

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, 1997

OR

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

For the transition period from to

COMMISSION FILE NUMBER 0-27022

OPTICAL CABLE CORPORATION
(Exact name of registrant as specified in its charter)

Virginia 54-1237042
(State of incorporation) (I.R.S. Employer Identification No.)

5290 Concourse Drive (540) 265-0690
Roanoke, Virginia 24019 (Telephone Number)
(Address of principal executive offices)

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

None

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

Common Stock, no par value

Indicate by checkmark 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 checkmark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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.

The aggregate market value of shares of common stock held by non-affiliated at January 15, 1998 was \$24,444,504.

As of January 15, 1998, 38,559,288 shares of the Registrant's Common Stock were outstanding.

DOCUMENT INCORPORATED BY REFERENCE

Portions of Optical Cable Corporation's definitive Proxy Statement for its 1998 Annual Meeting of Shareholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities Exchange Act of 1934 (the "Proxy Statement") are incorporated by reference into Part III of this Form 10-K.

PART I

ITEM 1. BUSINESS

GENERAL

The Company manufactures and markets a broad range of fiber optic cables for "high bandwidth" transmission of data, video and audio communications over moderate distances of up to approximately 10 miles. The Company's cables can be used both indoors and outdoors, are easy and economical to install, and provide a high degree of reliability. The Company believes that its products are widely accepted for use in fiber optic local area networks ("LANs") and are increasingly accepted in other communications applications. The Company's products directly address the needs of the moderate distance market by utilizing

a tight-buffered coating that protects the optical fiber and a cable design that achieves superior mechanical and environmental performance.

The Company was incorporated in Virginia in 1983. The Company's executive offices are located at 5290 Concourse Drive, Roanoke, Virginia 24019, telephone number (540) 265-0690.

INDUSTRY BACKGROUND AND MARKETS

Application of Fiber Optic Communications Technology

Fiber optic technology was developed in the mid-1970s as a communications medium offering numerous technical advantages over metallic conductors such as copper. Optical fiber is an ultrapure glass structure that has been pulled into a hair thin strand. Optical fiber's advantages include its high bandwidth, which permits reliable transmission of complex signals such as multiple high-quality audio and video channels, high-speed data formats such as Fiber Distributed Data Interface ("FDDI") and Asynchronous Transfer Mode ("ATM"), other LAN transmissions, and high-definition television. Relative to copper, optical fiber has thousands of times the information carrying capacity, occupies much less space and operates more reliably over greater distances. Furthermore, it is immune to the electromagnetic interference that causes static in copper wire transmission, as well as to electrical surges. Because optical fiber does not carry electricity, it is a safer choice in flammable environments. Additionally, communicating through optical fiber is more secure than copper because tapping into fiber optic cable without detection is very difficult. Optical fiber also enjoys technical advantages over other communications media such as satellite and microwave communications, particularly in applications over shorter distances.

Because most of the world's information storage, reception and display systems (such as computers, telephones and televisions) are electronically based, various electro-optical hardware components must be attached to each end of an optical fiber. For instance, a laser or light emitting diode converts electrically encoded information into light signals, which travel over the optical fiber to the terminal point of reception. At the terminal point a photodetector converts the information back to its original form. Other passive optical components such as optical connectors and splices facilitate the travel of a light signal from one optical fiber to another or to another electro-optical component, while couplers and splitters combine or divide signals, thereby permitting simultaneous distribution of information to or from multiple locations. Despite early and widespread appreciation of optical fiber's superior technical characteristics, until the late 1970s the costs associated with the necessary electro-optical transmitters and receivers rendered commercial applications prohibitively expensive.

The Company believes there is a perception that fiber optic cable, because it is different from copper cable, is difficult to install and maintain. This perception is being overcome as fiber optic cable is more widely used. Also, like copper cable, fiber optic cable is restricted to applications in which it is possible to lay cable between the point of transmission and the point of reception. Wireless communication media do not have this limitation.

The Long Distance Telephone Market

In the 1970s private industry began to develop optical fiber systems for long distance commercial applications, particularly the U.S. telephone networks. For this application, the expense of electro-optical components posed a lower cost barrier because relatively few terminal components were required for long distance transmissions. For the long distance telephone market, "single mode" optical fiber was developed. To protect this early generation of fiber without adversely affecting its optical performance, fiber optic cable producers chose a high density (i.e., high fiber count) "loose tube" cable construction. This cable design was developed to put minimal stress on the optical fibers, which initially were particularly fragile, and to put many optical fibers in a small, relatively inexpensive cable. When such cables proved vulnerable to water penetration, manufacturers added a water-blocking but flammable gel, making them unsuitable for indoor use.

Once fiber optic technology achieved cost parity with copper for the long distance telephone application, U.S. long distance carriers aggressively installed fiber optic routes across the United States. By the late 1980s, optical fiber constituted nearly all of the long distance telephone network, as well as the interoffice local exchange network connecting central telephone offices in the same area.

The Moderate Distance Market

In the 1970s the U.S. government made available substantial funds for research and development to determine the viability of optical fiber as a solution to critical communications problems faced by the military and other agencies. In the course of addressing these challenging, multiple termination point applications, which were predominately over moderate distances, engineers achieved significant technological advances. Such advances included the introduction of "multimode" optical fiber and the development of an easy-to-handle "tight-bound" cable structure that afforded the optical fiber effective protection against mechanical shock, water, extreme temperatures and other stresses likely to be encountered in a battlefield environment.

High levels of production of optical fiber, cable and components for the long distance telephone market since the mid-1980s have resulted in cost reductions that make fiber optic cable economically feasible for a growing number of potential customers with moderate distance business application needs. Such applications include data communications, LANs, telecommunications, video transmission, including cable television, and military tactical communications. Particularly in data communications, high performance, rugged, and survivable fiber optic cable is well suited and has become economically attractive for diverse and often unpredictable installation environments. The Company believes that the LAN market is particularly attractive. LANs are often installed at corporate offices, hospitals, utilities, academic campuses, factories and transportation management facilities.

The increasing standardization of communications technology and the increasing demand for high bandwidth (i.e., high data capacity or volume) are expected to facilitate optical fiber's further penetration of the moderate distance market presently served by copper cable. Fiber optic cable is better able to maximize the utility of emerging LAN interface standards, such as FDDI and ATM, and has therefore become a preferred data transmission medium. In addition, high speed, high bandwidth applications, such as video conferencing, imaging and Internet access, are growing and are driving increased demand for fiber optic cable in moderate distance applications.

With the movement toward deregulation and competition, the large cable television companies, often referred to as Multiple System Operators, the Regional Bell Operating Companies ("RBOCs"), and other independent long distance carriers are competing to provide enhanced cable television, data, and other information highway services to homes and businesses. Many of these companies are conducting field trials of optical fiber systems in the portion of the U.S. telephone networks which lies between telephone companies' central offices and subscribers' offices and homes (the "subscriber loop"). To date, the subscriber loop remains overwhelmingly copper. Because the subscriber loop represents approximately 90% of the U.S. telephone system (measured by total length of cable), the potential demand for fiber optic cable in this application is very large, provided that cost parity with copper cable systems can be achieved.

THE COMPANY'S SOLUTION

Fiber optic cables used for moderate distance applications may be subjected to many different stress environments. Cables installed inside buildings may be routed through cable trays, floor ducts, conduits and walls and may encounter sharp corners or edges. They may be pulled without lubricant, resulting in higher pull tensions, and stressed to the breaking point if care is not used. In the outdoor and underground environments, cables are often subjected to moisture, ultra-violet radiation and long pulling distances through conduits with a variety of bends and corners, resulting in high pulling tensions. These conditions can be aggravated if installers are not adequately trained in the installation of fiber optic cable. The Company's founders recognized that, for many applications, the stresses on the cables during installation are similar to those in the military tactical environment, for which the Company's technology was initially developed. The Company applied this technology to commercial products serving a market that could not be adequately served by gel-filled, loose tube cable manufactured for the long distance telephone market.

The Company believes that nearly one-half of the fiber optic cable sold in the moderate distance market today is the gel-filled, loose tube type, which requires careful installation and extensive preparation for termination with connectors. While this cable design has served the long distance telephone market reasonably well, it was not designed to withstand the stress that cables undergo during installation in the LAN or subscriber loop environments. Gel-filled, loose tube cables are difficult to terminate with connectors, because they cannot be mechanically attached directly to the cable's optical fibers. Designed for long, straight outdoor runs, the cables are stiff and difficult to place in complex installations and are flammable and thus not suited for indoor use. When used for indoor/outdoor installations, these cables must be spliced near the building entrance to flame retardant cables suitable for indoor use, adding cost and complexity and reducing reliability. Therefore, the total installed cost of gel-filled, loose tube cables is high in moderate distance applications.

In contrast, the Company's products address the needs of the moderate distance market by utilizing a tight-buffered coating that protects the optical fiber and a cable design that achieves superior mechanical and environmental performance. The Company's products are derived from technology originally developed for military applications requiring very rugged, flexible and compact fiber optic cables. Unlike gel-filled cables, the Company's cables may be used indoors and outdoors, are flame resistant, flexible, easy and economical to install, and provide a high degree of reliability. The Company believes that because of these features, its products are widely accepted for use in fiber optic LANs and are increasingly accepted in other applications.

THE COMPANY'S STRATEGY

The Company's primary strategy is to capitalize on its proprietary cable manufacturing processes and technologies to provide a comprehensive line of versatile fiber optic cables with superior features and competitive pricing that appeals to the large, diverse and growing market for high bandwidth communications over moderate distances.

Focus on the Moderate Distance Market

Optical fiber has become an accepted medium for the transmission of data, video and audio in moderate distance applications in cities, factories, high rise buildings, and on campuses. High speed, high bandwidth applications deployed in LAN environments are growing in both large and small corporations and are driving increased demand for optical fiber. Increasing deployment of multimedia systems on LANs that utilize protocols such as FDDI and ATM also enhances the demand for bandwidth.

The Company's products address the needs of the moderate distance market by utilizing a tightbuffered coating that protects the optical fiber and a cable design that achieves superior mechanical and environmental performance. The Company believes that because of the outstanding features of its fiber optic cable, including suitability for indoor and outdoor use, easy and economical installation and a high degree of reliability, the Company's products have become well established for optical fiber LANs and are increasingly accepted for other applications.

Develop High Performance Products and Offer a Broad Product Line

The Company believes that serving both the premium performance and the price competitive parts of the moderate distance market best utilizes its development and manufacturing capabilities. The Company's Ultra-Fox™ product line provides optical fiber products that are competitively priced, with features that the Company believes are superior to its competitors' offerings. The Ultra-Fox™ plus product line shares many of the materials and features with the Company's military tactical cable products and is marketed to customers who want the most reliable installations for their critical communication or control processes. Since March 1994, the Company's quality management system has been certified to the internationally recognized ISO 9001 quality standard.

Leverage Existing Technologies and Knowledge

The Company has extensive expertise in optical fiber packaging and applications design, which it utilizes for new products. The Company is responsive to, and works to anticipate the requirements of, its customers. Its expertise with tight-buffered cable technology facilitates development of new products and variations of existing products. Products that are developed for a special application also may be introduced to the broader market.

Capitalize on Proprietary, Flexible Manufacturing Processes

The Company believes that its customized, internally developed manufacturing processes provide a competitive advantage. The Company has developed proprietary process control systems to ensure consistency and uniformity at high throughput rates and intends to continue the upgrade of its manufacturing capability. Through construction completed in January 1997, the Company expanded its facilities to increase its manufacturing capacity. Ample capacity, versatile production processes and a broad range of products are intended to enable the Company to be flexible and responsive to customer needs.

Offer Cost Effective Solutions to its Customers

The Company believes that its products are rugged, easy to install, versatile and highly reliable, making them attractive to distributors, installers, and most importantly, end users. Because the Company's cables are multipurpose, distributors can stock fewer varieties and therefore less quantities of cable. For installers and systems integrators, the multipurpose feature can significantly reduce installation costs by eliminating the need to transition from indoor cable to outdoor cable at a building entrance. This also enhances reliability by eliminating splices and possible high stress on optical fibers that could lead to breakage. This simplified installation, lower cost and enhanced reliability are also valued by the end user, because a long lasting, trouble-free cable is the basis for minimizing down time and maximizing system availability.

Expand Distribution and Marketing Presence

The Company intends to increase its sales and marketing activities both domestically and internationally. The Company distributes its products through independent distributors to supplement the Company's existing distribution channels and to provide the Company with access to a greater number of potential customers in the United States. Revenues from international sales were approximately 24%, 25% and 27% in fiscal 1995, 1996 and 1997, respectively. The Company intends to hire more sales personnel to manage and expand its international distribution network. However, there can be no assurance that the Company will have the financial resources required to increase its sales and marketing activities domestically or internationally, or to hire additional sales personnel.

PRODUCTS AND TECHNOLOGY

Products

The Company manufactures and markets a broad range of fiber optic cables that provide a high bandwidth transmission for data, video and audio communications over moderate distances. The Company's products are derived from technology originally developed for military applications requiring very rugged, flexible and compact fiber optic cables. The Company's method of applying a tight-buffered coating on each optical fiber before it is encased minimizes microbending, the primary cause of signal loss in optical fibers.

The Company has pioneered a pressure-extrusion technique for applying a cable jacket directly over the fiber optic cable core elements, resulting in high cable tensile strength and lateral stress resistance. Such Core-Locked™ jackets allow the cable to operate as a single mechanical unit, maximizing resistance to tears during installation pulls through narrow spaces. The Company's product line is deliberately diverse and flexible, in keeping with the evolving application needs within the moderate distance market. Most of the Company's cable designs are available in both the Ultra-Fox™ Plus premium product and the Ultra-Fox™ highly featured but cost competitive commercial product.

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PRODUCT TYPE	FEATURES/DESCRIPTION	APPLICATIONS
A-Series Simplex and Duplex "Assembly" Cables	<ul style="list-style-type: none"> o simplex (one optical fiber) and duplex (two optical fibers) cables o tight-buffered coating on each optical fiber o aramid yarn strength members o thermoplastic outer jacket o flame retardant 	<ul style="list-style-type: none"> o short "patch cord" cables o links between electronic equipment and main fiber optic cable o routing connections in patching systems o indoor use
B-Series "Breakout" Cables	<ul style="list-style-type: none"> o 2 to 156 optical fibers o tight-buffered coating on each optical fiber o elastomeric jacket encases each optical fiber and surrounding aramid yarn strength members (similar to an A-Series simplex cable) o Core-Locked™ outer jacket o rugged o flame retardant o moisture and fungus resistant 	<ul style="list-style-type: none"> o direct termination with connectors on each optical fiber o short and moderate distance links between buildings or within a building, where multiple termination points are needed o installations where ease of termination and termination cost are important factors o indoor and outdoor use
D-Series "Distribution" Cables	<ul style="list-style-type: none"> o 2 to 156 optical fibers o tight-buffered coating on each optical fiber o Core-Locked™ outer jacket encases the optical fibers and aramid yarn strength members o smaller, lighter and less expensive than the B-Series cable o high strength to weight ratio o compact size o rugged o flame retardant o moisture and fungus resistant 	<ul style="list-style-type: none"> o longer distance runs where size and cable cost are more significant o can be armored for additional protection in buried and overhead installations o indoor and outdoor use
G-Series "Subgrouping" Cables	<ul style="list-style-type: none"> o up to 864 optical fibers in various subgroup sizes o multi-fiber subcables, each similar to a D-Series cable o Core-Locked™ outer jacket surrounds subcables o high density "micro" construction o rugged o flame retardant o moisture and fungus resistant 	<ul style="list-style-type: none"> o high fiber count systems o subgroups needed to facilitate organization of large numbers of optical fibers o subcables routed to different locations o installations requiring several different optical fiber types o indoor and outdoor use

A-Series Simplex and Duplex "Assembly" Cables. Simplex and duplex cables are round single fiber and "zip cord" two-fiber structures, respectively. Both cables contain tight-buffered optical fibers, aramid yarn strength members and a thermoplastic outer jacket for each fiber. They are used for "jumpers" (short length patch cords) and for "pigtailed" (short lengths of cable with a connector on one end). Various outer jacket materials are offered to provide flammability ratings and handling characteristics tailored to customers' needs. These cables are often privately labeled and sold to original equipment manufacturers ("OEMs") who produce the cable assemblies.

B-Series "Breakout" Cables. The B-Series cables consist of a number of subcables, each consisting of a single optical fiber and aramid yarn strength members similar to an A-Series simplex cable. These subcables are tight-bound in a pressure-extruded, high performance Core-Locked™ PVC outer jacket to form the finished multi-fiber cable. Like the A-Series cables, the subcables are intended to be terminated directly with connectors. This direct termination feature makes this cable type particularly suited for shorter distance installations, where there are many terminations and termination costs are more significant. The materials and construction of the cable permit its use both indoors and outdoors. These features make the cable cost effective for use in campus and industrial complex installations, between and within buildings.

D-Series "Distribution" Cables. The Company's D-Series cables are made with the same tight-buffered optical fiber and high performance Core-Locked™ PVC outer jacket as the B-Series cable. Unlike the B-Series cable, however, each tight-buffered optical fiber in a D-Series cable is not covered with a separate subcable jacket. D-Series cable is intended for longer distance applications, where termination considerations are less important and often traded off for size, weight and cost. The tightbuffered optical fiber and Core-Locked™ PVC outer jacket make D-Series cables rugged and survivable, with a small, lightweight configuration. The high strength to weight ratio of these cables makes them well suited for installations where long lengths of cables must be pulled through duct systems. D-Series cable is used in relatively longer length segments of installations.

G-Series "Subgrouping" Cables. This cable design combines a number of multi-fiber subcables, each similar to a D-Series cable. Each multi-fiber subcable is tight-bound with an elastomeric jacket, providing excellent mechanical and environmental performance. These subcables are contained in a pressure extruded, high performance Core-Locked™ PVC outer jacket to form the finished cable. This design permits the construction of very high fiber count cables. These cables may be used where groups of optical fibers are routed to different locations. The Company has fabricated a developmental sub-group cable containing over 1,000 fibers intended for high density, moderate length routes such as urban telephone distribution systems.

Other Cable Types. The Company produces many variations on the basic cable styles presented above for more specialized installations. For outdoor applications, both the B-Series and D-Series cables may be armored with corrugated steel tape for further protection in underground or overhead installations. For overhead installations on utility poles, the Company offers several self-supporting versions of the D-Series cables, with higher performance outer jackets. One contains additional aramid yarn strength members, to support its weight with wind and ice loading over long unsupported lengths. Another style has a separate strength member, either metallic or non-metallic, in a figure eight configuration, to reduce installation costs. The Company's cables are 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 the B-Series and D-Series cables are available for use in enclosed spaces where there is concern over release of toxic gases during fire. Composite cables combining optical fiber and copper are offered to facilitate the transition from copper-based to optical fiber-based systems without further installation of cable.

Product Development

The Company continues to develop enhancements to its fully automated, computer-controlled production processes that it believes increase product quality and reduce costs. Many of the Company's technological advances are the result of refinements and improvements made during production runs. Occasionally, potential customers contact the Company to develop new products or modified product

designs for them, which ultimately may appeal to other customers. The development costs associated with new products and modified product designs requested by the customer are included in the price charged to that customer. By utilizing these new products and modified product designs, the Company continues to improve its product line with minimal direct expenditures for research and development.

MAJOR MARKET APPLICATIONS

The most common application of the Company's products is in LANs, where optical fiber is widely used as the "backbone" or "trunk," connecting groups of work stations and central file servers. In its typical implementation, the fiber optic cable may be installed between wiring closets in a building, or installed between buildings in a multi-building complex. Fiber optic cable runs between electronic equipment that combines the signals of many workstations. Because the combined signals may carry a large volume of critical information, fiber optic cable, which is immune to electrical interference, is often desired. In comparison, copper wires carry less information, or the same amount of information for a shorter distance, in either case remaining susceptible to electrical noise and interference. The following are typical applications for the Company's fiber optic cable:

Office Facilities. Banks, stock trading companies, insurance companies, and other businesses often have a need to distribute information among a large number of work stations, have time-critical data and would incur severe costs as a result of system failures. A LAN connected with fiber optic cable has in the past several years been an increasingly common way of implementing management information systems for these businesses.

Educational Institutions. Colleges and universities have been leaders in implementing large fiber optic networks. More recently, many states have undertaken large scale projects to install networks in high schools and even grade schools. These systems link personal computers with central file servers. As interactive learning systems require increased transmission speeds, optical fiber becomes a logical medium.

Manufacturing and Mining Facilities. Manufacturing and mining facilities are typically not air conditioned, are less clean and otherwise have a less controlled environment than businesses generally. They often contain heavy electrical equipment, which causes electromagnetic interference if conventional copper cable is used. The advantages of fiber optic cable in this environment include immunity to electrical noise, ruggedness, high information carrying capacity and greater distance capability. The Company's products are installed in automotive assembly plants, steel plants, chemical and drug facilities, petroleum refineries, mines and other similar environments.

Health Care Facilities. Hospitals have extensive data transfer needs for medical records, patient monitoring, inventory, billing and payroll functions. More recently, the transfer of electronically stored images of x-rays, MRIs and CAT scans has increased to facilitate analysis and diagnosis at multiple locations. These applications require high data transfer rates. Optical fiber is a preferred solution, especially in electromagnetic environments with heavy electrical equipment such as x-ray machines.

Traffic Control Systems. Traffic system applications range from surveillance and control of traffic flow in cities to installation of sensors, automatic toll collection, video monitoring and control of signs in "smart" highway programs. These applications often require transmission of high bandwidth signals such as video monitoring, for which optical fiber is well suited. The Company's cables offer ruggedness, reliability and cost savings for termination in systems that are near the vibrations of traffic and require many termination points.

Telephone Companies. The Company has worked with several RBOCs for their business customers' requirements. As high bandwidth services of the information highway are brought closer to more homes and businesses, the bandwidth of optical fiber becomes more important.

SALES, MARKETING AND CUSTOMER SERVICE

The Company's products are sold to end users, electrical contractors, system integrators, value-added resellers ("VARs"), OEMs and distributors. Distribution methods are adapted to the particular needs of different types of customers. The decision to purchase the Company's products may be made

by end users, distributors, electrical contractors, system integrators or specialized installers. The Company attempts to reach these decision makers by advertising in fiber optics trade journals and other communications magazines. The Company also participates in numerous domestic and international trade shows attended by customers and prospective customers. International sales are made primarily through foreign distributors, system integrators and VARs.

The Company's field sales force consists of independent sales representatives located in various geographic areas. The field sales force provides sales support for distributors, system integrators and VARs and communicates with the customer's purchase decision makers. The field sales force is supported by inside sales personnel and supervised by regional sales managers. The inside sales group provides quotations and customer service. The regional sales managers provide on-site sales support with major customers and are responsible for major customers and opportunities. For more in-depth technical support, the sales group has access to engineering, quality control and management personnel who have extensive fiber optic cable expertise and industry experience.

Furthermore, the Company believes that it has a reputation for product excellence based on its success with large projects for end users such as Chrysler Corporation, 3M, Virginia Polytechnic Institute and State University, Bankers Trust and Salomon Brothers Inc, and for integrators such as Ameritech Information Systems and US WEST. The Company had no single customer that accounted for more than 5% of its net sales in fiscal 1995, 1996 or 1997. However, in fiscal 1997, 22% of net sales was attributable to two major domestic distributors, and in fiscal 1996, 12% of net sales was attributable to one major domestic distributor. Most of the Company's revenue in each quarter results from orders received in that quarter. Accordingly, the Company does not believe that its backlog at any particular point in time is indicative of future sales. The Company believes that its customer base is diverse, crossing over many markets and regions worldwide and believes that it is important to maintain that diversity to avoid dependence on any particular segment of the economy or area of the world.

MANUFACTURING AND SUPPLIERS

The Company's manufacturing operations consist of applying a variety of raw plastic materials to optical fibers. The key raw material in the manufacture of the Company's products is optical fiber, which the Company currently purchases from four manufacturers. The Company works with its vendors in an effort to ensure a continuous supply. The Company utilizes two sources for the cable's aramid yarn strength member and several suppliers of coating materials. The Company has not experienced difficulty in arranging alternate sources. All other raw materials have at least one backup source.

The Company believes that by maintaining a consistent relationship with suppliers, it can obtain better quality control and emergency deliveries. Being able to deliver product on time has been an important factor in the Company's success. To date, the Company has been able to obtain adequate supplies of its raw materials in a timely manner from existing sources or, when necessary, from alternate sources. However, any disruption in the supply of raw materials could adversely affect the Company's cable production capability and its operating results.

The Company believes that other fiber optic cable manufacturers generally carry minimal amounts of raw materials and finished goods inventory. The Company generally holds raw materials and finished goods inventory in amounts greater than that of its competitors to ensure a quick response after receiving a customer's order.

The Company believes its quality control procedures have been instrumental in achieving the performance and reliability of its products. The Company produces cable using the quality control procedures of MIL-I-45208 (the primary standard applicable to most government purchasers of cable).

Since March 1994, the Company's quality management system has been certified to the internationally recognized ISO 9001 quality standard. ISO 9000 is a series of standards agreed to by the International Organization for Standardization (ISO). ISO 9001 is the highest level of accreditation and includes an assessment of 20 elements covering various aspects of design development, procurement, production,

installation and servicing. The Company's certification was obtained through an audit by a qualified international certifying agency. In order to maintain its certification, the Company must continue to comply with the standards.

PROPRIETARY RIGHTS

None of the Company's current manufacturing processes or products is protected by patents. The Company relies on a combination of trade secret, copyright and trademark law, nondisclosure agreements and technical measures to establish and protect its rights pertaining to its production technology. Such protection may not deter misappropriation or preclude competitors from developing production techniques or equipment with features identical, similar or superior to the Company's. The Company believes, however, that because of the rapid pace of technological change in the data communications industry and particularly in the fiber optic cable segment, legal protection for the Company's products is less significant to the Company's prospects than the knowledge, ability and expertise of its management and technical personnel with respect to the timely development and production of new products and product enhancements. The Company considers its proprietary knowledge with respect to the development and manufacture of fiber optic cable to be a valuable asset. This expertise enables the Company to formulate new cable compositions, develop special coatings and coating methods, develop and implement manufacturing improvements and quality control techniques, and design and construct manufacturing and quality control equipment. The Company restricts access to its manufacturing facility and engineering documentation to maintain security. Employees are required to sign nondisclosure agreements.

The Company believes that none of its products, trademarks or other proprietary rights infringes upon the proprietary rights of others. There can be no assurance, however, that third parties will not assert infringement claims against the Company in the future with respect to the Company's present or future products which may require the Company to enter into license agreements or result in protracted and costly litigation, regardless of the merits of such claims.

COMPETITION

The market for fiber optic cable, including the moderate distance market in which the Company's products are concentrated, is highly competitive. Siecorm Corp. (a joint venture of Siemens AG and Coming) and Lucent Technologies are the leading manufacturers of fiber optic cable for both the long distance telephone market and the moderate distance market. Although both manufacture gel-filled, loose tube cables, a significant portion of Lucent Technologies and Siecorm Corp.'s fiber optic cable sales are tight-buffered fiber optic cable products in the moderate distance market. Also, Coming and Lucent Technologies are principal suppliers of optical fiber worldwide. The Company's competitors, including Siecorm Corp. and Lucent Technologies, are more established, having a large business base in the long distance telephone, gel-filled, loose tube cable market. Those companies can benefit from greater market recognition and have greater financial, research and development, production and marketing resources than the Company.

Additionally, fiber optic cable competes with copper wire cable on the basis of cost and performance tradeoffs. The cost of the electro-optical interfaces required for fiber optic systems and higher speed electronics generally associated with high performance fiber optic systems can make them uncompetitive in applications where the advantages of optical fiber are not required. Fiber optic cable also competes with other alternative transmission media including wireless and satellite communications.

The Company believes that it competes successfully against its competitors on the basis of breadth of product features, quality, ability to meet delivery schedules, technical support and service, breadth of distribution channels and price. Maintaining such competitive advantages will require continued investment by the Company in product development, sales and marketing. There can be no assurance that the Company will have sufficient resources to make such investments or that the Company will be able to make the technological advances necessary to maintain its competitive position. An increase in compe-

tion could have a material adverse effect on the Company's business and operating results because of price reductions and loss of market share. Competition could increase if new companies enter the market or if existing competitors expand their product lines.

EMPLOYEES

As of October 31, 1997, the Company employed a total of 145 persons, including 55 in sales, marketing and customer service, 12 in engineering, product development and quality control, 68 in manufacturing, and 10 in finance and administration. None of the Company's employees is represented by a labor union. The Company has experienced no work stoppage and believes its employee relations are excellent. The Company has a monthly bonus plan for all employees along with an end of year profit sharing plan.

ITEM 2. PROPERTIES

The Company's principal administration, marketing, manufacturing, and product development facilities are located in a 148,000 square foot building located adjacent to the Roanoke, Virginia airport and major trucking company facilities. These facilities were expanded from 74,000 to 148,000 square feet through construction which was completed in January 1997 on land purchased by the Company in 1994 adjacent to the Company's existing facility. The Company believes that its production equipment is presently operating at approximately 50% of its capacity.

ITEM 3. LEGAL PROCEEDINGS

In the opinion of the Company's management, there are no legal proceedings pending to which the Company is a party or to which any of its properties is subject, other than ordinary, routine litigation incidental to the business which is not expected to have a material adverse effect on the results of operations, financial condition or cash flows of the Company.

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

There were no issues or matters submitted to a vote of security holders during the fourth quarter of the fiscal year ended October 31, 1997.

PART II

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

The Company's Common Stock is traded on the Nasdaq National Market under the symbol "OCCF" and began trading on April 2, 1996. The following table sets forth for the fiscal periods indicated the high and low sales prices of the Common Stock, as reported on the Nasdaq National Market, during the two most recent fiscal years.

FISCAL YEAR ENDED OCTOBER 31, 1997 -----	HIGH -----	LOW -----
First Quarter (November 1, 1996 to January 31, 1997)	14 3/4	10 3/8
Second Quarter (February 1 to April 30, 1997)	17 3/4	9 7/8
Third Quarter (May 1 to July 31, 1997)	13 1/8	7 1/8
Fourth Quarter (August 1 to October 31, 1997)	16 1/4	7 7/8
FISCAL YEAR ENDED OCTOBER 31, 1996 -----		
Second Quarter (April 2 to April 30, 1996)(1)	4 5/8	2 3/8
Third Quarter (May 1 to July 31, 1996)(1)	34	4 1/4
Fourth Quarter (August 1 to October 31, 1996)	20	8 1/4

 (1) The Company's stock split 2 for 1 on May 31, 1996 and 2 for 1 on June 21, 1996. All per share amounts reported have need adjusted to give retroactive effect to these stock splits.

As of January 15, 1998, there were an estimated 5,500 holders of record of the Common Stock.

The Company has not paid or declared any cash dividends on its common stock since the completion of the initial public offering in April 1996. While there are no restrictions on the payment of dividends, the Company does not anticipate the payment of any cash dividends on its common stock for the foreseeable future.

ITEM 6. SELECTED FINANCIAL DATA

OPTICAL CABLE CORPORATION
SELECTED FINANCIAL DATA

	YEARS ENDED OCTOBER 31,				
	1997	1996	1995	1994	1993
	(IN THOUSANDS, EXCEPT PER SHARE DATA)				
STATEMENT OF INCOME DATA:					
Net sales	\$52,189	\$ 45,152	\$ 36,360	\$ 26,217	\$ 24,980
Cost of goods sold	30,613	24,907	20,121	14,138	13,036
Gross profit	21,576	20,245	16,239	12,079	11,944
Total operating expenses	9,572	8,416	7,660	7,967	7,724
Income from operations	12,004	11,829	8,579	4,112	4,220
Other income (expense), net	(47)	198	(379)	(614)	(870)
Income before income tax expense and extraordinary item	11,957	12,027	8,200	3,498	3,350
Income tax expense (1)	4,150	2,806	--	--	--
Income before extraordinary item	7,807	9,221	8,200	3,498	3,350
Extraordinary item	--	--	--	(149)	--
Net income	\$ 7,807	\$ 9,221	\$ 8,200	\$ 3,349	\$ 3,350
Pro forma Income Data (1):					
Net income before pro forma income tax provision, as reported.....		\$ 9,221			
Pro forma income tax provision		1,747			
Pro forma net income		\$ 7,474			
Net income per share (pro forma for 1996)	\$ 0.202	\$ 0.190			
Weighted average shares outstanding (pro forma for 1996)	38,675	39,361			
BALANCE SHEET DATA:					
Working capital	\$19,912	\$ 14,377	\$ 9,076	\$ 10,140	\$ 6,322
Total assets	35,214	31,127	18,819	19,056	16,465
Long-term debt, less current maturities	--	--	--	8,000	2,000
Total stockholders' equity	31,379	23,572	14,952	7,832	7,161

(1) Through March 31, 1996, the Company was not subject to federal and state income taxes since it had elected, under provisions of the Internal Revenue Code, to be taxed as an S Corporation. In connection with the closing of the Company's initial public offering (see note 11 to financial statements), the Company terminated its status as an S Corporation effective March 31, 1996 and became subject to federal and state income taxes. Accordingly, the statement of income data for the year ended October 31, 1996 includes income taxes from April 1, 1996, and for informational purposes, the statement of income data for the year ended October 31, 1996 includes a pro forma adjustment for income taxes which would have been recorded if the Company had been subject to income taxes for the entire fiscal year presented.

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

GENERAL

Except for the historical data set forth herein, the following discussion contains certain forward-looking information. The Company's actual results may differ materially from these projected results. Factors that could cause or contribute to such differences include, but are not limited to, level of sales to key customers, actions by competitors, fluctuations in the price of raw materials, the Company's dependence on a single manufacturing facility, ability to protect its proprietary manufacturing technology, dependence on a limited number of suppliers and technological changes and introductions of new competing products.

RESULTS OF OPERATIONS

Net Sales

Net sales consists of gross sales of products, less discounts, refunds and returns. Net sales increased 15.6 percent to \$52.2 million in fiscal 1997 from \$45.2 million for fiscal 1996. This increase was attributable to the Company's continued effort to reach a broader customer base throughout the United States and internationally with increased advertising, trade show attendance, and direct sales presence in more states. This effort resulted in greater sales in all market segments and product types.

Net sales increased 24.2 percent to \$45.2 million in fiscal 1996 from \$36.4 million for fiscal 1995. This increase was attributable to the Company's continued effort to reach a broader customer base throughout the United States and internationally with increased advertising, trade show attendance and direct sales presence in more states. This effort resulted in greater sales in all market segments and product types.

The Company's base business is projected to grow rapidly with increasing market share potential. Many new markets are expected to emerge as fiber optic sensors are developed for production plant automation, smart highways and security applications, along with a host of other specialty markets. Most electronic communication devices produced by the vast number of global suppliers are expected to rely more heavily on fiber optic communications to achieve their performance goals. Management believes the Company's unique technological background and specialty market expertise should lend itself well to capture an increasing share of this global market along with expected earnings growth. Optical Cable Corporation also intends to make inroads into various other markets such as single-mode telecommunications and cable television.

Gross Profit Margin

Cost of goods sold consists of the cost of materials, compensation costs and overhead related to the Company's manufacturing operations. The Company's gross profit margin (gross profit as a percentage of net sales) decreased to 41.3 percent in fiscal 1997 from 44.8 percent in fiscal 1996. This decrease was due to increased fiber prices, the Company's product mix sold, the ratio of large orders and the ratio of net sales attributable to the Company's distributors during the year. During fiscal 1997, sales from orders \$50,000 or more approximated 20 percent of net sales compared to 19 percent for fiscal 1996. Discounts on large orders are generally greater than for sales from orders less than \$50,000. In addition, for fiscal 1997, net sales to distributors approximated 51 percent of net sales versus 49 percent for fiscal 1996. Discounts on sales to distributors are generally greater than for sales to the Company's other customer base.

The Company's gross profit margin increased slightly to 44.8 percent in fiscal 1996 from 44.7 percent in fiscal 1995.

Selling, General and Administrative Expenses

Selling, general and administrative expenses consist of the compensation costs (including sales commissions) for sales and marketing personnel, travel expenses, customer support expenses, trade show expenses, advertising, the compensation cost for administration, finance and general management personnel, as well as legal and accounting fees. Selling, general and administrative expenses as a percentage of net sales were 18.3 percent in fiscal 1997 compared to 18.6 percent in fiscal 1996. This lower percentage was primarily the result of the fact that net sales for fiscal 1997 increased at a faster rate than selling, general and administrative expenses compared to fiscal 1996. The ratio of selling, general and administrative expenses as a percentage of net sales was also impacted due to incurring approximately \$350,000 of shareholder related expenses during fiscal 1997, such as printing and distribution costs for the annual report and the proxy statement, and costs for the annual meeting of shareholders, compared to approximately \$141,000 of similar expenses in fiscal 1996.

Selling, general and administrative expenses as a percentage of net sales were 18.6 percent in fiscal 1996 compared to 21.1 percent in fiscal 1995. This lower percentage was primarily the result of the fact that net sales for fiscal 1996 increased at a faster rate than selling, general and administrative expenses compared to fiscal 1995.

Interest Expense

The \$369,000 reduction in interest expense in fiscal 1996 compared to fiscal 1995 is due to the Company generating adequate amounts of cash from operations to meet its cash needs thereby requiring limited use of its revolving line of credit during fiscal 1997 and 1996.

Income Before Income Tax Expense

Income before income tax expense of \$12 million in fiscal 1997 decreased \$70,000 compared to fiscal 1996. This slight decrease was primarily due to increased sales volume offset by the decrease in gross profit margin.

Income before income tax expense increased 46.7 percent to \$12 million for fiscal 1996 from \$8.2 million for fiscal 1995. This increase was primarily due to increased sales volume and a reduction in interest expense.

Income Taxes

Through March 31, 1996, the Company was not subject to federal and state income taxes since it had elected to be taxed as an S Corporation. In connection with the Company's initial public offering (see note 11 to financial statements), the Company terminated its status as an S Corporation effective March 31, 1996 and became subject to federal and state income taxes. The statement of income for the year ended October 31, 1997 includes income taxes, at an effective tax rate of 34.7 percent, and the statement of income for the year ended October 31, 1996 includes income taxes from April 1, 1996, and, for informational purposes, a pro forma adjustment for income taxes, at an effective tax rate of 37.9 percent, which would have been recorded if the Company had been subject to income taxes for the entire period presented. The lower effective tax rate for fiscal 1997 is due primarily to the benefit of the Company's foreign sales corporation.

The Company recorded a \$114,000 net benefit for deferred income taxes upon termination of the Company's S Corporation status. The adjustment reflects the net deferred income tax asset balance at March 31, 1996 in accordance with the provisions of Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes, which requires an asset and liability approach for the accounting and financial reporting of income taxes. See note 10 to financial statements for further details regarding income taxes.

Net Income

Net income for fiscal 1997 was \$7.8 million compared to \$9.2 million for fiscal 1996. Net income decreased \$1.4 million due primarily to income tax expense of \$4.1 million for fiscal 1997 compared to \$2.8 million for fiscal 1996 as a result of the Company's termination of its S Corporation status effective

March 31, 1996. Net income for fiscal 1997 increased \$333,000, or 4.5 percent over pro forma net income for fiscal 1996. This increase resulted primarily from the decrease in income before income tax expense of \$70,000, and by the \$404,000 decrease in income tax expense in fiscal 1997 from the pro forma income tax provision in fiscal 1996.

Net income increased 12.4 percent to \$9.2 million for fiscal 1996 from \$8.2 million for fiscal 1995. This increase was a result of a \$3.8 million increase in income before income tax expense which was offset by the recording of income tax expense of \$2.8 million for fiscal 1996 as a result of the Company's termination of its S Corporation status effective March 31, 1996.

FINANCIAL CONDITION

Total assets at October 31, 1997 were \$35.2 million, an increase of \$4.1 million, or 13.1 percent over October 31, 1996. This increase was primarily due to an increase of \$563,000 in trade accounts receivable, net, resulting from the increased sales volume during fourth quarter 1997 as compared to fourth quarter 1996, an increase of \$1.8 million in inventories, and a \$2.3 million increase in property and equipment, net, due to the Company's expansion of its headquarters facilities. The expansion was funded in part through the \$692,000 decrease in cash and cash equivalents.

Total stockholders' equity at October 31, 1997 increased \$7.8 million, or 33.1 percent from October 31, 1996 with net income retained accounting for the increase.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary capital needs have been to (i) fund working capital requirements, (ii) repay indebtedness, (iii) purchase property and equipment for expansion and (iv) fund distributions to its previously sole stockholder primarily to satisfy his tax liabilities resulting from the Company's S Corporation status, which was terminated March 31, 1996. The Company's primary sources of financing have been cash from operations, bank borrowings and proceeds from the initial public offering of the Company's common stock. The Company believes that its cash flow from operations and available lines of credit will be adequate to fund its operations for at least the next twelve months.

On February 28, 1997, the Company and its bank executed a loan commitment letter, which renewed its \$5 million secured revolving line of credit available for general corporate purposes and established a \$10 million secured line of credit to fund potential acquisitions, mergers or joint ventures. The lines of credit are equally and ratably secured by the Company's accounts receivable, contract rights, inventory, furniture and fixtures, machinery and equipment and general intangibles. The lines of credit will expire on February 28, 1998, unless renewed or extended. As of the date hereof, the Company has no additional material sources of financing.

On October 29, 1997, the Company's Board of Directors authorized the repurchase of up to \$5 million of the Company's common stock in the open market or in privately negotiated transactions. The Company intends to use excess working capital and other sources as appropriate to finance the share repurchase program.

Cash flows from operations were approximately \$4.0 million, \$4.1 million and \$11.3 million in fiscal 1997, 1996 and 1995, respectively. For fiscal 1997, cash flows from operations were primarily provided by operating income, offset by an increase in trade accounts receivable of \$552,000, an increase in inventory of \$1.8 million and a decrease in accounts payable and accrued expenses of \$2.3 million. For fiscal 1996, cash flows from operations were primarily provided by operating income, offset by an increase in trade accounts receivable of \$3.4 million and an increase in inventory of \$4.2 million. Cash flows from operations in fiscal 1995 were primarily provided by operating income and a decrease in inventory of \$2.8 million. In 1995, the Company reduced its inventory of optical fiber because it had additional access to ready supplies.

Net cash used in investing activities was for expenditures related to facilities and equipment and was \$3.6 million, \$3.1 million and \$387,000 in fiscal 1997, 1996 and 1995, respectively. The Company's expansion of its headquarters facilities was completed in fiscal 1997, and as of October 31, 1997, there were no material commitments for additional capital expenditures.

Net cash provided by (used in) financing activities was \$(1.1) million, \$193,000 and \$(10.5) million in fiscal 1997, 1996 and 1995, respectively. The net cash used in financing activities in fiscal 1997 consisted of repayment of debt outstanding under the Company's lines of credit of \$1.1 million compared to an increase of \$794,000 in fiscal 1996. The net cash provided by financing activities in fiscal 1996 also included net proceeds from the issuance of common stock of \$5.6 million, offset by \$6.2 million in cash distributions to the Company's previously sole stockholder for payment of his income taxes with respect to the taxable income of the Company prior to the termination of the Company's S Corporation status. The net cash used in financing activities in fiscal 1995 consisted of a decrease in debt outstanding under the line of credit of \$5.9 million, payments on long-term debt of \$3.5 million and cash distributions to the Company's previously sole stockholder of \$1.1 million.

Given the Company's software and hardware and the nature of its industry, management does not consider the cost of addressing the Year 2000 issue to be a material event or uncertainty that would cause reported financial information not to be indicative of future operating results or financial condition.

NEW ACCOUNTING STANDARDS

SFAS No. 128

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, Earnings per Share. SFAS No. 128 establishes standards for computing and presenting earnings per share (EPS) and applies to entities with publicly held common stock or potential common stock. SFAS No. 128 simplifies the standards for computing earnings per share previously found in APB Opinion No. 15, Earnings per Share, and makes them comparable to international EPS standards. It replaces the presentation of primary EPS with a presentation of basic EPS. It also requires dual presentation of basic and diluted EPS on the face of the income statement for all entities with complex capital structures and requires a reconciliation of the numerator and denominator of the basic EPS computation to the numerator and denominator of the diluted EPS computation.

Basic EPS excludes dilution and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS 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 earnings of the entity.

SFAS No. 128 is effective for financial statements issued for periods ending after December 15, 1997, including interim periods; earlier application is not permitted. SFAS No. 128 requires restatement of all prior-period EPS data presented. It is not anticipated that SFAS No. 128 will have any material effect on current or prior period EPS data presented by the Company.

SFAS No. 130

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130, Reporting Comprehensive Income. SFAS No. 130 establishes standards for reporting and display of comprehensive income and its components in a full set of general purpose financial statements. SFAS No. 130 was issued to address concerns over the practice of reporting elements of comprehensive income directly in equity.

This Statement requires all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed in equal prominence with the other financial statements. It does not require a specific format for that financial statement but requires that an enterprise display an amount representing total comprehensive income for the period in that financial statement.

SFAS No. 130 is applicable to all entities that provide a full set of financial statements. Enterprises that have no items of other comprehensive income in any period presented are excluded from the scope of this Statement.

SFAS No. 130 is effective for both interim and annual periods beginning after December 15, 1997. Comparative financial statements provided for earlier periods are required to be reclassified to reflect the provisions of this Statement. It is not anticipated that SFAS No. 130 will have any material effect on current or prior period financial statement displays presented by the Company.

SFAS No. 131

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information. SFAS No. 131 establishes standards for the way public business enterprises are to report information about operating segments in annual financial statements and requires those enterprises to report selected information about operating segments in interim financial reports issued to shareholders. It also establishes standards for related disclosures about products and services, geographic areas and major customers.

SFAS No. 131 is effective for financial statements for periods beginning after December 15, 1997. In the initial year of application, comparative information for earlier years is to be restated, unless it is impracticable to do so. SFAS No. 131 need not be applied to interim financial statements in the initial year of its application, but comparative information for interim periods in the initial year of application shall be reported in financial statements for interim periods in the second year of application. It is not anticipated that SFAS No. 131 will have any material effect on current or prior period segment disclosures presented by the Company.

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AND FINANCIAL STATEMENT SCHEDULES

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FINANCIAL STATEMENT SCHEDULES:	
Financial statement schedules have been omitted since they are not required, not applicable, or the information is otherwise included in the financial statements of the Company.	

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Optical Cable Corporation:

We have audited the accompanying balance sheets of Optical Cable Corporation as of October 31, 1997 and 1996, and the related statements of income, stockholders' equity, and cash flows for each of the years in the three-year period ended October 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 financial statements referred to above present fairly, in all material respects, the financial position of Optical Cable Corporation as of October 31, 1997 and 1996, and the results of its operations and its cash flows for each of the years in the three-year period ended October 31, 1997, in conformity with generally accepted accounting principles.

KPMG Peat Marwick LLP

Roanoke, Virginia
December 12, 1997

OPTICAL CABLE CORPORATION
BALANCE SHEETS
OCTOBER 31, 1997 AND 1996

	OCTOBER 31,	
	1997	1996
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 985,807	\$ 1,677,739
Trade accounts receivable, net of allowance for doubtful accounts of \$307,400 in 1997 and \$300,000 in 1996	9,931,276	9,368,476
Other receivables	540,102	354,041
Due from employees	3,534	1,475
Inventories	12,019,443	10,261,437
Prepaid expenses	121,046	64,863
Deferred income taxes	81,484	155,304
	23,682,692	21,883,335
Total current assets		
Other assets, net	50,953	67,996
Property and equipment, net	11,480,433	9,175,871
	\$35,214,078	\$31,127,202
Total assets	\$35,214,078	\$31,127,202
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable	\$ --	\$ 1,103,000
Accounts payable and accrued expenses	2,593,256	5,488,765
Accrued compensation and payroll taxes	612,736	676,725
Income taxes payable	564,999	237,926
	3,770,991	7,506,416
Total current liabilities		
Deferred income taxes	64,382	49,227
	3,835,373	7,555,643
Total liabilities	3,835,373	7,555,643
Stockholders' equity:		
Preferred stock, no par value, authorized 1,000,000 shares; none issued and outstanding	--	--
Common stock, voting; no par value, authorized 50,000,000 shares; issued and outstanding 38,675,416 shares	18,594,116	18,594,116
Retained earnings	12,784,589	4,977,443
	31,378,705	23,571,559
Total stockholders' equity		
Commitments and contingencies	\$35,214,078	\$31,127,202
Total liabilities and stockholders' equity	\$35,214,078	\$31,127,202

See accompanying notes to financial statements.

OPTICAL CABLE CORPORATION
 STATEMENTS OF INCOME
 YEARS ENDED OCTOBER 31, 1997, 1996 AND 1995

	YEARS ENDED OCTOBER 31,		
	1997	1996	1995
Net sales	\$52,188,850	\$45,152,299	\$36,359,953
Cost of goods sold	30,612,690	24,907,373	20,121,355
Gross profit	21,576,160	20,244,926	16,238,598
Selling, general and administrative expenses	9,572,061	8,415,798	7,660,100
Income from operations	12,004,099	11,829,128	8,578,498
Other income (expense):			
Interest income	15,351	94,888	175
Interest expense	(17,930)	(9,595)	(378,205)
Other, net	(44,580)	112,988	(377)
Other income (expense), net	(47,159)	198,281	(378,407)
Income before income tax expense	11,956,940	12,027,409	8,200,091
Income tax expense	4,149,794	2,806,849	--
Net income	\$ 7,807,146	\$ 9,220,560	\$ 8,200,091
Pro forma income data (unaudited):			
Net income before pro forma income tax pro- vision, as reported		\$ 9,220,560	
Pro forma income tax provision		1,746,513	
Pro forma net income		\$ 7,474,047	
Net income per share (pro forma for 1996)	\$ 0.202	\$ 0.190	
Weighted average shares outstanding (pro forma for 1996)	38,675,416	39,360,659	

See accompanying notes to financial statements.

OPTICAL CABLE CORPORATION
 STATEMENTS OF STOCKHOLDERS' EQUITY
 YEARS ENDED OCTOBER 31, 1997, 1996 AND 1995

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	TOTAL STOCKHOLDERS' EQUITY
	SHARES	AMOUNT			
Balances at October 31, 1994	36,000,000	\$ 596	\$ 767,849	\$ 7,063,249	\$ 7,831,694
Cash distributions to previously sole stockholder	--	--	--	(1,080,000)	(1,080,000)
Net income	--	--	--	8,200,091	8,200,091
Balances at October 31, 1995	36,000,000	596	767,849	14,183,340	14,951,785
Net income -- five months ended March 31, 1996	--	--	--	4,243,117	4,243,117
Issuance of common stock for cash (\$2.50 per share, less issuance costs of \$1,139,326).....	2,675,416	5,549,214	--	--	5,549,214
Cash distributions to previously sole stockholder	--	--	--	(6,150,000)	(6,150,000)
Recapitalization	--	13,044,306	(767,849)	(12,276,457)	--
Net income -- seven months ended October 31, 1996	--	--	--	4,977,443	4,977,443
Balances at October 31, 1996	38,675,416	18,594,116	--	4,977,443	23,571,559
Net income	--	--	--	7,807,146	7,807,146
Balances at October 31, 1997	38,675,416	\$18,594,116	\$ --	\$12,784,589	\$ 31,378,705

See accompanying notes to financial statements.

OPTICAL CABLE CORPORATION
STATEMENTS OF CASH FLOWS
YEARS ENDED OCTOBER 31, 1997, 1996 AND 1995

	YEARS ENDED OCTOBER 31,		
	1997	1996	1995
Cash flows from operating activities:			
Net income	\$7,807,146	\$9,220,560	\$ 8,200,091
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	706,076	533,445	404,469
Bad debt expense (recovery)	(10,778)	266,366	87,652
Deferred income taxes	88,975	(106,077)	--
Loss on sale of property and equipment	--	--	381
(Increase) decrease in:			
Trade accounts receivable	(552,022)	(3,447,954)	(1,921,238)
Other receivables	(186,061)	(255,744)	(45,514)
Due from employees	(2,059)	1,750	(2,800)
Inventories	(1,758,006)	(4,228,395)	2,813,002
Prepaid expenses	(56,183)	21,690	(80,721)
Other assets	39	116,237	(201,237)
Increase (decrease) in:			
Accounts payable and accrued expenses	(2,260,416)	1,881,379	1,594,951
Accrued compensation and payroll taxes	(63,989)	(154,472)	450,928
Income taxes payable	327,073	237,926	--
Net cash provided by operating activities	4,039,795	4,086,711	11,299,964
Cash flows from investing activities:			
Purchase of property and equipment	(3,628,727)	(3,137,421)	(387,231)
Proceeds from sale of property and equipment	--	--	20
Net cash used in investing activities	(3,628,727)	(3,137,421)	(387,211)
Cash flows from financing activities:			
Net borrowings (payments) on notes payable	(1,103,000)	794,000	(5,903,238)
Payments on long-term debt	--	--	(3,500,000)
Proceeds from issuance of common stock, net of issuance costs	--	5,549,214	--
Cash distributions to previously sole stockholder	--	(6,150,000)	(1,080,000)
Net cash provided by (used in) financing activities.....	(1,103,000)	193,214	(10,483,238)
Net increase (decrease) in cash and cash equivalents	(691,932)	1,142,504	429,515
Cash and cash equivalents at beginning of year	1,677,739	535,235	105,720
Cash and cash equivalents at end of year	\$ 985,807	\$1,677,739	\$ 535,235
Supplemental Disclosure of Cash Flow Information:			
Cash payments for interest	\$ 17,930	\$ 9,595	\$ 386,663
Income taxes paid	\$3,733,746	\$2,675,000	\$ --
Noncash investing activities - capital expenditures accrued in accounts payable	\$ 245,566	\$ 880,659	\$ --

See accompanying notes to financial statements.

OPTICAL CABLE CORPORATION
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED OCTOBER 31, 1997, 1996 AND 1995

(1) DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Description of Business

Optical Cable Corporation (the Company) manufactures and markets a broad range of fiber optic cables for "high bandwidth" transmission of data, video and audio communications over moderate distances. The Company's fiber optic cables are sold nationwide and in over 68 foreign countries (also see note 9).

(b) Cash Equivalents

Cash equivalents of \$763,000 and \$1,397,510 at October 31, 1997 and 1996, respectively, consist of overnight repurchase agreements at October 31, 1997 and money market mutual funds at October 31, 1996. 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.

(c) Inventories

Inventories of raw materials and production supplies are stated at the lower of cost (specific identification for optical fibers and first-in, first-out for other raw materials and production supplies) or market. Inventories of work in process and finished goods are stated at average cost, which includes raw materials, direct labor and manufacturing overhead.

(d) 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-nine years for buildings and improvements and five to seven years for machinery and equipment and furniture and fixtures.

(e) Revenue Recognition

Revenue is recognized at the time of product shipment or delivery to the customer, based on shipping terms.

(f) Income Taxes

Through March 31, 1996, the Company was not subject to federal and state income taxes since it had elected, under provisions of the Internal Revenue Code, to be taxed as an S Corporation. In lieu of corporation income taxes, the stockholders of an S Corporation are taxed on their proportionate share of the Company's taxable income.

In connection with the closing of the Company's initial public offering (see note 11), the Company terminated its status as an S Corporation effective March 31, 1996 and became subject to federal and state income taxes. Accordingly, the statement of income for the year ended October 31, 1996 includes income taxes from April 1, 1996, and for informational purposes, the statement of income for the year ended October 31, 1996 includes a pro forma adjustment for income taxes which would have been recorded if the Company had been subject to income taxes for the entire fiscal year presented.

Effective March 31, 1996, 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 and tax credit carryforwards. Deferred tax assets and liabilities are

OPTICAL CABLE CORPORATION
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED OCTOBER 31, 1997, 1996 AND 1995 - (CONTINUED)

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.

(g) Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of

The Company adopted the provisions of SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, on November 1, 1996. This Statement requires that long-lived assets and certain identifiable intangibles be 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 such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Adoption of this Statement did not have a material impact on the Company's financial position, results of operations, or liquidity.

(h) Stock Option Plan

Prior to November 1, 1996, the Company accounted for its stock option plan in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. As such, compensation expense would be recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. On November 1, 1996, the Company adopted SFAS No. 123, Accounting for Stock-Based Compensation, which permits entities to recognize as expense over the vesting period the fair value of all stock-based awards on the date of grant. Alternatively, SFAS No. 123 also allows entities to continue to apply the provisions of APB Opinion No. 25 and provide pro forma net income and pro forma earnings per share disclosures for employee stock option grants made in 1995 and future years as if the fair-value-based method defined in SFAS No. 123 had been applied. The Company has elected to continue to apply the provisions of APB Opinion No. 25 and provide the pro forma disclosure provisions of SFAS No. 123.

(i) Pro Forma Net Income Per Share

Pro forma net income per share was computed by dividing pro forma net income by the pro forma weighted average number of common shares outstanding during the period (as adjusted for the recapitalization) and by deeming to be outstanding the number of shares (1,800,000) the Company would have needed to issue at the initial public offering price per share (\$2.50) to pay a \$1 million cash distribution to the previously sole stockholder in December 1995 and a \$3.5 million cash distribution to the previously sole stockholder out of the proceeds of the initial public offering.

(j) Use of Estimates

The preparation of financial statements in conformity with 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 these estimates.

OPTICAL CABLE CORPORATION
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED OCTOBER 31, 1997, 1996 AND 1995 - (CONTINUED)

(2) ALLOWANCE FOR DOUBTFUL ACCOUNTS RECEIVABLE

A summary of changes in the allowance for doubtful accounts receivable for the years ended October 31, 1997, 1996 and 1995 follows:

	YEARS ENDED OCTOBER 31,		
	1997	1996	1995
Balance at beginning of year	\$ 300,000	\$ 200,000	\$ 250,000
Bad debt expense (recovery)	(10,778)	266,366	87,652
Losses charged to allowance	(26,592)	(176,512)	(170,070)
Recoveries added to allowance	44,770	10,146	32,418
	-----	-----	-----
Balance at end of year	\$ 307,400	\$ 300,000	\$ 200,000
	=====	=====	=====

(3) INVENTORIES

Inventories at October 31, 1997 and 1996 consist of the following:

	OCTOBER 31,	
	1997	1996
Finished goods	\$ 4,854,697	\$ 2,465,659
Work in process	1,976,970	3,104,339
Raw materials	5,125,044	4,645,843
Production supplies	62,732	45,596
	-----	-----
	\$12,019,443	\$10,261,437
	=====	=====

(4) PROPERTY AND EQUIPMENT

Property and equipment at October 31, 1997 and 1996 consists of the following:

	OCTOBER 31,	
	1997	1996
Land	\$ 2,745,327	\$ 2,745,327
Building and improvements	7,058,660	3,401,997
Machinery and equipment	4,578,631	3,982,889
Furniture and fixtures	732,963	428,742
Construction in progress	33,619	1,596,611
	-----	-----
Total property and equipment, at cost	15,149,200	12,155,566
Less accumulated amortization and depreciation	(3,668,767)	(2,979,695)
	-----	-----
Property and equipment, net	\$ 11,480,433	\$ 9,175,871
	=====	=====

OPTICAL CABLE CORPORATION
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED OCTOBER 31, 1997, 1996 AND 1995 - (CONTINUED)

(5) NOTES PAYABLE

On February 28, 1997, the Company and its bank executed a loan commitment letter, which renewed its \$5 million secured revolving line of credit available for general corporate purposes and established a \$10 million secured line of credit to fund potential acquisitions, mergers or joint ventures. The lines of credit bear interest at 1.50 percent above the monthly LIBOR rate (5.80 percent as of October 31, 1997) and are equally and ratably secured by the Company's accounts receivable, contract rights, inventory, furniture and fixtures, machinery and equipment and general intangibles. The lines of credit will expire on February 28, 1998, unless renewed or extended. While the lines of credit do not require a compensating balance that legally restricts the use of cash amounts, at the bank's request, the Company has agreed to maintain an unrestricted target cash balance of \$125,000.

(6) LEASES

In August 1994, the Company entered into a four-year operating lease for computerized mailing and shipping equipment with an unrelated party. Rent expense under this lease amounted to \$25,030 for the years ended October 31, 1997, 1996 and 1995. Future minimum rental payments required under the lease are \$23,680 payable in fiscal year 1998.

(7) RELATED PARTY AGREEMENTS

Effective November 1, 1994, the Company entered into two separate one-year employment agreements with its previously sole stockholder. Total compensation under the agreements consisted of salary payments equal to 6 percent of the previous fiscal year's net sales. Effective February 1, 1995, these agreements were replaced by an employment agreement that reduces the salary payment percentage from 6 percent to 1 percent and provides for sales commissions equal to 1 percent of the positive difference between the current fiscal year's net sales and the prior fiscal year's net sales. Compensation under these agreements amounted to \$521,889, \$451,523 and \$672,371 for the years ended October 31, 1997, 1996 and 1995, respectively.

Effective November 2, 1994, the Company entered into a services agreement to pay sales commissions of 4 percent of net foreign sales to OCC-VI, Inc., a foreign sales corporation. All of the outstanding shares of common stock of OCC-VI, Inc. are beneficially owned by the Company's previously sole stockholder. For the year ended October 31, 1995, the Company recorded commissions expense of \$343,290 related to the services agreement. As of September 28, 1995, the Company terminated this services agreement.

(8) EMPLOYEE BENEFITS

The Company's independently administered self-insurance program provides health insurance coverage for employees and their dependents on a cost-reimbursement basis. Under the program, the Company is obligated for claims payments. A stop loss insurance contract executed with an insurance carrier covers claims in excess of \$35,000 per covered individual and \$763,255 in the aggregate per year. During the years ended October 31, 1997, 1996 and 1995, total claims expense of \$872,582, \$876,481 and \$545,543, respectively, was incurred, which represents claims processed and an estimate for claims incurred but not reported.

OPTICAL CABLE CORPORATION
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED OCTOBER 31, 1997, 1996 AND 1995 - (CONTINUED)

Effective January 1, 1994, the Company adopted a 401(k) retirement savings plan. To become eligible for the plan, an employee must complete six months of service and be at least 21 years of age. The plan allows participants to contribute through salary reduction up to 6 percent of their annual compensation on a pretax basis. Company matching contributions are two dollars for every one dollar contributed by an employee up to 4 percent of the employees' annual compensation. The Company made matching contributions to the plan of \$313,365, \$233,072 and \$205,011 for the years ended October 31, 1997, 1996 and 1995, respectively.

The Company and its previously sole stockholder adopted on March 1, 1996 a stock incentive plan which is called the Optical Cable Corporation 1996 Stock Incentive Plan (the "Plan"). The Plan is intended to provide a means for employees to increase their personal financial interest in the Company, thereby stimulating the efforts of these employees and strengthening their desire to remain with the Company through the use of stock incentives. The Company has reserved 4,000,000 shares of common stock for issuance pursuant to incentive awards under the Plan. At October 31, 1997, there were 3,336,500 additional shares available for grant under the Plan. Under the Plan, stock options may be granted at not less than fair market value on the date of grant. The options have terms ranging from 8.75 to 10 years and vest 25 percent after two years, 50 percent after three years, 75 percent after four years and 100 percent after five years.

The per share weighted-average fair value of stock options granted during 1997 and 1996 was \$9.38 and \$2.18, respectively, on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions: 1997 -- expected cash dividend yield of zero percent, risk-free interest rate of 6.08 percent, expected volatility of 85.5 percent and an expected life of 8.75 years; 1996 -- expected cash dividend yield of zero percent, risk-free interest rate of 6.28 percent, expected volatility of 85.5 percent and an expected life of 10 years.

The Company applies APB Opinion No. 25 in accounting for its Plan and, accordingly, no compensation cost has been recognized for its stock options in the financial statements. Had compensation cost for the Company's Plan been determined consistent with SFAS No. 123, the Company's net income (pro forma for 1996) and net income per share (pro forma for 1996) would have been reduced to the SFAS No. 123 pro forma amounts indicated below:

	YEARS ENDED OCTOBER 31,	
	1997	1996
Net income:		
As reported (pro forma for 1996 - unaudited)	\$ 7,807,146	\$7,474,047
	=====	=====
Pro forma	\$ 7,638,186	\$7,400,134
	=====	=====
Net income per share:		
As reported (pro forma for 1996 - unaudited)	\$ 0.202	\$ 0.190
	=====	=====
Pro forma	\$ 0.197	\$ 0.188
	=====	=====

OPTICAL CABLE CORPORATION
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED OCTOBER 31, 1997, 1996 AND 1995 - (CONTINUED)

Stock option activity during the periods indicated is as follows:

	NUMBER OF SHARES	WEIGHTED-AVERAGE EXERCISE PRICE
	-----	-----
Balance at October 31, 1995	--	\$ --
Granted	460,000	2.500
Forfeited	(18,000)	2.500

Balance at October 31, 1996 (no options exercisable) .	442,000	2.500
Granted	254,000	11.125
Forfeited	(32,500)	6.348

Balance at October 31, 1997 (no options exercisable, 424,000 options at exercise price of \$2.50 per share with remaining contractual life of 8.5 years, and 239,500 options at exercise price of \$11.125 per share with remaining contractual life of 8.5 years)	663,500 =====	5.613

(9) BUSINESS AND CREDIT CONCENTRATIONS

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 at October 31, 1997 and 1996 have been adequately provided for in the financial statements.

For the years ended October 31, 1997, 1996 and 1995, 73 percent, 75 percent and 76 percent, respectively, of net sales were from customers located in the United States, while 27 percent, 25 percent and 24 percent, respectively, were from international customers. Europe accounted for approximately 10 percent of net sales for the year ended October 31, 1997 while no foreign geographic areas accounted for more than 10 percent of net sales for the years ended October 31, 1996 and 1995. As of October 31, 1997 and 1996, there were no significant amounts receivable from any one customer other than those described below.

For the year ended October 31, 1997, 22 percent of net sales were attributable to two major domestic distributors. The combined related trade accounts receivable for these distributors at October 31, 1997 totaled approximately \$2,265,000. No single customer or other distributor accounted for more than 5 percent of net sales for the year ended October 31, 1997. As of October 31, 1997, no single customer or other distributor had an outstanding balance payable to the Company in excess of 5 percent of total stockholders' equity.

For the year ended October 31, 1996, 12 percent of net sales were attributable to one major domestic distributor. The related trade accounts receivable for this distributor at October 31, 1996 totaled approximately \$2,468,000. No single customer or other distributor accounted for more than 5 percent of net sales for the year ended October 31, 1996. As of October 31, 1996, no single customer or other distributor had an outstanding balance payable to the Company in excess of 5 percent of total stockholders' equity.

For the year ended October 31, 1995, 10 percent of net sales were attributable to one major domestic distributor. No single customer or other distributor accounted for more than 5 percent of net sales for the year ended October 31, 1995.

OPTICAL CABLE CORPORATION
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED OCTOBER 31, 1997, 1996 AND 1995 - (CONTINUED)

(10) INCOME TAXES

The Company recorded a \$114,045 net benefit for deferred income taxes upon termination of the Company's S Corporation status. The adjustment reflects the net deferred income tax asset balance at March 31, 1996 in accordance with the provisions of Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes, which requires an asset and liability approach for the accounting and financial reporting of income taxes. The components of the net deferred tax asset at March 31, 1996 were substantially the same as the October 31, 1996 components presented below.

Income tax expense for the years ended October 31, 1997 and 1996 consists of:

YEAR ENDED OCTOBER 31, 1997	CURRENT	DEFERRED	TOTAL
U.S. Federal	\$ 3,654,654	\$ 78,224	\$ 3,732,878
State	406,165	10,751	416,916
Totals	\$ 4,060,819	\$ 88,975	\$ 4,149,794

YEAR ENDED OCTOBER 31, 1996	CURRENT	DEFERRED	TOTAL
U.S. Federal	\$ 2,556,601	\$ (93,490)	\$ 2,463,111
State	356,325	(12,587)	343,738
Totals	\$ 2,912,926	\$(106,077)	\$ 2,806,849

Reported income tax expense for the years ended October 31, 1997 and 1996 differs from the "expected" tax expense, computed by applying the U.S. Federal statutory income tax rate of 35 percent to income before income tax expense, as follows:

	YEARS ENDED OCTOBER 31,	
	1997	1996
"Expected" tax expense	\$ 4,184,929	\$4,209,593
Increase (reduction) in income tax expense resulting from:		
Foreign Sales Corporation benefit	(164,459)	(98,473)
State income taxes, net of federal benefits	254,592	215,967
S Corporation taxable income for the five months ended		
March 31, 1996	--	(1,485,091)
Net deferred income tax asset balance at March 31, 1996.	--	(114,045)
Other differences, net	(125,268)	78,898
Reported income tax expense	\$ 4,149,794	\$2,806,849

OPTICAL CABLE CORPORATION
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED OCTOBER 31, 1997, 1996 AND 1995 - (CONTINUED)

The tax effects of temporary differences that give rise to significant portions of the Company's net deferred tax asset as of October 31, 1997 and 1996 are presented below:

	OCTOBER 31,	
	1997	1996
Deferred tax assets:		
Accounts receivable, due to allowance for doubtful accounts	\$ 115,662	\$ 113,775
Inventories, due to additional costs inventoried for tax purposes pursuant to the Tax Reform Act of 1986.....	64,671	91,781
Self-insured health care costs, due to accrual for financial reporting purposes	45,986	43,780
Compensated absences due to accrual for financial reporting purposes	25,076	--
	251,395	249,336
Total gross deferred tax assets		
Less valuation allowance	--	--
	251,395	249,336
Net deferred tax assets		
Deferred tax liabilities:		
Plant and equipment, due to differences in depreciation and capital gain recognition	(64,381)	(49,227)
Other receivables, due to accrual for financial reporting purposes ...	(169,912)	(94,032)
	(234,293)	(143,259)
Total gross deferred tax liabilities		
Net deferred tax asset, including current net tax asset of \$81,484 in 1997 and \$155,304 in 1996, and noncurrent net tax liability of \$64,382 in 1997 and \$49,227 in 1996.....	\$ 17,102	\$ 106,077

Based on the Company's historical and current pretax earnings, management believes that it is more likely than not that the recorded deferred tax assets will be realized.

(11) RECAPITALIZATION AND INITIAL PUBLIC OFFERING

During fiscal year 1996, the Company's Board of Directors authorized the filing of a registration statement for a public offering of the Company's common stock. In connection with the public offering, the Board and the previously sole stockholder approved an increase in the number of authorized shares of common stock from 50,000 shares to 50,000,000 shares, a recapitalization involving an exchange of all outstanding \$1 par value common stock (596 shares) on a 60,403-for-1 basis for no par value common stock (36,000,000 shares) and the authorization of 1,000,000 shares of preferred stock, no par value, issuable in multiple series.

On April 1, 1996, the Company completed a public offering of 2,675,416 shares of the Company's common stock from which it received net proceeds of approximately \$5.5 million.

In connection with the recapitalization, additional paid-in capital as of March 31, 1996 has been reclassified to no par value common stock, and the amount of the undistributed taxable S Corporation earnings remaining as of March 31, 1996 has been reclassified to no par value common stock.

OPTICAL CABLE CORPORATION
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED OCTOBER 31, 1997, 1996 AND 1995 - (CONTINUED)

(12) FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards No. 107, Disclosures About Fair Value of Financial Instruments ("SFAS No. 107"), requires the Company to disclose estimated fair values of its financial instruments. SFAS No. 107 defines the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties. The carrying amounts reported in the balance sheet for cash, cash equivalents, trade accounts receivable, other receivables, notes payable, accounts payable and accrued expenses approximate fair value because of the short maturity of these instruments.

(13) FUTURE ACCOUNTING CONSIDERATION -- EARNINGS PER SHARE

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, Earnings per Share (SFAS No. 128). SFAS No. 128 establishes standards for computing and presenting earnings per share (EPS) and applies to entities with publicly held common stock or potential common stock. SFAS No. 128 simplifies the standards for computing earnings per share previously found in APB Opinion No. 15, Earnings per Share, and makes them comparable to international EPS standards. It replaces the presentation of primary EPS with a presentation of basic EPS. It also requires dual presentation of basic and diluted EPS on the face of the income statement for all entities with complex capital structures and requires a reconciliation of the numerator and denominator of the basic EPS computation to the numerator and denominator of the diluted EPS computation.

Basic EPS excludes dilution and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS 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 earnings of the entity.

SFAS No. 128 is effective for financial statements issued for periods ending after December 15, 1997, including interim periods; earlier application is not permitted. SFAS No. 128 requires restatement of all prior-period EPS data presented. It is not anticipated that SFAS No. 128 will have any material effect on current or prior period EPS data presented by the Company.

OPTICAL CABLE CORPORATION
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED OCTOBER 31, 1997, 1996 AND 1995 - (CONTINUED)

(14) QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following is a summary of the unaudited quarterly results of operations for the years ended October 31, 1997 and 1996:

YEAR ENDED OCTOBER 31, 1997	QUARTER ENDED			
	JANUARY 31	APRIL 30	JULY 31	OCTOBER 31
Net sales	\$12,491,311	\$10,645,571	\$14,285,834	\$14,766,134
Gross profit	5,351,665	4,292,588	5,616,809	6,315,098
Income before income taxes	3,203,870	2,035,806	3,102,845	3,614,419
Net income	2,080,361	1,312,523	2,016,683	2,397,579
Net income per share	0.054	0.034	0.052	0.062

YEAR ENDED OCTOBER 31, 1996	QUARTER ENDED			
	JANUARY 31	APRIL 30	JULY 31	OCTOBER 31
Net sales	\$10,342,472	\$10,183,960	\$10,862,064	\$13,763,803
Gross profit	4,707,021	4,096,839	4,953,023	6,488,043
Income before income taxes	2,774,994	2,252,228	2,983,232	4,016,955
Net income	2,774,994	2,068,288	1,858,823	2,518,455
Pro forma net income	1,709,397	1,387,372	1,858,823	2,518,455
Pro forma net income per share	0.045	0.036	0.046	0.063

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information contained in the Proxy Statement under the captions "PROPOSAL NO. 1, ELECTION OF DIRECTORS" and "EXECUTIVE OFFICERS AND OTHER SIGNIFICANT EMPLOYEES" concerning directors, persons nominated to become directors, executive officers and certain other significant employees of the Company is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information contained in the Proxy Statement under the captions "EXECUTIVE COMPENSATION", and under the caption "PROPOSAL NO. 1, ELECTION OF DIRECTORS" concerning compensation of directors, is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information contained in the Proxy Statement under the caption "BENEFICIAL OWNERSHIP OF COMMON STOCK" is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information contained in the Proxy Statement under the caption "CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS" is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) 1. Index of Financial Statements

The Company's financial statements and related information are included in Part II, Item 8 of this Form 10-K on pages 20 through 35.

2. Index of Financial Statement Schedules

None.

3. Index of Exhibits

The documents filed as exhibits to this Form 10-K pursuant to Item 601 of Regulation S-K are:

EXHIBIT NUMBER	DESCRIPTION
3.1	Amended and Restated Articles of Incorporated of Optical Cable Corporation
3.2	Bylaws of Optical Cable Corporation, as amended
4.1	Form of certificate representing Common Stock
10.1	Royalty Agreement, dated November 1, 1993, by and between Robert Kopstein and Optical Cable Corporation
10.2	Assignment of Technology Rights from Robert Kopstein to Optical Cable Corporation, effective as of October 31, 1994
10.3	Employment Agreement by and between Optical Cable Corporation and Robert Kopstein, effective March 12, 1997
10.4	Tax Indemnification Agreement, dated as of October 19, 1995, by and between Optical Cable Corporation and Robert Kopstein
10.5	Optical Cable Corporation 1996 Stock Incentive Plan (filed as exhibit 28.1 to the registrant's Registration Statement on Form S-8 filed on August 2, 1996 (file no. 333-09433), and incorporated herein by reference thereto)
10.6	Loan Agreement, dated April 25, 1997, by and between Optical Cable Corporation and First Union National Bank of Virginia
10.7	Security Agreement, dated April 25, 1997, between Optical Cable Corporation and First Union National Bank of Virginia
23	Consent of KPMG Peat Marwick LLP to incorporation by reference of independent auditors' report included in this Form 10-K, into registrant's registration statement on Form S-8
27	Financial Data Schedule

(b) Reports on Form 8-K

A Form 8-K dated October 30, 1997 was filed announcing that the Board of Directors of the Company had authorized the repurchase of up to \$5 million of the Company's common stock.

(c) Exhibits

The documents set forth in the index of exhibits above are filed as exhibits to this Form 10-K pursuant to Item 601 of Regulation S-K and, if not incorporated by reference, are attached hereto.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

OPTICAL CABLE CORPORATION

Date: January 29, 1998

By /s/ Robert Kopstein

Robert Kopstein
Chairman of the Board
President and Chief
Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated as of January 29, 1998.

/s/ Robert Kopstein ----- Robert Kopstein	Chairman of the Board, President, Chief Executive Officer and Director (principal executive officer)
/s/ Luke J. Huybrechts ----- Luke J. Huybrechts	Senior Vice President of Sales and Director
/s/ Kenneth W. Harber ----- Kenneth W. Harber	Vice President of Finance, Treasurer, Secretary and Director (principal financial and accounting officer)
/s/ Randall H. Frazier ----- Randall H. Frazier	Director
/s/ John M. Holland ----- John M. Holland	Director

OPTICAL CABLE CORPORATION
AMENDED AND RESTATED ARTICLES OF INCORPORATION

ARTICLE I
NAME

The name of the corporation is Optical Cable Corporation (the "Corporation").

ARTICLE II
PURPOSE

The Corporation is organized to engage in the development, manufacture and sale of optical fiber cables, specialty cables and cable assemblies. In addition, the Corporation shall have the power to engage in any lawful business not required by the Virginia Stock Corporation Act to be stated in the Articles of Incorporation.

ARTICLE III
AUTHORIZED SHARES

3.1 Number and Designation. The aggregate number and designation of shares that the Corporation shall have authority to issue are as follows:

Class	Number of Shares
Preferred, no par value	1,000,000
Common, no par value	50,000,000

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3.2 Preemptive Rights. No holder of outstanding shares shall have any preemptive right with respect to (i) any shares of any class of the Corporation, whether now or hereafter authorized, (ii) any warrants, rights or options to purchase any such shares, or (iii) any obligations convertible into any such shares or into warrants, rights or options to purchase any such shares.

ARTICLE IV
PREFERRED SHARES

4.1 Issuance in Series. (a) The Board of Directors is authorized to issue Preferred Shares from time to time in one or more series and to provide for the designation, preferences, limitations and relative rights of the shares of each series by the adoption of Articles of Amendment to the Articles of Incorporation of the Corporation setting forth:

(i) The maximum number of shares in the series and the designation of the series, which designation shall distinguish the shares thereof from the shares of any other series or class;

(ii) Whether shares of the series shall have special, conditional or limited voting rights, or no right to vote, except to the extent prohibited by law;

(iii) Whether shares of the series are redeemable or convertible (x) at the option of the Corporation, a shareholder or another person or upon the occurrence of a designated event, (y) for cash, indebtedness, securities or other property, and (z) in a designated amount or in an

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amount determined in accordance with a designated formula or by reference to extrinsic data or events;

(iv) Any right of holders of shares of the series to distributions, calculated in any manner, including the rate or rates of dividends, and whether dividends shall be cumulative, noncumulative or partially cumulative;

(v) The amount payable upon the shares of the series in the event of voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Corporation; and

(vi) Any other preferences, limitations or specified rights (including a right that no transaction of a specified nature shall be consummated while any shares of such series remain outstanding except upon the assent of all or a specified portion of such shares) now or hereafter permitted by the laws of the Commonwealth of Virginia and not inconsistent with the provisions of this Section 4.1.

(b) All Preferred Shares, regardless of series, shall rank on a parity with all other Preferred Stock as to dividends (whether or not the dividend rates or payment dates are different) and as to rights in the liquidation, dissolution or winding up of affairs of the Corporation (whether or not the redemption or liquidation prices are different).

4.2 Articles of Amendment. Before the issuance of any shares of a series, Articles of Amendment establishing such series shall be filed with and made effective by the State Corporation Commission of Virginia, as required by law.

ARTICLE V
COMMON SHARES

5.1 Voting Rights. The holders of outstanding Common Shares shall, to the exclusion of the holders of any other class of shares of the Corporation, have the sole power to vote for the election of directors and for all other purposes without limitation, except (i) as otherwise provided in the Articles of Amendment establishing any series of Preferred Shares or (ii) as may be required by law.

5.2 Distributions. Subject to the rights of the holders of shares, if any, ranking senior to the Common Shares as to dividends or rights in the liquidation, dissolution or winding up of the affairs of the Corporation, the holders of the Common Shares shall be entitled to distributions, including dividends, when declared by the Board of Directors and to the net assets of the Corporation upon the liquidation, dissolution or winding up of the affairs of the Corporation.

ARTICLE VI
LIMIT ON LIABILITY AND INDEMNIFICATION

6.1 Definitions. For purposes of this Article the following definitions shall apply:

(i) "Corporation" means this Corporation only and no predecessor entity or other legal entity;

(ii) "expenses" include counsel fees, expert witness fees, and costs of investigation, litigation and appeal, as well as any amounts expended in asserting a claim for indemnification;

(iii) "liability" means the obligation to pay a judgment, settlement, penalty, fine, or other such obligation, including, without limitation, any excise tax assessed with respect to an employee benefit plan;

(iv) "legal entity" means a corporation, partnership, joint venture, trust, employee benefit plan or other enterprise;

(v) "predecessor entity" means a legal entity the existence of which ceased upon its acquisition by the Corporation in a merger or otherwise; and

(vi) "proceeding" means any threatened, pending, or completed action, suit, proceeding or appeal whether civil, criminal, administrative or investigative and whether formal or informal.

6.2 Limit on Liability. In every instance in which the Virginia Stock Corporation Act, as it exists on the date hereof or may hereafter be amended, permits the limitation or elimination of liability of directors or officers of a corporation to the corporation or its shareholders, the directors and officers of this Corporation shall not be liable to the Corporation or its shareholders.

6.3 Indemnification of Directors and Officers. The Corporation shall indemnify any individual who is, was or is

threatened to be made a party to a proceeding (including a proceeding by or in the right of the Corporation) because such individual is or was a director or officer of the Corporation or because such individual is or was serving the Corporation, or any other legal entity in any capacity at the request of the Corporation while a director or officer of the Corporation, against all liabilities and reasonable expenses incurred in the proceeding except such liabilities and expenses as are incurred because of such individual's willful misconduct or knowing violation of the criminal law. Service as a director or officer of a legal entity controlled by the Corporation shall be deemed service at the request of the Corporation. The determination that indemnification under this Section 6.3 is permissible and the evaluation as to the reasonableness of expenses in a specific case shall be made, in the case of a director, as provided by law, and in the case of an officer, as provided in Section 6.4 of this Article; provided, however, that if a majority of the directors of the Corporation has changed after the date of the alleged conduct giving rise to a claim for indemnification, such determination and evaluation shall, at the option of the person claiming indemnification, be made by special legal counsel agreed upon by the Board of Directors and such person. Unless a determination has been made that indemnification is not permissible, the Corporation shall make advances and reimbursements for expenses incurred by a director or officer in a proceeding upon receipt of an undertaking from such director or officer to repay

the same if it is ultimately determined that such director or officer is not entitled to indemnification. Such undertaking shall be an unlimited, unsecured general obligation of the director or officer and shall be accepted without reference to such director's or officer's ability to make repayment. The termination of a proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent shall not of itself create a presumption that a director or officer acted in such a manner as to make such director or officer ineligible for indemnification. The Corporation is authorized to contract in advance to indemnify and make advances and reimbursements for expenses to any of its directors or officers to the same extent provided in this Section 6.3.

6.4 Indemnification of Others. The Corporation may, to a lesser extent or to the same extent that it is required to provide indemnification and make advances and reimbursements for expenses to its directors and officers pursuant to Section 6.3, provide indemnification and make advances and reimbursements for expenses to its employees and agents, the directors, officers, employees and agents of its subsidiaries and predecessor entities, and any person serving any other legal entity in any capacity at the request of the Corporation, and may contract in advance to do so. The determination that indemnification under this Section 6.4 is permissible, the authorization of such indemnification and the evaluation as to the reasonableness of expenses in a specific case shall be made as authorized from time

to time by general or specific action of the Board of Directors, which action may be taken before or after a claim for indemnification is made, or as otherwise provided by law. No person's rights under Section 6.3 of this Article shall be limited by the provisions of this Section 6.4.

6.5 Miscellaneous. The rights of each person entitled to indemnification under this Article shall inure to the benefit of such person's heirs, executors and administrators. Special legal counsel selected to make determinations under this Article may be counsel for the Corporation. Indemnification pursuant to this Article shall not be exclusive of any other right of indemnification to which any person may be entitled, including indemnification pursuant to a valid contract, indemnification by legal entities other than the Corporation and indemnification under policies of insurance purchased and maintained by the Corporation or others. However, no person shall be entitled to indemnification by the Corporation to the extent such person is indemnified by another, including an insurer. The Corporation is authorized to purchase and maintain insurance against any liability it may have under this Article or to protect any of the persons named above against any liability arising from their service to the Corporation or any other legal entity at the request of the Corporation regardless of the Corporation's power to indemnify against such liability. The provisions of this Article shall not be deemed to preclude the Corporation from entering into contracts otherwise permitted by law with any

individuals or legal entities, including those named above. If any provision of this Article or its application to any person or circumstance is held invalid by a court of competent jurisdiction, the invalidity shall not affect other provisions or applications of this Article, and to this end the provisions of this Article are severable.

6.6 Application; Amendments. The provisions of this Article shall be applicable from and after its adoption even though some or all of the underlying conduct or events relating to a proceeding may have occurred before its adoption. No amendment, modification or repeal of this Article shall diminish the rights provided hereunder to any person arising from conduct or events occurring before the adoption of such amendment, modification or repeal.

As adopted August 31, 1995

BYLAWS
OF
OPTICAL CABLE CORPORATION

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OPTICAL CABLE CORPORATION
BYLAWS

ARTICLE I
MEETINGS OF SHAREHOLDERS

1.1 PLACE AND TIME OF MEETINGS. Meetings of shareholders shall be held at such place, either within or without the Commonwealth of Virginia, and at such time as may be provided in the notice of the meeting and approved by the Chairman of the Board of Directors (the "Chairman"), the President or the Board of Directors.

1.2 ORGANIZATION AND ORDER OF BUSINESS. The Chairman or, in his absence, the President shall serve as chairman at all meetings of the shareholders. In the absence of both of the foregoing officers or if both of them decline to serve, a majority of the shares entitled to vote at a meeting may appoint any person entitled to vote at the meeting to act as chairman. The Secretary or, in his absence, an Assistant Secretary shall act as secretary at all meetings of the shareholders. In the event that neither the Secretary nor an Assistant Secretary is present, the chairman of the meeting may appoint any person to act as secretary of the meeting.

The Chairman shall have the authority to make such rules and regulations, to establish such procedures and to take such steps as he may deem necessary or desirable for the proper conduct of each meeting of the shareholders, including, without limitation, the authority to make the agenda and to establish procedures for

(i) dismissing of business not properly presented, (ii) maintaining of order and safety, (iii) placing limitations on the time allotted to questions or comments on the affairs of the Corporation, (iv) placing restrictions on attendance at a meeting by persons or classes of persons who are not shareholders or their proxies, (v) restricting entry to a meeting after the time prescribed for the commencement thereof and (vi) commencing, conducting and closing voting on any matter.

1.3 ANNUAL MEETING. The annual meeting of shareholders shall be held on the second Tuesday in March of each year. If such date is a legal holiday, then the annual meeting of shareholders shall be held on the next succeeding business day.

At each annual meeting of shareholders, only such business shall be conducted as is proper to consider and has been brought before the meeting (i) pursuant to the Corporation's notice of the meeting, (ii) by or at the direction of the Board of Directors or (iii) by a shareholder who is a shareholder of record of a class of shares entitled to vote on the business such shareholder is proposing, both at the time of the giving of the shareholder's notice hereinafter described in this Section 1.3 and on the record date for such annual meeting, and who complies with the notice procedures set forth in this Section 1.3.

In order to bring before an annual meeting of shareholders any business which may properly be considered and which a shareholder has not sought to have included in the Corporation's proxy statement for the meeting, a shareholder who meets the

requirements set forth in the preceding paragraph must give the Corporation timely written notice. To be timely, a shareholder's notice must be given, either by personal delivery to the Secretary or an Assistant Secretary at the principal office of the Corporation or by first class United States mail, with postage thereon prepaid, addressed to the Secretary at the principal office of the Corporation. Any such notice must be received not less than 60 days nor more than 90 days before the date of the meeting.

Each such shareholder's notice shall set forth as to each matter the shareholder proposes to bring before the annual meeting (i) the name and address, as they appear on the Corporation's stock transfer books, of the shareholder proposing business, (ii) the class and number of shares of stock of the Corporation beneficially owned by such shareholder, (iii) a representation that such shareholder is a shareholder of record at the time of the giving of the notice and intends to appear in person or by proxy at the meeting to present the business specified in the notice, (iv) a brief description of the business desired to be brought before the meeting, including the complete text of any resolutions to be presented and the reasons for wanting to conduct such business and (v) any interest which the shareholder may have in such business.

The Secretary or Assistant Secretary shall deliver each shareholder's notice that has been timely received to the Chairman for review.

Notwithstanding the foregoing provisions of this Section 1.3, a shareholder seeking to have a proposal included in the Corporation's proxy statement for an annual meeting of shareholders shall comply with the requirements of Regulation 14A under the Securities Exchange Act of 1934, as amended from time to time, or with any successor regulation.

1.4 SPECIAL MEETINGS. Special meetings of the shareholders may be called only by the Chairman, the President or the Board of Directors. Only business within the purpose or purposes described in the notice for a special meeting of shareholders may be conducted at the meeting.

1.5 RECORD DATES. The Board of Directors shall fix, in advance, a record date to make a determination of shareholders for any purpose, such date to be not more than 70 days before the meeting or action requiring a determination of shareholders.

When a determination of shareholders entitled to notice of or to vote at any meeting of shareholders has been made, such determination shall be effective for any adjournment of the meeting unless the Board of Directors fixes a new record date, which it shall do if the meeting is adjourned to a date more than 120 days after the date fixed for the original meeting.

1.6 NOTICE OF MEETINGS. Written notice stating the place, day and hour of each meeting of shareholders and, in the case of a special meeting, the purpose or purposes for which the meeting is called, shall be given not less than 10 nor more than 60 days before the date of the meeting (except when a different time is

required in these Bylaws or by law) either personally or by mail, telephone, telegraph, teletype, telecopy or other form of wire or wireless communication or by private courier to each shareholder of record entitled to vote at such meeting and to such nonvoting shareholders as may be required by law. If mailed, such notice shall be deemed to be effective when deposited in first class United States mail with postage thereon prepaid and addressed to the shareholder at his address as it appears on the share transfer books of the Corporation.

Notice of a shareholder's meeting to act on (i) an amendment of the Articles of Incorporation, (ii) a plan of merger or share exchange, (iii) the sale, lease, exchange or other disposition of all or substantially all the property of the Corporation otherwise than in the usual and regular course of business or (iv) the dissolution of the Corporation, shall be given, in the manner provided above, not less than 25 nor more than 60 days before the date of the meeting. Any notice given pursuant to this section shall state that the purpose, or one of the purposes, of the meeting is to consider such action and shall be accompanied by (x) a copy of the proposed amendment, (y) a copy of the proposed plan of merger or share exchange or (z) a summary of the agreement pursuant to which the proposed transaction will be effected. If only a summary of the agreement is sent to the shareholders, the Corporation shall also send a copy of the agreement to any shareholder who requests it.

If a meeting is adjourned to a different date, time or place, notice need not be given if the new date, time or place is announced at the meeting before adjournment. However, if a new record date for an adjourned meeting is fixed, notice of the adjourned meeting shall be given to shareholders as of the new record date unless a court provides otherwise.

Notwithstanding the foregoing, no notice of a meeting of shareholders need be given to a shareholder if (i) an annual report and proxy statements for two consecutive annual meetings of shareholders or (ii) all, and at least two, checks in payment of dividends or interest on securities during a 12-month period, have been sent by first-class United States mail, with postage thereon prepaid, addressed to the shareholder at his address as it appears on the share transfer books of the Corporation, and returned undeliverable. The obligation of the Corporation to give notice of meetings of shareholders to any such shareholder shall be reinstated once the Corporation has received a new address for such shareholder for entry on its share transfer books.

1.7 WAIVER OF NOTICE; ATTENDANCE AT MEETING. A shareholder may waive any notice required by law, the Articles of Incorporation or these Bylaws before or after the date and time of the meeting that is the subject of such notice. The waiver shall be in writing, be signed by the shareholder entitled to the notice and be delivered to the Secretary for inclusion in the minutes or filing with the corporate records.

A shareholder's attendance at a meeting (i) waives objection to lack of notice or defective notice of the meeting unless the shareholder, at the beginning of the meeting, objects to holding the meeting or transacting business at the meeting and (ii) waives objection to consideration of a particular matter at the meeting that is not within the purpose or purposes described in the meeting notice unless the shareholder objects to considering the matter when it is presented.

1.8 QUORUM AND VOTING REQUIREMENTS. Unless otherwise required by law, a majority of the votes entitled to be cast on a matter constitutes a quorum for action on that matter. Once a share is represented for any purpose at a meeting, it is deemed present for quorum purposes for the remainder of the meeting and for any adjournment of that meeting unless a new record date is or shall be set for that adjourned meeting. If a quorum exists, action on a matter, other than the election of directors, is approved if the votes cast favoring the action exceed the votes cast opposing the action unless a greater number of affirmative votes is required by law. Directors shall be elected by a plurality of the votes cast by the shares entitled to vote in the election at a meeting at which a quorum is present. Less than a quorum may adjourn a meeting.

1.9 PROXIES. A shareholder may vote his shares in person or by proxy. A shareholder may appoint a proxy to vote or otherwise act for him by signing an appointment form, either personally or by his attorney-in-fact. An appointment of a proxy

is effective when received by the Secretary or other officer or agent authorized to tabulate votes and is valid for eleven (11) months unless a longer period is expressly provided in the appointment form. An appointment of a proxy is revocable by the shareholder unless the appointment form conspicuously states that it is irrevocable and the appointment is coupled with an interest.

The death or incapacity of the shareholder appointing a proxy does not affect the right of the Corporation to accept the proxy's authority unless notice of the death or incapacity is received by the Secretary or other officer or agent authorized to tabulate votes before the proxy exercises his authority under the appointment. An irrevocable appointment is revoked when the interest with which it is coupled is extinguished. A transferee for value of shares subject to an irrevocable appointment may revoke the appointment if he did not know of its existence when he acquired the shares and the existence of the irrevocable appointment was not noted conspicuously on the certificate representing the shares. Subject to any legal limitations on the right of the Corporation to accept the vote or other action of a proxy and to any express limitation on the proxy's authority appearing on the face of the appointment form, the Corporation is entitled to accept the proxy's vote or other action as that of the shareholder making the appointment. Any fiduciary who is entitled to vote any shares may vote such shares by proxy.

1.10 VOTING LIST. The officer or agent having charge of the share transfer books of the Corporation shall make, at least ten days before each meeting of shareholders, a complete list of the shareholders entitled to vote at such meeting or any adjournment thereof, with the address of and the number of shares held by each. For a period of ten days prior to the meeting, such list shall be kept on file at the registered office of the Corporation or at its principal office or at the office of its transfer agent or registrar and shall be subject to inspection by any shareholder at any time during usual business hours. Such list shall also be produced and kept open at the time and place of the meeting and shall be subject to the inspection of any shareholder during the whole time of the meeting for the purpose thereof. The original share transfer books shall be prima facie evidence as to which shareholders are entitled to examine such list or transfer books or to vote at any meeting of the shareholders. The right of a shareholder to inspect such list prior to the meeting shall be subject to the conditions and limitations set forth by law. If the requirements of this section have not been substantially complied with, the meeting shall, on the demand of any shareholder in person or by proxy, be adjourned until such requirements are met. Refusal or failure to prepare or make available the shareholders' list does not affect the validity of action taken at the meeting prior to the making of any such demand, but any action taken by the shareholders

after the making of any such demand shall be invalid and of no effect.

1.11 ACTION WITHOUT MEETING. Action required or permitted to be taken at a meeting of shareholders may be taken without a meeting and without action by the Board of Directors if the action is taken by all the shareholders entitled to vote on the action. The action shall be evidenced by one or more written consents describing the action taken, signed by all the share holders entitled to vote on the action and delivered to the Secretary for inclusion in the minutes or filing with the corporate records. Action taken by unanimous written consent shall be effective according to its terms when all consents are in the possession of the Corporation unless the consent specifies a different effective date, in which event the action taken under this section shall be effective as of the date specified therein, provided the consent states the date of execution by each shareholder. A shareholder may withdraw a consent only by delivering a written notice of withdrawal to the Corporation prior to the time that all consents are in the possession of the Corporation.

If not otherwise fixed pursuant to the provisions of Section 1.5 the record date for determining shareholders entitled to take action without a meeting is the date the first shareholder signs the consent described in the preceding paragraph.

ARTICLE II
DIRECTORS

2.1 GENERAL POWERS. The Corporation shall have a Board of Directors. All corporate powers shall be exercised by or under the authority of, and the business and affairs of the Corporation managed under the direction of, its Board of Directors, subject to any limitation set forth in the Articles of Incorporation.

2.2 NUMBER AND TERM. The Board of Directors of the Corporation shall consist of not less than three (3) nor more than nine (9) members, the exact number of which shall be determined from time to time by the Board of Directors or the shareholders. A decrease in number shall not shorten the term of any incumbent director. Each director shall hold office until his death, resignation or removal or until his successor is elected.

2.3 NOMINATION OF DIRECTORS. No person shall be eligible for election as a director at a meeting of shareholders unless nominated (i) by the Board of Directors or (ii) by a shareholder who is a shareholder of record of a class of shares entitled to vote for the election of directors, both at the time of the giving of the shareholder's notice hereinafter described in this Section 2.3 and on the record date for the meeting at which directors will be elected, and who complies with the notice procedures set forth in this Section 2.3.

In order to nominate any persons who are not listed as nominees in the Corporation's proxy statement for a shareholders'

meeting for election as directors at such meeting, a shareholder who meets the requirements set forth in the preceding paragraph must give the Corporation timely written notice. To be timely, a shareholder's notice must be given either by personal delivery to the Secretary or an Assistant Secretary at the principal office of the Corporation or by first class United States mail, with postage thereon prepaid, addressed to the Secretary at the principal office of the Corporation. Any such notice must be received (i) not less than 60 days nor more than 90 days before an annual meeting or (ii) not later than the close of business on the tenth day following the day on which notice of a special meeting of shareholders called for the purpose of electing directors is first given to shareholders.

Each such shareholder's notice shall set forth the following: (i) as to the shareholder giving the notice, (a) the name and address of such shareholder as they appear on the Corporation's stock transfer books, (b) the class and number of shares of the Corporation beneficially owned by such shareholder, (c) a representation that such shareholder is a shareholder of record at the time of giving the notice and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice and (d) a description of all arrangements or understandings, if any, between such shareholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made; and (ii) as to each person whom the

shareholder wishes to nominate for election as a director, (a) the name, age, business address and residence address of such person, (b) the principal occupation or employment of such person, (c) the class and number of shares of the Corporation which are beneficially owned by such person and (d) all other information that is required to be disclosed about nominees for election as directors in solicitations of proxies for the election of directors under the rules and regulations of the Securities and Exchange Commission. In addition, each such notice shall be accompanied by the written consent of each proposed nominee to serve as a director if elected and such consent shall contain a statement from the proposed nominee to the effect that the information about him contained in the notice is correct.

2.4 ELECTION. Except as provided in Section 2.5 and in the Articles of Incorporation, the directors (other than initial directors) shall be elected by the holders of the common shares at each annual meeting of shareholders and those persons who receive the greatest number of votes shall be deemed elected even though they do not receive a majority of the votes cast. No individual shall be named or elected as a director without his prior consent.

2.5 REMOVAL; VACANCIES. The shareholders may remove one or more directors with or without cause. If a director is elected by a voting group, only the shareholders of that voting group may elect to remove him. Unless the Articles of Incorporation

require a greater vote, a director may be removed if the number of votes cast to remove him constitutes a majority of the votes entitled to be cast at an election of directors of the voting group or voting groups by which such director was elected. A director may be removed by the stockholders only at a meeting called for the purpose of removing him and the meeting notice must state that the purpose, or one of the purposes of the meeting, is removal of the director.

A vacancy on the Board of Directors, including a vacancy resulting from the removal of a director or an increase in the number of directors, may be filled by (i) the shareholders, (ii) the Board of Directors or (iii) the affirmative vote of a majority of the remaining directors though less than a quorum of the Board of Directors and may, in the case of a resignation that will become effective at a specified later date, be filled before the vacancy occurs but the new director may not take office until the vacancy occurs.

2.6 ANNUAL AND REGULAR MEETINGS. An annual meeting of the Board of Directors, which shall be considered a regular meeting, shall be held immediately following each annual meeting of shareholders for the purpose of electing officers and carrying on such other business as may properly come before the meeting. The Board of Directors may also adopt a schedule of additional meetings which shall be considered regular meetings. Regular meetings shall be held at such times and at such places, within or without the Commonwealth of Virginia, as the Chairman, the

President or the Board of Directors shall designate from time to time. If no place is designated, regular meetings shall be held at the principal office of the Corporation.

2.7 SPECIAL MEETINGS. Special meetings of the Board of Directors may be called by the Chairman, the President or a majority of the Directors of the Corporation and shall be held at such times and at such places, within or without the Commonwealth of Virginia, as the person or persons calling the meetings shall designate. If no such place is designated in the notice of a meeting, it shall be held at the principal office of the Corporation.

2.8 NOTICE OF MEETINGS. No notice need be given of regular meetings of the Board of Directors.

Notices of special meetings of the Board of Directors shall be given to each director in person or delivered to his residence or business address (or such other place as he may have directed in writing) not less than twenty-four (24) hours before the meeting by mail, messenger, telecopy, telegraph or other means of written communication or by telephoning such notice to him. Any such notice shall set forth the time and place of the meeting and state the purpose for which it is called.

2.9 WAIVER OF NOTICE; ATTENDANCE AT MEETING. A director may waive any notice required by law, the Articles of Incorporation or these Bylaws before or after the date and time stated in the notice and such waiver shall be equivalent to the giving of such notice. Except as provided in the next paragraph

of this section, the waiver shall be in writing, signed by the director entitled to the notice and filed with the minutes or corporate records.

A director's attendance at or participation in a meeting waives any required notice to him of the meeting unless the director, at the beginning of the meeting or promptly upon his arrival, objects to holding the meeting or transacting business at the meeting and does not thereafter vote for or assent to action taken at the meeting.

2.10 QUORUM; VOTING. A majority of the number of directors as determined pursuant to Section 2.2 of these Bylaws shall constitute a quorum for the transaction of business at a meeting of the Board of Directors. If a quorum is present when a vote is taken, the affirmative vote of a majority of the directors present is the act of the Board of Directors. A director who is present at a meeting of the Board of Directors or a committee of the Board of Directors when corporate action is taken is deemed to have assented to the action taken unless (i) he objects, at the beginning of the meeting or promptly upon his arrival, to holding it or transacting specified business at the meeting or (ii) he votes against or abstains from the action taken.

2.11 TELEPHONIC MEETINGS. The Board of Directors may permit any or all directors to participate in a regular or special meeting by, or conduct the meeting through the use of, any means of communication by which all directors participating may simultaneously hear each other during the meeting. A director participating in a meeting by this means is deemed to be present in person at the meeting.

2.12 ACTION WITHOUT MEETING. Action required or permitted to be taken at a meeting of the Board of Directors may be taken without a meeting if the action is taken by all members of the Board. The action shall be evidenced by one or more written consents stating the action taken, signed by each director either before or after the action is taken and included in the minutes or filed with the corporate records. Action taken under this section shall be effective when the last director signs the consent unless the consent specifies a different effective date in which event the action taken is effective as of the date specified therein provided the consent states the date of execution by each director.

2.13 COMPENSATION. The Board of Directors may fix the compensation of directors and may provide for the payment of all expenses incurred by them in attending meetings of the Board of Directors.

ARTICLE III
COMMITTEES OF DIRECTORS

3.1 COMMITTEES. The Board of Directors may create one or more committees and appoint members of the Board of Directors to serve on them. Unless otherwise provided in these Bylaws, each committee shall have two or more members who serve at the pleasure of the Board of Directors. The creation of a committee

and appointment of members to it shall be approved by a majority of all of the directors in office when the action is taken.

3.2 AUTHORITY OF COMMITTEES. To the extent specified by the Board of Directors, each committee may exercise the authority of the Board of Directors, except that a committee may not (i) approve or recommend to shareholders action that is required by law to be approved by shareholders, (ii) fill vacancies on the Board of Directors or on any of its committees, (iii) amend the Articles of Incorporation, (iv) adopt, amend, or repeal these Bylaws, (v) approve a plan of merger not requiring shareholder approval, (vi) authorize or approve a distribution, except according to a general formula or method prescribed by the Board of Directors or (vii) authorize or approve the issuance or sale or contract for sale of shares, or determine the designation and relative rights, preferences, and limitations of a class or series of shares; provided, however, that the Board of Directors may authorize a committee, or a senior executive officer of the Corporation, to do so within limits specifically prescribed by the Board of Directors.

3.3 AUDIT COMMITTEE. The Board of Directors shall appoint an Audit Committee consisting of not less than two (2) directors, none of whom shall be officers of the Corporation, which committee shall regularly review the adequacy of the Corporation's internal financial controls, review with the Corporation's independent public accountants the annual audit and

other financial statements and recommend the selection of the Corporation's independent public accountants.

3.4 COMPENSATION COMMITTEE. The Board of Directors shall appoint a Compensation Committee consisting of not less than three (3) directors, a majority of whom shall not be officers of the Corporation, which committee shall recommend to the Board of Directors the cash and non-cash compensation to be paid to the officers of the Corporation.

3.5 COMMITTEE MEETINGS; MISCELLANEOUS. The provisions of these Bylaws which govern meetings, action without meetings, notice and waiver of notice, and quorum and voting requirements of the Board of Directors shall apply to committees of directors and their members as well.

ARTICLE IV OFFICERS

4.1 OFFICERS. The officers of the Corporation shall be a Chairman of the Board of Directors, a President, a Secretary, a Treasurer, and, in the discretion of the Board of Directors or the Chairman, a Chief Financial Officer and one or more Vice- Presidents and such other officers as may be deemed necessary or advisable to carry on the business of the Corporation. Any two or more offices may be held by the same person.

4.2 ELECTION; TERM. The Chairman, the President, the Secretary and the Treasurer shall be elected by the Board of Directors. The Chairman or the Board of Directors, may from time

to time, appoint other officers. Officers elected by the Board of Directors shall hold office, unless sooner removed, until the next annual meeting of the Board of Directors or until their successors are elected. Officers appointed by the Chairman shall hold office, unless sooner removed, until their successors are appointed. The action of the Chairman in appointing officers shall be reported to the next regular meeting of the Board of Directors after it is taken. Any officer may resign at any time upon written notice to the Board of Directors or the officer appointing him or her and such resignation shall be effective when notice is delivered unless the notice specifies a later effective date.

4.3 REMOVAL OF OFFICERS. The Board of Directors may remove any officer at any time, with or without cause. The Chairman may remove any officer he or she appoints at any time, with or without cause. Such action shall be reported to the next regular meeting of the Board of Directors after it is taken.

4.4 DUTIES OF THE CHAIRMAN. The Chairman shall be the Chief Executive Officer of the Corporation. He or she shall have general charge of and be charged with the duty of supervision of the business of the Corporation and shall perform such duties as may, from time to time, be assigned to him or her by the Board of Directors.

4.5 DUTIES OF THE PRESIDENT. The President shall have such powers and perform such duties as generally pertain to that

position or as may, from time to time, be assigned to him or her by the Chairman or the Board of Directors.

4.6 DUTIES OF THE SECRETARY. The Secretary shall have the duty to see that a record of the proceedings of each meeting of the shareholders, the Board of Directors and any committee of the Board of Directors is properly recorded and that notices of all such meetings are duly given in accordance with the provisions of these Bylaws or as required by law; may affix the corporate seal to any document the execution of which is duly authorized, and when so affixed may attest the same; and, in general, shall perform all duties incident to the office of secretary of a corporation, and such other duties as, from time to time, may be assigned to him or her by the Chairman, the President or the Board of Directors or as may be required by law.

4.7 DUTIES OF THE CHIEF FINANCIAL OFFICER. The Chief Financial Officer, if there be one, shall have charge of and be responsible for all internal and external financial accounting functions and treasury functions, and shall render to the Chairman, the President, or the Board of Directors, whenever requested, an account of the financial condition of the Corporation; and, shall perform such duties as may be assigned to him or her by the Chairman, the President or the Board of Directors.

4.8 DUTIES OF THE TREASURER. The Treasurer shall, subject to the control of the Board of Directors, the Chairman, the President, and the Chief Financial Officer, if there be one,

shall have charge of and be responsible for all securities, funds, receipts and disbursements of the Corporation and shall deposit or cause to be deposited, in the name of the Corporation, all monies or valuable effects in such banks, trust companies or other depositories as shall, from time to time, be selected by or under authority granted by the Board of Directors; shall be custodian of the financial records of the Corporation; shall keep or cause to be kept full and accurate records of all receipts and disbursements of the Corporation and shall render to the Chairman, the President, the Chief Financial Officer or the Board of Directors, whenever requested, an account of the financial condition of the Corporation; and, shall perform such duties as may be assigned to him or her by the Chairman, the President, the Board of Directors or the Chief Financial Officer, if there be one.

4.9 DUTIES OF OTHER OFFICERS. The other officers of the Corporation shall have such authority and perform such duties as shall be prescribed by the Board of Directors or by officers authorized by the Board of Directors or these Bylaws to appoint them to their respective offices. To the extent that such duties are not so stated, such officers shall have such authority and perform the duties which generally pertain to their respective offices, subject to the control of the Chairman, the President or the Board of Directors.

4.10 VOTING SECURITIES OF OTHER CORPORATIONS. The Chairman or the President shall have the power to act for and vote on

behalf of the Corporation at all meetings of the shareholders of any corporation in which this Corporation holds stock or in connection with any consent of shareholders in, lieu of any such meeting.

4.11 BONDS. The Board of Directors may require that any or all officers, employees and agents of the Corporation give bond to the Corporation, with sufficient sureties, conditioned upon the faithful performance of the duties of their respective offices or positions.

ARTICLE V
SHARE CERTIFICATES

5.1 FORM. Shares of the Corporation shall, when fully paid, be evidenced by certificates containing such information as is required by law and approved by the Board of Directors. Certificates shall be signed by the President and the Secretary and may (but need not) be sealed with the seal of the Corporation. The seal of the Corporation and any or all of the signatures on a share certificate may be facsimile. If any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued it may be issued by the Corporation with the same effect as if he were such officer, transfer agent or registrar on the date of issue.

5.2 TRANSFER. The Board of Directors may make rules and regulations concerning the issue, registration and transfer of certificates representing the shares of the Corporation. Transfers of shares and of the certificates representing such shares shall be made upon the books of the Corporation by surrender of the certificates representing such shares accompanied by written assignments given by the owners or their attorneys-in-fact.

5.3 RESTRICTIONS ON TRANSFER. A lawful restriction on the transfer or registration of transfer of shares is valid and enforceable against the holder or a transferee of the holder if the restriction complies with the requirements of law and its existence is noted conspicuously on the front or back of the certificate representing the shares. Unless so noted, a restriction is not enforceable against a person without knowledge of the restriction.

5.4 LOST OR DESTROYED SHARE CERTIFICATES. The Corporation may issue a new share certificate in the place of any certificate theretofore issued which is alleged to have been lost or destroyed and may require the owner of such certificate, or his legal representative, to give the Corporation a bond, with or without surety, or such other agreement, undertaking or security as the Board of Directors shall determine is appropriate, to indemnify the Corporation against any claim that may be made against it on account of the alleged loss or destruction or the issuance of any such new certificate.

ARTICLE VI
MISCELLANEOUS PROVISIONS

6.1 CORPORATE SEAL. The corporate seal of the Corporation shall be circular and shall have inscribed thereon, within and around the circumference "OPTICAL CABLE CORPORATION". In the center shall be the word "SEAL".

6.2 FISCAL YEAR. The fiscal year of the Corporation shall be determined in the discretion of the Board of Directors, but in the absence of any such determination it shall be the twelve months ending October 31.

6.3 AMENDMENTS. These Bylaws may be amended or repealed, and new Bylaws may be made, at any regular or special meeting of the Board of Directors. Bylaws made by the Board of Directors may be repealed or changed and new Bylaws may be made by the shareholders, and the shareholders may prescribe that any Bylaw made by them shall not be altered, amended or repealed by the Board of Directors.

[PAGE]

[OPTICAL CABLE CORPORATION LOGO]

[NUMBER]

[SHARES]

INCORPORATED UNDER THE LAWS
OF THE COMMONWEALTH OF VIRGINIA

SEE REVERSE FOR
DEFINITIONS

THIS CERTIFIES THAT

IS THE OWNER OF

FULLY PAID AND NONASSESSABLE SHARES OF COMMON STOCK OF

OPTICAL CABLE CORPORATION (the "Corporation") transferable on the books of the Corporation by the holder hereof in person, or by duly authorized attorney, upon surrender of this Certificate properly endorsed. This Certificate not valid unless countersigned by the Transfer Agent and registered by the Registrar.

Witness the facsimile seal of the Corporation of the facsimile signatures of its duly authorized representatives.

Dated:

/s/ Robert Kopstein
President

/s/ Kenneth W. Harber
Secretary

[OPTICAL CABLE CORPORATION CORPORATE SEAL]

Countersigned and Registered
FIRST UNION NATIONAL BANK OF
NORTH CAROLINA
(Charlotte, North Carolina)
Transfer Agent
and Registrar

By: Authorized Signature

OPTICAL CABLE CORPORATION

The Corporation will furnish to any stockholder on request and without charge a full statement of the designations and any preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends, qualifications and terms and conditions of redemption of the stock of each class which the Corporation is authorized to issue, or of the differences in the relative rights and preferences between the shares of each series of a class in series which the Corporation is authorized to issue, to the extent they have been set, and the authority of the Board of Directors to set the relative rights and preferences of subsequent series or classes. Such request may be made to the Secretary of the Corporation or to its Transfer Agent.

The following abbreviations, when used in the inscription on the face of this certificate, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM - as tenants in common

TEN ENT - as tenants by the entireties

JT TEN - as joint tenants with right of survivorship and not as tenants in common

TOD - transfer on death direction in event of owner's death to person named on face

UNIF GIFT MIN ACT - _____ as Custodian for _____ under Uniform Gifts to
(Cust) (Minor)
Minors Act _____
(State)

UNIF TRAN MIN ACT - _____ as Custodian for _____ under Uniform Transfers
(Cust) (Minor)
to Minors Act _____
(State)

Additional abbreviations may also be used though not in the above list.

For value received, _____ hereby sell, assign and
transfer unto

Please Insert Social Security or
Other Identification Number of Assignee
- - - - -

- - - - -
(Please print or typewrite name and address, including zip code, of Assignee)
- - - - -
- - - - -

_____ shares
of the capital stock represented by the within Certificate, and do hereby
irrevocably constitute and appoint

_____ Attorney to transfer the
said stock on the books of the written named Corporation with full power of
substitution in the premises.

Dated: ----- X-----

X-----
NOTICE: THE SIGNATURE(S) TO THIS
ASSIGNMENT MUST CORRESPOND WITH
THE NAME AS WRITTEN UPON THE
FACE OF THE CERTIFICATE IN EVERY
PARTICULAR, WITHOUT ALTERATION
OR ENLARGEMENT, OR ANY CHANGE
WHATEVER.

SIGNATURE(S) GUARANTEED: -----

THE SIGNATURE(S) SHOULD BE
GUARANTEED BY AN ELIGIBLE
GUARANTOR INSTITUTION (BANKS,
STOCKBROKERS, SAVINGS AND LOAN
ASSOCIATIONS AND CREDIT UNIONS
WITH MEMBERSHIP IN AN APPROVED
SIGNATURE GUARANTEE MEDALLION
PROGRAM, PURSUANT TO S.E.C.
RULE 17Ad-15.

[OPTICAL CABLE CORPORATION LOGO]

ROYALTY AGREEMENT

This agreement is made effective this first day of November, 1993, by and between Robert Kopstein and Optical Cable Corporation (herein referred to as OCC).

WHEREAS Robert Kopstein as an owner of the rights to certain cable manufacturing techniques and equipment designs (hereinafter referred to as TECHNOLOGY) granted him by Cable Technology, Inc., by agreement dated June 30, 1983.

WHEREAS Robert Kopstein desires to receive Royalty Payments for the continued use of the TECHNOLOGY by OCC.

WHEREAS it is in the best interest of OCC to have the exclusive rights to the use of the TECHNOLOGY without restriction.

Now THEREFORE the parties do hereby agree as follows:

- 1. Robert Kopstein hereby grants to OCC the exclusive license to use the TECHNOLOGY without restriction for a period of one year.
- 2. Robert Kopstein shall not sell, transfer or further license the TECHNOLOGY to any other parties for a period of one year.
- 3. OCC agrees to pay Robert Kopstein in Royalty Payment equal to 4.5% of its net sales under the license granted herein. For each new manufacturing facility established outside the continental United States (utilizing the TECHNOLOGY), OCC agrees to pay Robert Kopstein an additional 1.5% Royalty Payment. Total Royalty Payment shall be limited to 10% of net sales generated by OCC and future affiliates utilizing the TECHNOLOGY.

Example

Optical Cable Corporation -----	Royalty (%) -----
OCC + 1 additional overseas facilities	4.5
OCC + 2 additional overseas facilities	6.0
OCC + 3 additional overseas facilities	7.5
OCC + 4 additional overseas facilities	10.0

Said Royalty Payments are to be made by the close of each OCC fiscal year.

Shipping Address: 5290 Concourse Drive Roanoke, VA 24019	Phone No. (703) 265-0690 TELEX 705-290 FAX (703) 265-0724 Sales Dept. 1-800-622-7711	Mailing Address: P.O. Box 11967 Roanoke, VA 24022-1967
--	---	--

/s/ Robert Kopstein

Robert Kopstein

/s/ Robert Kopstein

Robert Kopstein
Optical Cable Corporation

[Notary Signature]

Notary

/s/ Kenneth W. Harber

Kenneth W. Harber, Secretary/Treasurer
Optical Cable Corporation

ASSIGNMENT

WHEREAS, Robert Kopstein, an individual ("Assignor") desires to transfer to Optical Cable Corporation, a Virginia corporation ("Assignee"), all of Assignor's right, title and interest in and to any and all technology, know-how, trade secrets and related proprietary information utilized in the field of or embodied within any and all cable manufacturing techniques and equipment designs, including, but not limited to, any and all rights that were the subject of that certain Royalty Agreement, dated November 1, 1993, by and between Assignor and Assignee (collectively, the "Technology"); and

WHEREAS, Assignee is desirous of acquiring the Technology from Assignor;

NOW, THEREFORE, for One Dollar (\$1.00) and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Assignor hereby sells, assigns, transfers and sets over unto Assignee and its successors and assigns Assignor's entire right, title and interest in and to the Technology by this assignment (the "Assignment") to be held and enjoyed by Assignee for its own use and benefit and for the use and benefit of its subsidiaries, successors, assigns and legal representatives, for the full extent of the life of the Technology, to be used as fully and entirely as such rights would have been held and enjoyed by Assignor had the Assignment not been made.

Assignor covenants that Assignor has full power and authority to make this Assignment, that there is no claim, suit, action or proceeding pending or threatened against Assignor asserting that his use, or the Assignee's use, of the Technology infringes upon the rights of any third parties, that Assignor has agreed to execute such further assignments and

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related documents with respect to the Technology as may be necessary or desirable in order to complete the Assignment contemplated hereby, that Assignor has no knowledge of any third party use of the Technology that infringes upon the rights to the Technology, that the Technology is free and clear of any liens, charges, pledges, security interests or other encumbrances, and that Assignor did not misappropriate any proprietary third party information when developing the Technology.

In reliance upon the foregoing, the Assignee hereby accepts the Assignment.

IN WITNESS WHEREOF, Assignor has executed the Assignment as of the 31st day of October, 1994.

/s/ Robert Kopstein

ROBERT KOPSTEIN, an individual

OPTICAL CABLE CORPORATION

By /s/ Robert Kopstein

Robert Kopstein
Chairman of the Board, President
and Chief Executive Officer

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OPTICAL CABLE CORPORATION
EMPLOYMENT AGREEMENT

This agreement made effective March 12, 1997 by and between Optical Cable Corporation, having a place of business at 5290 Concourse Drive, Roanoke, Virginia (hereinafter referred to as OCC), and Robert Kopstein, (hereinafter referred to as Kopstein).

WHEREAS, OCC desires to employ Kopstein and Kopstein desires to accept such employment upon the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained, OCC employs Kopstein and Kopstein accepts employment upon the following terms and conditions:

1. EMPLOYMENT AND DUTIES: Kopstein is employed as President & Chief Executive Officer of OCC. Kopstein hereby agrees to abide by the terms and conditions of this Agreement.
2. TERM: The term of this Agreement shall begin on March 12, 1997 and shall terminate on the 31st day of October, 1998.
3. STARTING DATE: This Agreement becomes effective March 12, 1997.
4. COMPENSATION: For all services rendered by Kopstein, OCC shall pay Kopstein a salary, payable monthly, equal to 1.0% of the previous fiscal year net sales and in order to stimulate the growth of OCC, OCC shall pay Kopstein a sales commission equal to 1.0% of the positive difference between the current fiscal year net sales and the prior year net sales. Said sales commission shall be paid monthly and paid within 15 days after the end of the month. Said sales commission shall be based on the difference in net sales between the period of employment in the current fiscal year and the corresponding period of the previous fiscal year.
5. PATENT RIGHTS: Kopstein's interest in any and all inventions or improvements made or conceived by him, or which he may make or conceive at any time after the commencement of and until the termination of his employment by OCC, either individually or jointly with others, shall be the exclusive property of OCC, its successors, assignees or nominees. He will make full and prompt disclosure in writing to an officer or official of OCC, or to anyone designated for that purpose by OCC, of all inventions or improvements made or conceived by him during the term of his employment. At the request and expense of OCC, and without further compensation to him, Kopstein for all inventions or improvements which may be patentable, will do all lawful acts and execute and acknowledge any and all letters patents in the United States of America and foreign

 Shipping Address: Phone No. (540) 265-0690 Mailing Address:
 5290 Concourse Drive FAX (540) 265-0724 P.O. Box 11967
 Roanoke, VA 24019 Sales Dept 1-800-622-7711 Roanoke, VA 24022-1967
 USA Internet <http://www.occfiber.com> USA

countries for any and all of the inventions and improvements set forth herein, and for vesting in OCC the entire right, title and interest thereto. As used in this Agreement, "inventions or improvements" means discoveries, concepts, and ideas, whether patentable or not, relating to any present or prospective activities of OCC, including, but not limited to, devices, processes, methods, formulae, techniques and any improvements to the foregoing.

6. CONFIDENTIALLY; DISCLOSURE OR INFORMATION: Since the work for which Kopstein is employed and upon which he shall be engaged will include trade secrets and confidential information of OCC or its customers, Kopstein shall receive such trade secrets and confidential information in confidence and shall not, except as required in the conduct of OCC's business publish or disclose, or make use of or authorize any else to publish, disclose, or make use of any such secrets of information unless and until such secrets or information shall have ceased to be secret or confidential as evidenced by general public knowledge. This prohibition as to publication and disclosures shall not restrict him in the exercise of his technical skill, provided that the exercise of such skill does not involve the disclosure to others not authorized to receive secret or confidential information of OCC or its customers. As used in this Agreement, "trade secrets and confidential information" means any formula, pattern device or compilation of information used in the business of OCC or its customers which gives OCC or its customer an opportunity to obtain advantage over competitors who do not know or use

such information; the term includes, but is not limited to, devices and processes, whether patentable or not, compilations of information such as customer lists, business and marketing plans, and pricing information where much of the information involved by be generally known or available but where the compilation, organization or use of the information is not generally known and is of significance to the business of OCC or its customers. The provisions of this paragraph 6 shall apply throughout the period of Kopstein's employment with OCC and for twelve (12) successive months immediately following termination of that employment by either party for any reason.

7. NON-COMPETE: Kopstein covenants and agrees that during the term of his employment with OCC (as employee, consultant or otherwise) and for the twelve (12) consecutive months immediately following termination of that employment by either party for any reason he will not own or have an ownership interest in, or render services to, or work for any business which competes with OCC or is engaged in the same or similar business conducted by OCC during the period of Kopstein's employment with OCC or within three (3) months following termination of that employment; nor will he call on, solicit or deal with any customers or prospective customers of OCC learned about or developed during Kopstein's employment with OCC. This Agreement shall apply to Kopstein as an individual for his own account, as a partner or joint venturer, as an employee, agent salesman or consultant for any person or entity, as an officer, director or shareholder.
8. RETURN OF OCC PROPERTY: Immediately upon the termination of his employment with OCC, Kopstein will turn over to OCC all notes, memoranda, notebooks, drawings, records, documents, and all computer program source listings, object files, and executable images obtained from OCC or developed or modified by him as part of his work for OCC which are in his possession or under his control, whether prepared by him or others, relating to any work done for OCC or relating in any way to the business of OCC or its customers, it being acknowledged that all such items are the sold property of OCC.

9. BENEFITS: Kopstein shall be entitled to such vacation and benefits as OCC may from time to time establish for employees of similar positions, responsibilities and seniority.
10. BINDING ON OTHER PARTIES: This Agreement shall be binding upon and inure to the benefit of Kopstein, his heirs, executors and administrators, and shall be binding upon an inure to the benefit of OCC and its successors and assigns.
11. ENFORCEMENT AND REMEDIES: This Agreement shall be enforced and construed in accordance with the laws of the Commonwealth of Virginia.

Each party acknowledges that in the event of a breach or threatened breach of the confidentiality of non-compete provisions set out in paragraphs 6 and 7 of the Agreement, damages at law will be inadequate and injunctive relief is appropriate in addition to whatever damages may be recoverable. Kopstein agrees to pay the costs, including attorneys fees, incurred by OCC in enforcing the provisions of paragraphs 6 and 7.

Each and all of the several rights and remedies contained in or arising by reason of this Agreement shall be construed as cumulative and no one of them shall be exclusive of any other or of any right or priority allowed by law or equity. Nothing in this Agreement is intended to be in derogation of the rights of either party under or pursuant to any federal or state statute.

12. NOTICES: Any notice required or desired to be given under this Agreement shall be deemed given if in writing sent by U.S. Mail to his last known residence in the case of Kopstein or to its principal office in the case of OCC.
13. SEVERABILITY AND LIMITED ENFORCEABILITY: It is understood and agreed that, should any portion of any clause or paragraph of this Agreement be deemed too broad to permit enforcement to its full extent, then such restriction shall be enforced to the maximum extent permitted bylaw, and the parties hereby consent and agree that such scope may be modified accordingly in an proceeding brought to enforce such restriction. Further, it is agreed that, should any provision in the Agreement be entirely unenforceable, the remaining provisions of this Agreement shall not be affected.
14. ASSIGNMENT: This Agreement and the rights and obligations hereunder shall be deemed unique and personal to Kopstein and Kopstein may not transfer, pledge, encumber, assign, anticipate, or alienate all or any part of this Agreement.
15. PRIOR AGREEMENTS; MODIFICATION: No modifications or waiver of this Agreement, or of any provision thereof, shall be valid or binding, unless in writing and executed by both of three parties hereto. No waiver by either party of any breach of any term or provision of this Agreement shall be construed as a waiver of any succeeding breach of the same or any other term or provision.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year first written above.

/s/ Kenneth W. Harber

WITNESS

/s/ Robert Kopstein

NAME

/s/ Robert Kopstein

Robert Kopstein, President

TAX INDEMNIFICATION AGREEMENT

THIS TAX INDEMNIFICATION AGREEMENT (the "Agreement") is made and entered into as of this 19th day of October, 1995, by and between Optical Cable Corporation, a Virginia corporation (the "Company"), and Robert Kopstein, the current sole shareholder of the Company (the "Shareholder"), to be effective as of the date of the closing of the initial public offering of the Company's common stock (the "Closing Date") pursuant to the Registration Statement No. 33-96476 on Form S-1 filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended.

INTRODUCTION

The Company elected to be taxed as an S Corporation pursuant to Section 1362 of the Internal Revenue Code of 1986, as amended (the "Code"), on November 1, 1987, and will be an S Corporation until the day before the date on which such status terminates pursuant to Code Section 1362(d) (the "Termination Date"). Accordingly, for the period from November 1, 1987, until the Termination Date (the "S Corporation Period"), the Company incurred no federal income tax liability and no state income tax liability in those states where the S election was in force. Rather, the Company's items of income, loss and deductions were passed through to the Shareholder. As a result of the public offering of the Company's stock on the Closing Date, the Company will no longer be eligible to be treated as an S Corporation for federal and state income tax purposes. Therefore, the Company will elect within one week prior to the Closing Date to terminate its status as an S Corporation

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pursuant to Code Section 1362(d), after which the Company will be a C Corporation. Accordingly, the parties to this Agreement desire to set forth their agreement with respect to certain income taxes which may be imposed upon the Company after the Termination Date as a result of the conduct of the Company's business during the S Corporation Period.

The Company and the Shareholder agree to the following:

1. Indemnification of Company.
 - a. In the event that any governmental taxing authority, including, without limitation, the Internal Revenue Service and any state or local taxing authority (a "Taxing Authority") in any jurisdiction in which an S election was made or deemed to have been made by operation of law, adjusts, for any reason whatsoever, the Company's net income tax liability, tax credits or recapture of tax credits for the S Corporation Period (a "Company Adjustment"), the Shareholder shall pay on demand to the Company a contribution to its capital which equals (i) the additional federal, state and local income taxes payable by the Company in connection with, or as a result of, a Company Adjustment, plus (ii) the amount of any interest expense, penalties and additions to tax payable by the Company in connection with, or as a result of, a Company Adjustment, plus (iii) the amount of all expenses, attorneys' fees and accountants' fees incurred by the Company in connection with, or as a result of, a Company Adjustment, less (iv) the amount of any reductions in tax payable by the Company in connection with, or as a result of, the Company incurring any such additional federal, state and local income taxes, any such

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interest expense, penalties and additions to tax payable by the Company, and any such expenses, attorneys' fees and accountants' fees incurred by the Company.

- b. To the extent that it is determined that a payment to the Company pursuant to Section 1(a) is taxable to the Company, the Shareholder shall pay on demand to the Company an amount which, after reduction for all additional federal, state and local income taxes payable by the Company as a result of the payment made under this Section 1(b), equals the sum of (i) the additional federal, state and local income taxes payable by the Company as a result of the payment pursuant to Section 1(a), plus (ii) the aggregate amount of any interest, penalties or additions to tax payable by the Company as a result of the taxation of the payment pursuant to Section 1(a).
- c. Notwithstanding any provision in this Agreement to the contrary, the total liability of the Shareholder under this Agreement shall not exceed an amount equal to the sum of all income tax refunds and reductions to income tax otherwise currently payable received by the Shareholder (collectively, "Shareholder Refunds") from all Taxing Authorities attributable to the events causing a Company Adjustment, decreased by any income tax liability incurred or to be incurred by the Shareholder attributable to the events causing a Company Adjustment. If the Shareholder does not receive a Shareholder Refund attributable to a Company Adjustment then the Shareholder shall have no liability under this Agreement.

- d. The Company shall make a demand for payment on the Shareholder only upon the occurrence of both (1) the Company becoming Obligated to Pay (as defined in Section 3 the amounts described in Section 1(a)(i), (ii), (iii) or 1(b) and (2) upon the Shareholder's receipt of a Shareholder Refund. The Company's demand for payment shall not exceed the sum of Shareholder Refunds actually received by the Shareholder prior to the time demand for payment is made, less the sum of any prior demands for payment made by the Company.
- e. The Shareholder shall take such reasonable steps necessary to claim Shareholder Refunds from any Taxing Authority that are attributable to the events causing a Company Adjustment.

2. Contests; No Settlement.

- a. The Shareholder shall be required to notify the Company in writing and the Company shall be required to notify the Shareholder in writing of all audits, examinations or other investigations by any Taxing Authority of the Shareholder's or the Company's income taxes for tax periods which include the S Corporation Period. Additionally, the Shareholder shall be required to notify the Company in writing and the Company shall be required to notify the Shareholder in writing of any adjustments proposed as a result of such audit, examination or other investigation to the extent any such proposed adjustment may constitute or affect any Company Adjustment within the contemplation of this Agreement. Any notification required by this Section 2(a) must be sent to

the party to be notified within ten days from the occurrence of the event giving rise to the obligation to notify.

- b. The Shareholder may, upon written notice to the Company, demand that the Company contest any Company Adjustment proposed by a Taxing Authority (including pursuing all remaining administrative proceedings and judicial appeals). Subject to the provisions of Section 1(c), the Shareholder shall pay to the Company, on the Company's demand, a contribution to its capital which equals (i) the amount of any interest expense, penalties and additions to tax payable by the Company in connection with, or as a result of, contesting any proposed Company Adjustment, plus (ii) all costs, damages and expenses (including attorneys' and accountants' fees) in connection with, or as a result of, contesting any proposed Company Adjustment, less (iii) the amount of any reductions in tax payable by the Company in connection with, or as a result of, the Company incurring any such costs, damages and expenses, and any such interest expense, penalties and additions to tax payable by the Company.
- c. The Company shall not make, accept or enter into a settlement or other compromise with respect to any Company Adjustment, or forego or terminate any administrative proceeding or judicial appeal involving any Company Adjustment, without the consent of the Shareholder which shall not be unreasonably withheld.

- d. The Shareholder shall not make, accept or enter into a settlement or other compromise with respect to a Shareholder Refund from any Taxing Authority attributable to the events causing a Company Adjustment, or an income tax liability incurred or to be incurred by the Shareholder attributable to the events causing a Company Adjustment, or forego or terminate any administrative proceeding or judicial appeal involving any such Shareholder Refund or income tax liability, without the consent of the Company which shall not be unreasonably withheld.
3. Determination of Obligation to Pay.
- a. The Shareholder shall be deemed Obligated to Pay for purposes of Section 1 upon the earliest to occur of the following: (i) the date on which the parties agree to a Company Adjustment proposed by a Taxing Authority; (ii) the date on which the time to pursue an appeal of the proposed Company Adjustment expires without the Shareholder having requested a contest of the Company Adjustment pursuant to Section 2(b); or (iii) the date on which payment is required to be made in order to be able to litigate in the forum selected for the contest, or in order to avoid some other detrimental effect to the Company.
4. Cooperation.
- a. Each party shall provide the other with such cooperation as may reasonably be requested in connection with any contest, proceeding, audit or appeal relating to any matter concerning this Agreement, including, without limitation, making available all relevant books, records and all employees having knowledge of the matters concerned.

b. The Company and the Shareholder shall retain all books and records pertaining to any event which might relate to a Company Adjustment until the expiration of the statute of limitations applicable to a possible adjustment, audit or proceeding by any Taxing Authority relating to the S Corporation Period.

5. Miscellaneous.

a. NOTICES. All notices, requests, demands and other communications which are required or which may be given under this Agreement shall be in writing.

b. ENTIRE AGREEMENT. This Agreement constitutes the entire agreement between the parties with respect to all liabilities between the Shareholder and the Company resulting from any income tax adjustments by a Taxing Authority for the S Corporation Period and supersedes all prior agreements and understandings, oral and written, between the Shareholder and the Company relating to the subject matter of this Agreement.

c. BINDING EFFECT. This Agreement shall inure to the benefit of and be binding upon the Shareholder and the Company, and their respective successors and assigns.

d. AMENDMENTS. No provision of this Agreement may be amended, waived or otherwise modified without the prior written consent of the Shareholder and the Company.

- e. GOVERNING LAW. This Agreement shall be governed by, and construed in accordance with, the laws of the Commonwealth of Virginia.
- f. COUNTERPARTS. This Agreement may be executed by any number of counterparts, each of which shall be deemed to be an original and all of which together shall be deemed to be one and the same instrument.
- g. CONSTRUCTION OF TERMS. Nothing expressed or implied in this Agreement is intended, or shall be construed, to confer upon or give any person, firm or corporation, other than the Shareholder, the Company and their respective assigns and successors, any rights or remedies under or by reason of this Agreement.

OPTICAL CABLE CORPORATION

BY: /s/ Robert Kopstein

Robert Kopstein
Chairman of the Board, President
and Chief Executive Officer

/s/ Robert Kopstein

Robert Kopstein, Individual

[FIRST UNION LOGO]

LOAN AGREEMENT

First Union National Bank of Virginia
 201 South Jefferson Street
 Roanoke, Virginia 24011
 (Hereinafter referred to as the "Bank")

Optical Cable Corporation, a Virginia Corporation
 5290 Concourse Drive
 Roanoke, Virginia 24019
 (Individually and collectively "Borrower")

This Loan Agreement ("Agreement") is entered into April 25, 1997, by and between Bank and Borrower.

Borrower has applied to Bank for a loan or loans (individually and collectively, the "Loan") evidenced by one or more promissory notes (whether one or more, the "Note") as follows:

Line of Credit - in the principal amount of \$10,000,000.00 which is evidenced by the Promissory Note of even date herewith ("Line of Credit Note 1"), under which Borrower may borrow, repay, and reborrow, from time to time, so long as the total indebtedness outstanding at any one time does not exceed the principal amount. The Loan proceeds are to be used by Borrower solely to provide funding for mergers, acquisitions and/or joint ventures of entities in a business related to that of Borrower. Upon consummation of any of the above, Borrower will provide Bank proforma financial statements on the resulting entity with detail satisfactory to Bank. Bank's obligation to advance or readvance under the Line of Credit Note 1 shall terminate if a default in the payment of the Obligations occurs or the Borrower is in Default (as defined in the Loan Documents) under any Loan Document, or in any event, on February 28, 1998 unless renewed or extended by Bank in writing upon such terms then satisfactory to Bank.

Line of Credit - in the principal amount of \$5,000,000.00 which is evidenced by the Promissory Note of even date herewith ("Line of Credit Note 2"), under which Borrower may borrow, repay, and reborrow, from time to time, so long as the total indebtedness outstanding at any one time does not exceed the principal amount. The Loan proceeds are to be used by Borrower solely for working capital and general corporate expenses. Bank's obligation to advance or readvance under the Line of Credit Note 2 shall terminate if a default in the payment of the Obligations occurs or the Borrower is in Default (as defined in the Loan Documents) under any Loan Document, or in any event, on February 28, 1998 unless renewed or extended by Bank in writing upon such terms then satisfactory to Bank.

This Agreement also amends and restates in its entirety that certain Loan Agreement dated March 13, 1996 and applies to govern all of the loans thereby.

This Agreement applies to the Loan and all Loan Documents. The terms "Loan Documents" and "Obligations," as used in this Agreement, are defined in the Note. The term "Borrower" shall include its Subsidiaries and Affiliates. As used in this Agreement as to Borrower, "Subsidiary" shall mean any corporation of which more than 50% of the issued and outstanding voting stock is owned directly or indirectly by Borrower. As to Borrower, "Affiliate" shall have the meaning as defined in 11 U.S.C. ss. 101, except that the term "debtor" therein shall be substituted by the term "Borrower" herein.

Relying upon the covenants, agreements, representations and warranties contained in this Agreement, Bank is willing to extend credit to Borrower upon the terms and subject to the conditions set forth herein, and Bank and Borrower agree as follows:

REPRESENTATIONS. Borrower represents that from the date of this Agreement and until final payment in full of the Obligations: ACCURATE INFORMATION. All information now and hereafter furnished to Bank is and will be true, correct and complete. Any such information relating to Borrower's financial condition will accurately reflect Borrower's financial condition as of the date(s) thereof, (including all contingent liabilities of every type), and Borrower further represents that its financial condition has not changed materially or adversely since the date(s) of such documents. AUTHORIZATION; NON-CONTRAVENTION. The execution, delivery and performance by Borrower and any guarantor, as applicable, of this Agreement and other Loan Documents to which it is a party are within its power, have been duly authorized by all necessary action taken by the duly authorized officers of Borrower and any guarantors and, if necessary, by making appropriate filings with any governmental agency or unit and are the legal, binding, valid and enforceable obligations of Borrower and any guarantors; and do not (i) contravene, or constitute (with or without the giving of notice or lapse of time or both) a violation of any provision of applicable

law, a violation of the organizational documents of Borrower or any guarantor, or a default under any agreement, judgment, injunction, order, decree or other instrument binding upon or affecting Borrower or any guarantor, (ii) result in the creation or imposition of any lien (other than the lien(s) created by the Loan Documents) on any of Borrower's or guarantor's assets, or (iii) give cause for the acceleration of any obligations of Borrower or any guarantor to any other creditor. ASSET OWNERSHIP. Borrower has good and marketable title to all of the properties and assets reflected on the balance sheets and financial statements supplied Bank by Borrower, and all such properties and assets are free and clear of mortgages, security deeds, pledges, liens, charges, and all other encumbrances, except as otherwise disclosed to Bank by Borrower in writing ("Permitted Liens"). To Borrower's knowledge, no default has occurred under any Permitted Liens and no claims or interests adverse to Borrower's present rights in its properties and assets have arisen. DISCHARGE OF LIENS AND TAXES. Borrower has duly filed, paid and/or discharged all taxes or other claims which may become a lien on any of its property or assets, except to the extent that such items are being appropriately contested in good faith and an adequate reserve for the payment thereof is being maintained. SUFFICIENCY OF CAPITAL. Borrower is not, and after consummation of this Agreement and after giving effect to all indebtedness incurred and liens created by Borrower in connection with the Loan, will not be, insolvent within the meaning of 11 U.S.C. ss. 101(32). COMPLIANCE WITH LAWS. Borrower is in compliance in all respects with all federal, state and local laws, rules and regulations applicable to its properties, operations, business, and finances, including, without limitation, any federal or state laws relating to liquor (including 18 U.S.C. ss. 3617, et seq.) or narcotics (including 21 U.S.C. ss. 801, et seq.) and/or any commercial crimes; all applicable federal, state and local laws and regulations intended to protect the environment; and the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), if applicable. ORGANIZATION AND AUTHORITY. Each corporate or limited liability company Borrower and any guarantor, as applicable, is duly created, validly existing and in good standing under the laws of the state of its organization, and has all powers, governmental licenses, authorizations, consents and approvals required to operate its business as now conducted. Each corporate or limited liability company Borrower and any guarantor, if any, is duly qualified, licensed and in good standing in each jurisdiction where qualification or licensing is required by the nature of its business or the character and location of its property, business or customers, and in which the failure to so qualify or be licensed, as the case may be, in the aggregate, could have a material adverse effect on the business, financial position, results of operations, properties or prospects of Borrower or any such guarantor. NO LITIGATION. There are no pending or threatened suits, claims or demands against Borrower or any guarantor that have not been disclosed to Bank by Borrower in writing.

AFFIRMATIVE COVENANTS. Borrower agrees that from the date of this Agreement and until final payment in full of the Obligations, unless Bank shall otherwise consent in writing, Borrower will: BUSINESS CONTINUITY. Conduct its business in substantially the same manner and locations as such business is now and has previously been conducted. MAINTAIN PROPERTIES. Maintain, preserve and keep its property in good repair, working order and condition, making all needed replacements, additions and improvements thereto, to the extent allowed by this Agreement. ACCESS TO BOOKS & RECORDS. Allow Bank, or its agents, during normal business hours, access to the books, records and such other documents of Borrower as Bank shall reasonably require, and allow Bank to make copies thereof at Bank's expense. INSURANCE. Maintain adequate insurance coverage with respect to its properties and business against loss or damage of the kinds and in the amounts customarily insured against by companies of established reputation engaged in the same or similar businesses including, without limitation, commercial general liability insurance, workers compensation insurance, and business interruption insurance; all acquired in such amounts and from such companies as Bank may reasonably require. NOTICES. Promptly notify Bank in writing of (i) any material adverse change in its financial condition or its business; (ii) any default under any material agreement, contract or other instrument to which it is a party or by which any of its properties are bound, or any acceleration of the maturity of any indebtedness owing by Borrower; (iii) any material adverse claim against or affecting Borrower or any part of its properties; (iv) the commencement of, and any material determination in, any litigation with any third party or any proceeding before any governmental agency or unit affecting Borrower; and (v) at least 30 days prior thereto, any change in Borrower's name or address as shown above, and/or any change in Borrower's structure. COMPLIANCE WITH OTHER AGREEMENTS. Comply with all terms and conditions contained in this Agreement, and any other Loan Documents, and swap agreements, if applicable, as defined in the Note. PAYMENT OF DEBTS. Pay and discharge when due, and before subject to penalty or further charge, and otherwise satisfy before maturity or delinquency, all obligations, debts, taxes, and liabilities of whatever nature or amount, except those which Borrower in good faith disputes. REPORTS AND PROXIES. Deliver to Bank, promptly, a copy of all financial statements, reports, notices, and proxy statements, sent by Borrower to stockholders, and all regular or periodic reports required to be filed by Borrower with any governmental agency or authority. OTHER FINANCIAL INFORMATION. Deliver promptly such other information regarding the operation, business affairs, and financial condition of Borrower which Bank may reasonably request. ESTOPPEL CERTIFICATE. Furnish, within 15 days after request by Bank, a written statement duly acknowledged of the amount due under the Loan and whether offsets or defenses exist against the Obligations. CHANGE OF CONTROL. Ensure that Robert Kopstein maintains at least a 51% ownership interest in Borrower. LIFE INSURANCE. Maintain no less than \$2.0 million of life insurance on Robert Kopstein.

NEGATIVE COVENANTS. Borrower agrees that from the date of this Agreement and until final payment in full of the Obligations, unless Bank shall otherwise consent in writing, Borrower will not: NONPAYMENT; NONPERFORMANCE. Fail to pay or perform the Obligations or Default (as defined in the Loan Documents) under any of the Loan Documents. CROSS DEFAULT. Default in payment or performance of any obligation under any other loans, contracts or agreements of Borrower, any Subsidiary or Affiliate of Borrower ("Affiliate" shall have the meaning as defined in 11 U.S.C. ss. 101, except that the term "debtor" therein shall be substituted by the term "BORROWER" herein; "Subsidiary" shall mean any corporation of which more than 50% of the issued and outstanding voting stock is owned directly or indirectly by Borrower), any general partner of or the holder(s) of the majority ownership interests of Borrower with Bank or its affiliates; MATERIAL CAPITAL STRUCTURE OR BUSINESS ALTERATION. Materially alter the type or kind of Borrower's business or that of its Subsidiaries or Affiliates, if any; or suffer or permit the acquisition of substantially all of Borrower's business or assets, or a material portion (10% or more) of such business or assets if such a sale is outside Borrower's ordinary course of business, or more than 50% of its outstanding stock or voting power in a single transaction or a series of transactions; or acquire substantially all of the business or assets or more than 50% of the outstanding stock or voting power of any other entity; or enter into any merger or consolidation without prior written consent of Bank. DEFAULT ON OTHER

CONTRACTS OR OBLIGATIONS. Default on any material contract with or obligation when due to a third party or default in the performance of any obligation to a third party incurred for money borrowed in an amount in excess of \$100,000.00. JUDGMENT ENTERED. Permit the entry of any monetary judgment or the assessment against, the filing of any tax lien against, or the issuance of any writ of garnishment or attachment against any property of or debts due Borrower in an amount in excess of \$50,000.00 and that is not discharged or execution is not stayed within Thirty (30) days of entry. GOVERNMENT INTERVENTION. Permit the assertion or making of any seizure, vesting or intervention by or under authority of any government by which the management of Borrower or any guarantor is displaced of its authority in the conduct of its respective business or such business is curtailed or materially impaired. PREPAYMENT OF OTHER DEBT. Retire any long-term debt entered into prior to the date of this Agreement at a date in advance of its legal obligation to do so. RETIRE OR REPURCHASE CAPITAL STOCK. Retire or otherwise acquire any of its capital stock. ENCUMBRANCES. Create, assume, or permit to exist any mortgage, security deed, deed of trust, pledge, lien, charge or other encumbrance on any of its assets, whether now owned or hereafter acquired, other than: (i) security interests required by the Loan Documents; (ii) liens for taxes contested in good faith; (iii) liens accruing by law for employee benefits; or (iv) Permitted Liens.

FINANCIAL COVENANTS. Borrower, on a consolidated basis, agrees to the following provisions from the date of this Agreement and until final payment in full of the Obligations, unless Bank shall otherwise consent in writing: DEPOSIT RELATIONSHIP. Borrower shall maintain its primary depository account and cash management account with Bank.

ANNUAL FINANCIAL STATEMENTS. Borrower shall deliver to Bank, within 120 days after the close of each fiscal year, audited financial statements reflecting its operations during such fiscal year, including, without limitation, a balance sheet, profit and loss statement and statement of cash flows, with supporting schedules; all on a consolidated and consolidating basis and in reasonable detail, prepared in conformity with generally accepted accounting principles, applied on a basis consistent with that of the preceding year. All such statements shall be examined by an independent certified public accountant acceptable to Bank. The opinion of such independent certified public accountant shall not be acceptable to Bank if qualified due to any limitations in scope imposed by Borrower or its Subsidiaries, if any. Any other qualification of the opinion by the accountant shall render the acceptability of the financial statements subject to Bank's approval.

PERIODIC FINANCIAL STATEMENTS. Borrower shall deliver to Bank unaudited management-prepared quarterly financial statements, including, without limitation, a balance sheet, profit and loss statement and statement of cash flows, with supporting schedules, as soon as available and in any event within 45 days after the close of each such period; all in reasonable detail and prepared in conformity with generally accepted accounting principles, applied on a basis consistent with that of the preceding year. Such statements shall be certified as to their correctness by a principal financial officer of Borrower.

FINANCIAL AND OTHER INFORMATION. Borrower shall deliver to Bank such information as Bank may reasonably request from time to time, including without limitation, financial statements and information pertaining to Borrower's financial condition. Such information shall be true, complete, and accurate.

CONDITIONS PRECEDENT. The obligations of Bank to make the Loan and any advances pursuant to this Agreement are subject to the following conditions precedent: ADDITIONAL DOCUMENTS. Receipt by Bank of such additional supporting documents as Bank or its counsel may reasonably request.

IN WITNESS WHEREOF, Borrower and Bank, on the day and year first written above, have caused this Agreement to be executed under seal, AND THIS AGREEMENT IS DEEMED EFFECTIVE AS OF FEBRUARY 28, 1997.

Optical Cable Corporation, a Virginia Corporation
Taxpayer Identification Number: 54-1237042

CORPORATE
SEAL

By: /s/ Robert Kopstein

Robert Kopstein, President

First Union National Bank of Virginia

CORPORATE
SEAL

By: /s/ William C. Moses

Title: Vice President

[FIRST UNION LOGO]

SECURITY AGREEMENT

April 25, 1997

Optical Cable Corporation, a Virginia Corporation
5290 Concourse Drive
Roanoke, Virginia 24019
(Individually and collectively "Debtor")

First Union National Bank of Virginia
201 South Jefferson Street
Roanoke, Virginia 24011
(Hereinafter referred to as the "Bank")

For value received and to secure the payment and performance of the Promissory Note executed by the Debtor of even date herewith, in the original principal amount of \$10,000,000.00, payable to Bank, and any extensions, renewals, modifications or novations thereof (the "Note"), this Security Agreement and the other Loan Documents, and any other obligations of Debtor to Bank however created, arising or evidenced, whether direct or indirect, absolute or contingent, now existing or hereafter arising or acquired, including swap agreements (as defined in 11 U.S.C. ss. 101), future advances, and all costs and expenses incurred by Bank to obtain, preserve, perfect and enforce the security interest granted herein and to maintain, preserve and collect the property subject to the security interest (collectively, "Obligations"), Debtor hereby grants to Bank a continuing security interest in and lien upon the following described property, now owned or hereafter acquired, any additions, accessions, or substitutions thereof and thereto (including but not limited to investment property and security entitlements), and all cash and non-cash proceeds and products thereof (collectively, "Collateral"):

All accounts, contract rights, inventory, furniture, fixtures, machinery, equipment and general intangibles now existing or hereafter arising and proceeds and products thereof.

Debtor hereby represents and agrees that:

OWNERSHIP. Debtor owns the Collateral or Debtor will purchase and acquire rights in the Collateral within ten days of the date advances are made under the Loan Documents. If Collateral is being acquired with the proceeds of an advance under the Loan Documents, Debtor authorizes Bank to disburse proceeds directly to the seller of the Collateral. The Collateral is free and clear of all liens, security interests, and claims except those previously reported in writing to Bank, and Debtor will keep the Collateral free and clear from all liens, security interests and claims, other than those granted to Bank.

NAME AND OFFICES. There has been no change in the name of Debtor, or the name under which Debtor conducts business, within the 5 years preceding the date of execution of this Security Agreement and Debtor has not moved its executive offices or residence within the 5 years preceding the date of execution of this Security Agreement except as previously reported in writing to Bank. The taxpayer identification number of Debtor as provided herein is correct.

TITLE/TAXES. Debtor has good and marketable title to Collateral and will warrant and defend same against all claims. Debtor will not transfer, sell, or lease Collateral (except in the ordinary course of business). Debtor agrees to pay promptly all taxes and assessments upon or for the use of Collateral and on this Security Agreement. At its option, Bank may discharge taxes, liens, security interests or other encumbrances at any time levied or placed on Collateral. Debtor agrees to reimburse Bank, on demand, for any such payment made by Bank. Any amounts so paid shall be added to the Obligations.

WAIVERS. Debtor waives presentment, demand, protest, notice of dishonor, notice of default, demand for payment, notice of intention to accelerate, and notice of acceleration of maturity. Debtor further agrees not to assert against Bank as a defense (legal or equitable), as a set-off, as a counterclaim, or otherwise, any claims Debtor may have against any seller or lessor that provided personal property or services relating to any part of the Collateral. Debtor waives all exemptions and homestead rights with regard to the Collateral. Debtor waives any and all rights to notice or to hearing prior to Bank's taking immediate possession or control of any Collateral, and to any bond or security which might be required by applicable law prior to the exercise of any of Bank's remedies against any Collateral.

EXTENSIONS, RELEASES. Debtor agrees that Bank may extend, renew or modify any of the Obligations and grant any releases, compromises or indulgences with respect to any security for the Obligations, or with respect to any party liable for the Obligations, all without notice to or consent of Debtor and without affecting the liability of Debtor or the enforceability of this Security Agreement.

NOTIFICATIONS OF CHANGE. Debtor will notify Bank in writing at least 30 days prior to any change in: (i) Debtor's chief place of business and/or residence; (ii) Debtor's name or identity; or (iii) Debtor's corporate/organizational structure. Debtor will keep Collateral at the location(s) previously provided to Bank until such time as Bank provides written advance consent to a change of location. Debtor will bear the cost of preparing and filing any documents necessary to protect Bank's liens.

COLLATERAL CONDITION AND LAWFUL USE. Debtor represents that Collateral is in good repair and condition and that Debtor shall use reasonable care to prevent Collateral from being damaged or depreciating. Debtor shall immediately notify Bank of any material loss or damage to Collateral. Debtor shall not permit any item of equipment to become a fixture to real estate or an accession to other personal property. Debtor represents it is in compliance in all respects with all federal, state and local laws, rules and regulations applicable to its properties, Collateral, operations, business, and finances, including without limitation, any federal or state laws relating to liquor (including 18 U.S.C. ss. 3617, et seq.) Or narcotics (including 21 U.S.C. ss. 801, et seq.) And all applicable federal, state and local laws, and regulations intended to protect the environment.

RISK OF LOSS AND INSURANCE. Debtor shall bear all risk of loss with respect to the Collateral. The injury to or loss of Collateral, either partial or total, shall not release Debtor from payment or other performance hereof. Debtor agrees to obtain and keep in force casualty and hazard insurance on Collateral naming Bank as loss payee. Such insurance is to be in form and amounts satisfactory to Bank. All such policies shall provide to Bank a minimum of 30 days written notice of cancellation. Debtor shall furnish to Bank such policies, or other evidence of such policies satisfactory to Bank. Bank is authorized, but not obligated, to purchase any or all insurance or "Single Interest Insurance" protecting such interest as Bank deems appropriate against such risks and for such coverage and for such amounts, including either the loan amount or value of the Collateral, all at its discretion, and at Debtor's expense. In such event, Debtor agrees to reimburse Bank for the cost of such insurance and Bank may add such cost to the Obligations. Debtor shall bear the risk of loss to the extent of any deficiency in the effective insurance coverage with respect to loss or damage to any of the Collateral. Debtor hereby assigns to Bank to proceeds of all such insurance and directs any insurer to make payments directly to Bank. Debtor hereby appoints Bank its attorney-in-fact, which appointment shall be irrevocable and coupled with any interest for so long as the Obligations are unpaid, to file proof of loss and/or any other forms required to collect from any insurer any amount due from any damage or destruction of Collateral, to agree to and find Debtor as to the amount of said recovery, to designate payee(s) of such recovery, to grant releases to insurer, to grant subrogation rights to any insurer, and to endorse any settlement check or draft.

Debtor agrees not to exercise any of the foregoing powers granted to Bank without the Bank's prior written consent.

ADDITIONAL COLLATERAL. If at any time Collateral is unsatisfactory to Bank, then on demand of Bank, Debtor shall immediately furnish such additional Collateral satisfactory to Bank to be held by Bank as if originally pledged hereunder and shall execute such additional security agreements and financing statements as requested by Bank.

FINANCING STATEMENTS. No financing statement (other than any filed by Bank or disclosed above) covering any of Collateral or proceeds thereof is on file in any public filing office. This Security Agreement, or a copy thereof, or any financing statement executed hereunder may be recorded. On request of Bank, Debtor will execute one or more financing statements in form satisfactory to Bank and will pay all costs and expenses of filing the same or of filing this Security Agreement in all public filing offices, where filing is deemed by Bank to be desirable. Bank is authorized to file financing statements relating to Collateral without Debtor's signature where authorized by law. Debtor appoints Bank as its attorney-in-fact to execute such documents necessary to accomplish perfection of Bank's security interest. The appointment is coupled with an interest and shall be irrevocable as long as any Obligations remain outstanding. Debtor further agrees to take such other actions as might be requested for the perfection, continuation and assignment, in whole or in part, of the security interests granted herein. If certificates are issued or outstanding as to any of the Collateral, Debtor will cause the security interests of Bank to be properly protected, including perfection of notation thereon.

LANDLORD/MORTGAGE WAIVERS. Debtor shall cause each mortgagee of real property owned by Debtor and each landlord of real property leased by Debtor to execute and deliver instruments satisfactory in form and substance to Bank by which such mortgagee or landlord waives its rights, if any, in the Collateral

STOCK, DIVIDENDS. If, with respect to any security pledged hereunder, a stock dividend is declared, any stock split made or right to subscribe is issued, all the certificates for the shares representing such stock dividend, stock split or right to subscribes will be immediately delivered, duly endorsed, to the Bank as additional collateral, and any cash or non-cash proceeds and products thereof, including investment property and security entitlements will be immediately delivered to Bank. If Debtor has granted to Bank a security interest in securities, Debtor acknowledges that such grant includes all investment property and security entitlements, now existing or hereafter arising, relating to such securities. In addition, Debtor agrees to execute such notices and instructions to securities intermediaries as Bank may reasonably request.

CONTRACTS, CHATTEL PAPER, ACCOUNTS, GENERAL INTANGIBLES. Debtor warrants that Collateral consisting of contract rights, chattel paper, accounts, or general intangibles is (i) genuine and enforceable in accordance with its terms except as limited by law; (ii) not subject to any defense, set-off, claim or counterclaim of a material nature against Debtor except as to which Debtor has notified Bank in writing; and (iii) not subject to any other circumstances that would impair the validity, enforceability, value, or amount of such Collateral except as to which Debtor has notified Bank in writing. Debtor shall not amend, modify or supplement any lease, contract or agreement contained in Collateral or waive any provision therein, without prior written consent of Bank.

ACCOUNT INFORMATION. From time to time, at the Bank's request, Debtor shall provide Bank with schedules describing all accounts and contracts, including customers' addresses, credited or acquired by Debtor and at the Bank's request shall execute and deliver written assignments of contracts and other documents evidencing such accounts and contracts to Bank. Together with each schedule, Debtor shall, if requested by Bank, furnish Bank with copies of Debtor's sales

journals, invoices, customer purchase orders or the equivalent, and original shipping or delivery receipts for all goods sold, and Debtor warrants the genuineness thereof.

ACCOUNT AND CONTRACT DEBTORS. After a Default occurs, Bank shall have the right to notify the account and contract debtors obligated on any or all of the Collateral to make payment thereof directly to Bank and Bank may take control of all proceeds of any such Collateral, which rights Bank may exercise at any time. The cost of such collection and enforcement, including attorneys' fees and expenses, shall be borne solely by Debtor whether the same is incurred by Bank or Debtor. After a Default occurs, upon demand of Bank, Debtor will, upon receipt of all checks, drafts, cash and other remittances in payment on Collateral, deposit the same in a special bank account maintained with Bank, over which Bank also has the power of withdrawal.

If a Default occurs, no discount, credit, or allowance shall be granted by Debtor to any account or contract debtor and no return of merchandise shall be accepted by Debtor without Bank's consent. Bank may, after Default, settle or adjust disputes and claims directly with account contract debtors for amounts and upon terms that Bank considers advisable, and in such cases, Bank will credit the Obligations with the net amounts received by Bank, after deducting all of the expenses incurred by Bank. Debtor agrees to indemnify and defend Bank and hold it harmless with respect to any claim or proceeding arising out of any matter related to collection of Collateral.

GOVERNMENT CONTRACTS. If any Collateral covered hereby arises from obligations due to Debtor from any governmental unit or organization, Debtor shall immediately notify Bank in writing and execute all documents and take all actions demanded by Bank to ensure recognition by such governmental unit or organization of the rights of Bank in the Collateral.

INVENTORY. So long as no Default has occurred, Debtor shall have the right in the regular course of business, to process and sell Debtor's inventory, unless Bank shall hereafter otherwise direct in writing. Upon demand of Bank, Debtor will, upon receipt of all checks, drafts, ash and other remittances, in payment of Collateral sold, deposit the same in a special bank account maintained with Bank, over which Bank also has the power of withdrawal. Debtor shall comply with all federal, state, and local laws, regulations, rulings, and orders applicable to Debtor or its assets or business, in all respects. Without limiting the generality of the previous sentence, Debtor shall comply with all requirements of the federal Fair Labor Standards Act in the conduct of its business and the production of inventory. Debtor shall notify Bank immediately of any violation by Debtor of the Fair Labor Standards Act, and a failure of Debtor to so notify Bank shall constitute a continuing representation that all inventory then existing has been produced in compliance with the Fair Labor Standards Act.

INSTRUMENTS, CHATTEL PAPER. Any Collateral that is instruments, chattel paper and negotiable documents will be properly assigned to, deposited with and held Bank, unless Bank shall hereafter otherwise direct or consent in writing. Bank may, without notice, before or after maturity of the Obligations, exercise any or all rights of collection, conversion, or exchange and other similar rights, privileges and options pertaining to Collateral, but shall have no duty to do so.

COLLATERAL DUTIES. Bank shall have no custodial or ministerial duties to perform with respect to Collateral pledged except as set forth herein; and by way of explanation and not by way of limitation, Bank shall incur no liability for any of the following: (i) loss or depreciation of Collateral (unless caused by its willful misconduct), (ii) its failure to present any paper for payment or protest, to protest or give notice of nonpayment, or any other notice with respect to any paper or Collateral, or (iii) its failure to present or surrender for redemption, conversion or exchange any bond, stock, paper or other security whether in connection with any merger, consolidation, recapitalization, or reorganization, arising out of the refunding of the original security, or for any other reason, or its failure to notify any party hereto that Collateral should be so presented or surrendered.

TRANSFER OF COLLATERAL. The Bank may assign its right in the Collateral or any part thereof to any assignee who shall thereupon become vested with all the powers and rights herein given to the Bank with respect to the property so transferred and delivered, and the Bank shall thereafter be forever relieved and fully discharged from any liability with respect to such property so transferred, but with respect to any property not so transferred the Bank shall retain all rights and powers hereby given.

SUBSTITUTE COLLATERAL. With prior written consent of Bank, other Collateral may be substituted for the original Collateral herein in which event all rights, duties, obligations, remedies and security interests provided for, created or granted shall apply fully to such substitute Collateral.

INSPECTION, BOOKS AND RECORDS. Debtor will at all times keep accurate and complete records covering each item of Collateral, including the proceeds therefrom. Bank, or any of its agents, shall have the right, at intervals to be determined by Bank and without hindrance or delay, to inspect, audit, and examine the Collateral and to make extracts from the books, records, journals, orders, receipts, correspondence and other data relating to Collateral, Debtor's business or any other transaction between the parties hereto. Debtor will at its expense furnish Bank copies thereof upon request.

CROSS COLLATERALIZATION LIMITATION. As to any other existing or future consumer purpose loan made by Bank to Debtor, within the meaning of the Federal Consumer Credit Protection Act, Bank expressly waives any security interest granted herein in Collateral that Debtor uses as a principal dwelling and household goods.

ATTORNEY'S FEES AND OTHER COSTS OF COLLECTION. Debtor shall pay all of Bank's reasonable expenses incurred in enforcing this Agreement and in preserving and liquidating Collateral, including but not limited to, reasonable arbitration, paralegals', attorneys' and experts' fees and expenses, whether incurred without the commencement of a suit, in any trial, arbitration, or administrative proceeding, or in any appellate or bankruptcy proceeding.

DEFAULT. If any of the following occurs, a default ("Default") under this Security Agreement shall exist: (i) The failure of timely payment or performance of any of the Obligations or a default under any Loan Document; (ii) Any breach of any representation or agreement contained or referred to in this Security Agreement or other Loan Document; (iii) Any loss, theft, substantial damage, or destruction of Collateral not fully covered by insurance, or as to which insurance proceeds are not remitted to Bank within 30 days of the loss; any sale (except the sale of inventory in the ordinary course of business), lease, or encumbrance of any of collateral without prior written consent of Bank; or the making of any levy, seizure, or attachment on or of Collateral which is not removed within 10 days; or (iv) the death of, appointment of guardian for, dissolution of, termination of existence of, loss of good standing status by, appointment of a receiver for, assignment for the benefit of creditors of, or commencement of any bankruptcy or insolvency proceeding by or against Debtor, its Subsidiaries or Affiliates ("Affiliate" shall have the meaning as defined in 11 U.S.C. ss. 101; and "Subsidiary" shall mean any corporation of which more than 50% of the issued and outstanding voting stock is owned directly or indirectly by Debtor), if any, or any general partner of or the holder(s) of the majority ownership interests in Debtor or any party to the Loan Documents.

REMEDIES ON DEFAULT (INCLUDING POWER OF SALE). If a Default occurs, all of the Obligations shall be immediately due and payable, without notice and Bank shall have all the rights and remedies of a secured party under the Uniform Commercial Code. Without limitation thereto, Bank shall have the following rights and remedies: (i) to take immediate possession of Collateral, without notice or resort to legal process, and for such purpose, to enter upon any premises on which Collateral or any part thereof may be situated and to remove the same therefrom, or, at its option, to render the Collateral unusable or dispose of said Collateral on Debtor's premises; (ii) to require

Debtor to assemble the Collateral and make it available to Bank at a place to be designated by Bank; (iii) to exercise its right of set-off or bank lien as to any monies of Debtors deposited in demand, checking, time, savings, certificate of deposit or other accounts of any nature maintained by Debtor with Bank or Affiliates of Bank, without advance notice, regardless of whether such accounts are general or special; (iv) to dispose of Collateral, as a unit or in parcels, separately or with any real property interests also securing the Obligations, in any county or place to be selected by Bank, at either private or public sale (at which public sale bank may be the purchaser) with or without having the Collateral physically present at said sale. Any notice of sale, disposition or other action by Bank required by law and sent to Debtor at Debtor's address shown above, or at such other address of debtor as may from time to time be shown on the records of Bank, at least 5 days prior to such action, shall constitute reasonable notice to Debtor. Notice shall be deemed given or sent when mailed postage prepaid to Debtor's address as provided herein. Bank shall be entitled to apply the proceeds of any sale or other disposition of the Collateral, and the payments received by Bank with respect to any of the Collateral, to the Obligations in such order and manner as Bank may determine. Collateral that is subject to rapid declines in value and is customarily sold in recognized markets may be disposed of by Bank in a recognized market for such collateral without providing notice of sale.

REMEDIES ARE CUMULATIVE. No failure on the part of Bank to exercise, and no delay in exercising, any right, power or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise by Bank or any right, power or remedy hereunder preclude any or other further exercise thereof or the exercise of any right, power or remedy. The remedies herein provided are cumulative and are not exclusive of any remedies provided by law, in equity, or in other Loan Documents.

MISCELLANEOUS. (i) AMENDMENTS AND WAIVERS. No waiver, amendment or modification of any provision of this Security Agreement shall be valid unless in writing and signed by an officer of Bank. No waiver by Bank of any Default shall operate as a waiver of any other Default or of the same Default on a future occasion. Neither the failure of, nor any delay by, Bank in exercising any right, power or privilege granted pursuant to this Security Agreement shall operate as a waiver thereof, nor shall a single or partial exercise thereof preclude any other or further exercise of any other right, power or privilege. (ii) ASSIGNMENT. All rights of Bank hereunder are freely assignable, in whole or in part, and shall inure to the benefit of and be enforceable by Bank, its successors, assigns and affiliates. Debtor shall not assign its rights and interest hereunder without the prior written consent of Bank, and any attempt by Debtor to assign without Bank's prior written consent is null and void. Any assignment shall not release Debtor from the Obligations. This Security Agreement shall be binding upon Debtor, and the heirs, personal representatives, successors, and assigns of Debtor. (iii) APPLICABLE LAW: CONFLICT BETWEEN DOCUMENTS. This Security Agreement shall be governed by and construed under the laws of the state in which the office of Bank as stated above is located without regard to that state's conflict of laws principles. If any terms of this Security Agreement conflict with the terms of any commitment letter or loan proposal, the terms of this Security Agreement shall control. (iv) JURISDICTION. Debtor irrevocably agrees to non-exclusive personal jurisdiction in the state in which the office of Bank as stated above is located. (v) SEVERABILITY. If any provision of this Security Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective but only to the extent or such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Security Agreement. (vi) NOTICES. Any notices to Debtor shall be sufficiently given. If in writing and mailed or delivered to the address of Debtor shown above or such other address as provided hereunder; and to Bank, if in writing and mailed or delivered to Bank's office address shown above or such other address as Bank may specify in writing from time to time. In the event that the Debtor changes Debtor's mailing address at any time prior to the date the Obligations are paid in full, Debtor agrees to promptly give written notice of said change of address by registered or certified mail, return receipt requested, all charges prepaid. (vii) CAPTIONS. The captions contained

herein are inserted for convenience only and shall not affect the meaning or interpretation of this Security Agreement or any provision thereof. The use of the plural shall also mean the singular, and vice versa, (viii) LOAN DOCUMENTS. The term "Loan Documents" refers to all documents, whether now or hereafter existing, executed in connection with the Obligations and may include, without limitation and whether executed by Borrower, Debtor or others, commitment letters, loan agreements, guaranty agreements, other security agreements, letters of credit, instruments, financing statements, mortgages, deeds of trust, deeds to secure debt, and any amendments or supplements (excluding swap agreements as defined in 11 U.S.C. ss. 101). (ix) JOINT AND SEVERAL LIABILITY. If more than one person has signed this Security Agreement, such parties are jointly and severally obligated hereunder. (x) BINDING CONTRACT. Debtor by execution and Bank by acceptance of this Security Agreement, agree that each party is bound by all terms and provisions of this Security Agreement.

IN WITNESS WHEREOF, Debtor, on the day and year first written above, has caused this Security Agreement to be executed under seal.

Optical Cable Corporation, a Virginia Corporation
Taxpayer Identification Number: 54-1237042

CORPORATE
SEAL

By: /s/ Robert Kopstein

Robert Kopstein, President

ACCOUNTANTS' CONSENT

The Board of Directors
Optical Cable Corporation

We consent to incorporation by reference in Registration Statement No. 33-09433 on Form S-8 of Optical Cable Corporation of our report dated December 12, 1997, relating to the balance sheets of Optical Cable Corporation as of October 31, 1997 and 1996, and the related statements of income, stockholders' equity, and cash flows for each of the years in the three-year period ended October 31, 1997, which report is included in the October 31, 1997 Annual Report on Form 10-K of Optical Cable Corporation.

KPMG Peat Marwick LLP

Roanoke, Virginia
January 29, 1998

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM FINANCIAL STATEMENTS FOR THE YEAR ENDED OCTOBER 31, 1997 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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Amounts inapplicable or not disclosed as a separate line on the Balance Sheet or Statement of Income are reported as 0 herein.

	1,000	
	US	
12-MOS		
	OCT-31-1997	
	NOV-01-1996	
	OCT-31-1997	
	1	
		986
	0	
	10,238	
	307	
	12,019	
	23,683	
		15,149
	3,669	
	35,214	
3,771		
	0	
0		
	0	
		15,594
		12,785
35,214		
		52,189
	52,204	
		30,613
	40,185	
	(45)	
	(11)	
18		
	11,957	
	4,150	
7,807		
	0	
	0	
		0
	7,807	
	0.202	
	0.202	