

Independent Registered Public Accounting Firm

KPMG LLP
10 South Jefferson Street
Suite 1710
Roanoke, VA 24011

Transfer Agent

American Stock Transfer & Trust Company
59 Maiden Lane
New York, NY 10038

Form 10-K Report

Shareholders may obtain, without charge, a copy of Optical Cable Corporation's Form 10-K, including exhibits, as filed with the Securities and Exchange Commission. Write to Optical Cable Corporation, P.O. Box 11967, Roanoke, VA 24022-1967, attention Ms. Tracy G. Smith, Corporate Secretary. Additionally, our SEC filings are available to the public on the SEC Internet site (<http://www.sec.gov>).

Annual Meeting

The 2009 annual meeting of shareholders will be held at 10:00 a.m. on Tuesday, March 31, 2009, at the Best Western Hotel at Valley View, 5050 Valley View Blvd., Roanoke, Virginia.

Corporate Information
(Continued)

Common Stock and Dividend Data

Our common stock is traded on the Nasdaq Global Market under the symbol OCCF. As of October 31, 2008 and December 31, 2008, there were approximately 3,400 and 3,300 shareholders of record, respectively. On January 23, 2009, our common stock closed at a price of \$2.92 per share.

The following table sets forth for the fiscal periods indicated the high and low bid prices of our common stock, as reported on the Nasdaq Global Market, during the two most recent fiscal years:

<u>Fiscal year ended October 31, 2008</u>	<u>Range of Bid Prices</u>	
	<u>High</u>	<u>Low</u>
First Quarter	\$ 4.61	\$ 3.31
Second Quarter	\$ 5.00	\$ 3.90
Third Quarter	\$ 7.45	\$ 4.78
Fourth Quarter	\$ 7.44	\$ 3.24

<u>Fiscal year ended October 31, 2007</u>	<u>Range of Bid Prices</u>	
	<u>High</u>	<u>Low</u>
First Quarter	\$ 6.00	\$ 4.25
Second Quarter	\$ 5.97	\$ 4.52
Third Quarter	\$ 5.45	\$ 4.57
Fourth Quarter	\$ 5.20	\$ 4.40

We have not paid or declared any cash dividends on our common stock since our initial public offering in 1996 and do not expect to pay any cash dividends in the foreseeable future. We currently intend to retain future earnings, if any, to finance the expansion of our business.

Corporate Information
(Continued)

Executive Officers of Optical Cable Corporation

Neil D. Wilkin, Jr.

Chairman of the Board, President and
Chief Executive Officer

Tracy G. Smith

Senior Vice President, Chief Financial Officer
and Corporate Secretary

William R. Reynolds

Senior Vice President of Sales—USA

Board of Directors of Optical Cable Corporation

Randall H. Frazier

President and Founder
R. Frazier, Incorporated

John M. Holland

Principal and Founder
Holland Technical Services

Craig H. Weber

Executive Vice President, Corporate Development
and Chief Financial Officer
Home Care Delivered, Inc.

Neil D. Wilkin, Jr.

Chairman of the Board, President
and Chief Executive Officer
Optical Cable Corporation

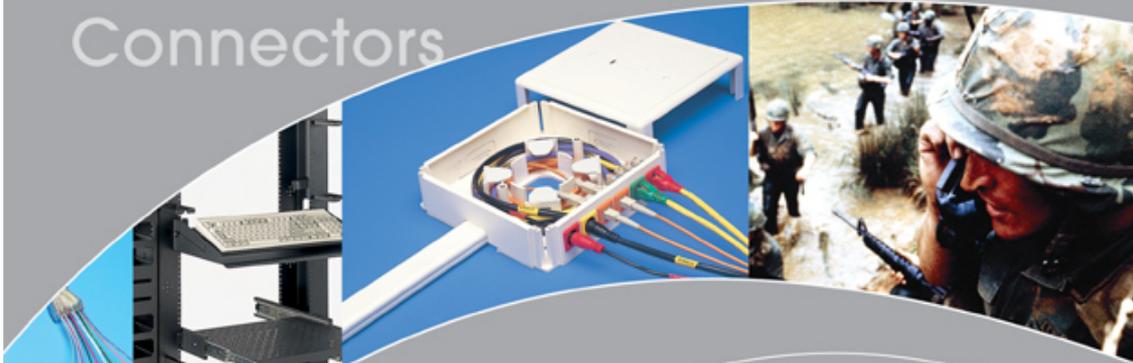
John B. Williamson, III

Chairman of the Board, President
and Chief Executive Officer
RGC Resources, Inc.

Surface Mount Boxes

Fiber Accessories

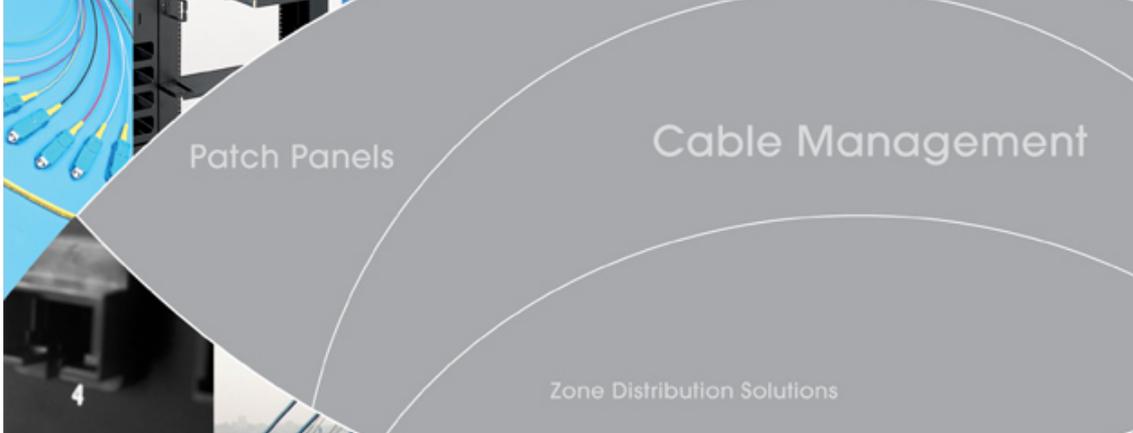
Connectors



Patch Panels

Cable Management

Zone Distribution Solutions



Shelving

Multi-media Boxes



5290 Concourse Drive | Roanoke, Virginia, USA 24019
Phone 540-265-0690 | Fax 540-265-0724
www.ocfiber.com



Consent of Independent Registered Public Accounting Firm

The Board of Directors
Optical Cable Corporation:

We consent to the incorporation by reference in Registration Statement No. 333-09433 on Form S-8, Registration Statement No. 333-103108 on Form S-3, Registration Statement No. 333-115575 on Form S-8, and Registration Statement No. 333-128163 on Form S-8 of Optical Cable Corporation of our report dated January 29, 2009, with respect to the consolidated balance sheets of Optical Cable Corporation and Subsidiaries as of October 31, 2008 and 2007, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the years in the three-year period ended October 31, 2008, which report is incorporated by reference in the October 31, 2008 Annual Report on Form 10-K of Optical Cable Corporation. Our report refers to the Company's adoption of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, on November 1, 2007.

/s/ KPMG LLP

Roanoke, Virginia
January 29, 2009

CERTIFICATION

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

1. I have reviewed this report on Form 10-K 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) 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
 - d) 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 independent registered public accounting firm 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: January 29, 2009

/s/ Neil D. Wilkin, Jr.

Neil D. Wilkin, Jr.

Chairman of the Board of Directors,
President and Chief Executive Officer
Optical Cable Corporation

CERTIFICATION

I, Tracy G. Smith, certify that:

1. I have reviewed this report on Form 10-K 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) 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
 - d) 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 independent registered public accounting firm 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: January 29, 2009

/s/ Tracy G. Smith

Tracy G. Smith

Senior Vice President and Chief Financial Officer
Optical Cable Corporation

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 Annual Report of Optical Cable Corporation (the "Company") on Form 10-K for the year ended October 31, 2008 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 October 31, 2008, and for the period then ended.

/s/ Neil D. Wilkin, Jr.

Neil D. Wilkin, Jr.

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

January 29, 2009

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 Annual Report of Optical Cable Corporation (the "Company") on Form 10-K for the year ended October 31, 2008 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 October 31, 2008, and for the period then ended.

/s/ Tracy G. Smith

Tracy G. Smith
Senior Vice President and
Chief Financial Officer

January 29, 2009