

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

FORM 10-Q

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

For the quarterly period ended July 31, 1998

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
(State or other jurisdiction of incorporation
or organization)

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

5290 CONCOURSE DRIVE
ROANOKE, VIRGINIA 24019
(Address of principal executive offices, including zip code)

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

N/A
(Former name, former address and former fiscal year,
if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. (1) Yes X No__ (2) Yes X No__

As of September 8, 1998, 38,018,636 shares of the registrant's Common Stock, no par value, were outstanding. Of these outstanding shares, 36,000,000 shares were held by Robert Kopstein, Chairman of the Board, President and Chief Executive Officer of the registrant.

OPTICAL CABLE CORPORATION
Form 10-Q Index
Nine Months Ended July 31, 1998

PAGE

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

| | |
|--|-----|
| Condensed Balance Sheets - July 31, 1998 and October 31, 1997..... | 2 |
| Condensed Statements of Income - Three Months and Nine Months Ended July 31, 1998 and 1997..... | 3 |
| Condensed Statement of Changes in Stockholders' Equity - Nine Months Ended July 31, 1998..... | 4 |
| Condensed Statements of Cash Flows - Nine Months Ended July 31, 1998 and 1997..... | 5 |
| Condensed Notes to Condensed Financial Statements..... | 6-8 |

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS
OF OPERATIONS AND FINANCIAL CONDITION.....9-13

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.....14

SIGNATURES.....15

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

OPTICAL CABLE CORPORATION
CONDENSED BALANCE SHEETS
(UNAUDITED)

| ASSETS | JULY 31, 1998 ---- | OCTOBER 31, 1997 ---- |
|--|--------------------------|-----------------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 396,092 | \$ 985,807 |
| Trade accounts receivable, net of allowance for doubtful accounts of \$325,000 at July 31, 1998 and \$307,400 at October 31, 1997 | 10,737,743 | 9,931,276 |
| Other receivables | 156,803 | 540,102 |
| Due from employees | 6,139 | 3,534 |
| Inventories | 12,021,517 | 12,019,443 |
| Prepaid expenses | 153,455 | 121,046 |
| Deferred income taxes | 218,626 | 81,484 |
| | ----- | ----- |
| Total current assets | 23,690,375 | 23,682,692 |
| Other assets, net | 38,200 | 50,953 |
| Property and equipment, net | 11,252,311 | 11,480,433 |
| | ----- | ----- |
| Total assets | \$ 34,980,886 | \$ 35,214,078 |
| | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Notes payable | \$ 405,000 | \$ - |
| Accounts payable and accrued expenses | 3,219,070 | 2,593,256 |
| Accrued compensation and payroll taxes | 553,896 | 612,736 |
| Income taxes payable | 334,549 | 564,999 |
| | ----- | ----- |
| Total current liabilities | 4,512,515 | 3,770,991 |
| Deferred income taxes | 150,071 | 64,382 |
| | ----- | ----- |
| Total liabilities | 4,662,586 | 3,835,373 |
| | ----- | ----- |
| Stockholders' equity: | | |
| Preferred stock, no par value, authorized 1,000,000 shares; none issued and outstanding | - | - |
| Common stock; no par value, authorized 100,000,000 shares; issued and outstanding 38,104,936 shares at July 31, 1998 and 38,675,416 shares at October 31, 1997 | 12,006,917 | 18,594,116 |
| Retained earnings | 18,311,383 | 12,784,589 |
| | ----- | ----- |
| Total stockholders' equity | 30,318,300 | 31,378,705 |
| Commitments and contingencies | | |
| | ----- | ----- |
| Total liabilities and stockholders' equity | \$ 34,980,886 | \$ 35,214,078 |
| | ===== | ===== |

See accompanying condensed notes to condensed financial statements.

OPTICAL CABLE CORPORATION
CONDENSED STATEMENTS OF INCOME
(Unaudited)

| | THREE MONTHS ENDED JULY 31, | | NINE MONTHS ENDED JULY 31, | |
|--|--------------------------------|--------------|-------------------------------|---------------|
| | 1998 | 1997 | 1998 | 1997 |
| Net sales | \$ 13,727,433 | \$14,285,834 | \$ 37,289,648 | \$ 37,422,716 |
| Cost of goods sold | 8,056,752 | 8,669,025 | 21,473,444 | 22,161,654 |
| Gross profit | 5,670,681 | 5,616,809 | 15,816,204 | 15,261,062 |
| Selling, general and administrative expenses | 2,602,800 | 2,516,972 | 7,330,234 | 6,914,034 |
| Income from operations | 3,067,881 | 3,099,837 | 8,485,970 | 8,347,028 |
| Other income (expense): | | | | |
| Interest income | 6,185 | 4,313 | 46,749 | 13,382 |
| Interest expense | (122) | (1,078) | (317) | (12,176) |
| Other, net | (1,167) | (227) | (4,311) | (5,713) |
| Other income (expense), net | 4,896 | 3,008 | 42,121 | (4,507) |
| Income before income tax expense | 3,072,777 | 3,102,845 | 8,528,091 | 8,342,521 |
| Income tax expense | 1,081,403 | 1,086,162 | 3,001,297 | 2,932,954 |
| Net income | \$ 1,991,374 | \$ 2,016,683 | \$ 5,526,794 | \$ 5,409,567 |
| Earnings per share (note 5): | | | | |
| Earnings per common share | \$ 0.052 | \$ 0.052 | \$ 0.144 | \$ 0.140 |
| Earnings per common share - assuming dilution | \$ 0.052 | \$ 0.052 | \$ 0.143 | \$ 0.139 |

See accompanying condensed notes to condensed financial statements.

OPTICAL CABLE CORPORATION
CONDENSED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(UNAUDITED)

| | NINE MONTHS ENDED JULY 31, 1998 | | | |
|------------------------------|---------------------------------|---------------|----------------------|----------------------------------|
| | Common Stock | | Retained Earnings | Total Stockholders' Equity |
| | Shares | Amount | | |
| Balances at October 31, 1997 | 38,675,416 | \$ 18,594,116 | \$ 12,784,589 | \$ 31,378,705 |
| Net income | - | - | 5,526,794 | 5,526,794 |
| Repurchase of common stock | (648,330) | (6,781,824) | - | (6,781,824) |
| Stock options exercised | 77,850 | 194,625 | - | 194,625 |
| Balances at July 31, 1998 | 38,104,936 | \$ 12,006,917 | \$ 18,311,383 | \$ 30,318,300 |

See accompanying condensed notes to condensed financial statements.

OPTICAL CABLE CORPORATION
CONDENSED STATEMENTS OF CASH FLOWS
(UNAUDITED)

| | NINE MONTHS ENDED JULY 31, | |
|---|-------------------------------|--------------|
| | 1998 | 1997 |
| | ----- | ----- |
| Cash flows from operating activities: | | |
| Net income | \$ 5,526,794 | \$ 5,409,567 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 576,989 | 532,200 |
| Bad debt expense | 45,402 | 4,868 |
| Deferred income taxes | (51,453) | (18,512) |
| (Increase) decrease in: | | |
| Trade accounts receivable | (851,869) | (967,040) |
| Other receivables | 383,299 | (61,095) |
| Due from employees | (2,605) | (3,200) |
| Inventories | (2,074) | (1,869,803) |
| Prepaid expenses | (32,409) | (64,693) |
| Increase (decrease) in: | | |
| Accounts payable and accrued expenses | 852,204 | (806,478) |
| Accrued compensation and payroll taxes | (58,840) | (72,261) |
| Income taxes payable | (230,450) | 183,720 |
| Net cash provided by operating activities | 6,154,988 | 2,267,273 |
| | ----- | ----- |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (562,504) | (3,427,458) |
| Net cash used in investing activities | (562,504) | (3,427,458) |
| | ----- | ----- |
| Cash flows from financing activities: | | |
| Net change in notes payable | 405,000 | (182,000) |
| Repurchase of common stock | (6,781,824) | - |
| Proceeds from exercise of stock options | 194,625 | - |
| Net cash used in financing activities | (6,182,199) | (182,000) |
| | ----- | ----- |
| Net decrease in cash and cash equivalents | (589,715) | (1,342,185) |
| Cash and cash equivalents at beginning of period | 985,807 | 1,677,739 |
| | ----- | ----- |
| Cash and cash equivalents at end of period | \$ 396,092 | \$ 335,554 |
| | ===== | ===== |

See accompanying condensed notes to condensed financial statements.

OPTICAL CABLE CORPORATION
CONDENSED NOTES TO CONDENSED FINANCIAL STATEMENTS
NINE MONTHS ENDED JULY 31, 1998
(Unaudited)

(1) GENERAL

The accompanying unaudited condensed financial statements have been prepared in accordance with generally accepted accounting principles for interim financial reporting information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all material adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine months ended July 31, 1998 are not necessarily indicative of the results that may be expected for the fiscal year ending October 31, 1998. The unaudited condensed financial statements and condensed notes are presented as permitted by Form 10-Q and do not contain certain information included in the Company's annual financial statements and notes. For further information, refer to the financial statements and notes thereto included in the Company's annual report on Form 10-K for the fiscal year ended October 31, 1997.

(2) INVENTORIES

Inventories at July 31, 1998 and October 31, 1997 consist of the following:

| | JULY 31, 1998 ---- | OCTOBER 31, 1997 ---- |
|---------------------|--------------------------|-----------------------------|
| Finished goods | \$ 4,000,307 | \$ 4,854,697 |
| Work in process | 2,194,230 | 1,976,970 |
| Raw materials | 5,775,498 | 5,125,044 |
| Production supplies | 51,482 | 62,732 |
| | ----- | ----- |
| | \$ 12,021,517 | \$ 12,019,443 |
| | ===== | ===== |

(3) NOTES PAYABLE

On February 25, 1998, 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 its \$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 and are equally

(CONTINUED)

OPTICAL CABLE CORPORATION
CONDENSED NOTES TO CONDENSED FINANCIAL STATEMENTS
(Unaudited)

(3) (CONTINUED)

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, 1999, unless renewed or extended.

(4) STOCKHOLDERS' EQUITY

The Company's Board of Directors has authorized the repurchase of up to \$10 million of the Company's common stock in the open market or in privately negotiated transactions. During the nine months ended July 31, 1998, the Company repurchased 648,330 shares of its common stock for \$6,781,824.

Subsequent to July 31, 1998 and through September 8, 1998, the Company repurchased 86,300 additional shares of its common stock in connection with its share repurchase program.

On March 10, 1998, the Company's stockholders approved an amendment to the Company's articles of incorporation to increase the total number of authorized shares of common stock of the Company from 50,000,000 to 100,000,000.

(5) 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 new standards for computing and presenting earnings per share (EPS) and applies to entities with publicly held common stock or potential common stock. 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.

(CONTINUED)

OPTICAL CABLE CORPORATION
CONDENSED NOTES TO CONDENSED FINANCIAL STATEMENTS
(Unaudited)

(5) (CONTINUED)

SFAS No. 128 was required to be adopted by the Company at January 31, 1998. SFAS No. 128 also requires restatement of all prior-period EPS data previously presented. The following is a reconciliation of the numerators and denominators of the basic and diluted EPS computations for the periods presented:

| THREE MONTHS ENDED JULY 31, 1998 ----- | Net Income (Numerator) ----- | Shares (Denominator) ----- | Per Share Amount ----- |
|---|------------------------------------|----------------------------------|------------------------------|
| Earnings per common share | \$ 1,991,374 | 38,208,593 | \$ 0.052 ===== |
| Effect of dilutive stock options | - | 258,690 | |
| Earnings per common share - assuming dilution | \$ 1,991,374 ===== | 38,467,283 ===== | \$ 0.052 ===== |
| THREE MONTHS ENDED JULY 31, 1997 ----- | | | |
| Earnings per common share | \$ 2,016,683 | 38,675,416 | \$ 0.052 ===== |
| Effect of dilutive stock options | - | 327,234 | |
| Earnings per common share - assuming dilution | \$ 2,016,683 ===== | 39,002,650 ===== | \$ 0.052 ===== |
| NINE MONTHS ENDED JULY 31, 1998 ----- | | | |
| Earnings per common share | \$ 5,526,794 | 38,388,822 | \$ 0.144 ===== |
| Effect of dilutive stock options | - | 289,737 | |
| Earnings per common share - assuming dilution | \$ 5,526,794 ===== | 38,678,559 ===== | \$ 0.143 ===== |
| NINE MONTHS ENDED JULY 31, 1997 ----- | | | |
| Earnings per common share | \$ 5,409,567 | 38,675,416 | \$ 0.140 ===== |
| Effect of dilutive stock options | - | 357,792 | |
| Earnings per common share - assuming dilution | \$ 5,409,567 ===== | 39,033,208 ===== | \$ 0.139 ===== |

Stock options that could potentially dilute basic EPS in the future that were not included in the computation of diluted EPS because to do so would have been antidilutive totaled 229,500 for the three months and nine months ended July 31, 1998.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

THREE MONTHS ENDED JULY 31, 1998 AND 1997

Net Sales

Net sales consists of gross sales of products, less discounts, refunds and returns. Net sales decreased 3.9 percent to \$13.7 million in third quarter 1998 from \$14.3 million for the same period in 1997. This decrease was primarily attributable to weather conditions and delays in large projects, as well as a reallocation of capital spending by the Company's customers away from communications expenditures towards Year 2000 projects.

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) increased to 41.3 percent in third quarter 1998 from 39.3 percent in third quarter 1997. This increase was due to reduced raw fiber prices, the Company's product mix sold and the ratio of net sales attributable to the Company's distributors during the period. During third quarter 1998, sales from orders \$50,000 or more approximated 18 percent compared to 21 percent for third quarter 1997. In addition, during third quarter 1998, net sales to distributors approximated 64 percent versus 51 percent for the same period in 1997. Discounts on large orders and on sales to distributors are generally greater than for sales to the Company's other customer base.

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 19.0 percent in third quarter 1998 compared to 17.6 percent in third quarter 1997. This higher percentage was primarily the result of the fact that net sales for third quarter 1998 decreased 3.9 percent compared to third quarter 1997, while selling, general and administrative expenses increased 3.4 percent.

Income Before Income Tax Expense

Income before income tax expense of \$3.1 million for the three months ended July 31, 1998 was comparable to the three months ended July 31, 1997. This was primarily due to the increased gross profit margin, offset by decreased net sales and increased selling, general and administrative expenses.

Income Tax Expense

Income tax expense of \$1.1 million for the three months ended July 31, 1998 was comparable to the same period in 1997. The Company's effective tax rate was 35.2 percent during the three months ended July 31, 1998 compared to 35.0 percent for the same period in 1997.

Net Income

Net income for third quarter 1998 of \$2.0 million was comparable to the third quarter 1997.

NINE MONTHS ENDED JULY 31, 1998 AND 1997

Net Sales

Net sales consists of gross sales of products, less discounts, refunds and returns. Net sales decreased slightly to \$37.3 million for the nine months ended July 31, 1998 from \$37.4 million for the same period in 1997. This slight decrease was attributable to the 3.9 percent decrease in net sales in third quarter 1998 compared to the same period in 1997 as described above, and the 4.9 percent decrease in net sales in first quarter 1998 attributable to the completion of shipments for a large international military project in first quarter 1997 and the delay of large potential orders in first quarter 1998 due to adverse weather conditions or economic uncertainty, offset by the 9.8 percent increase in net sales in second quarter 1998 compared to the same period in 1997 attributable to an increase of approximately 22 percent in international sales over the second quarter of 1997.

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) increased to 42.4 percent for the nine months ended July 31, 1998 from 40.8 percent for the nine months ended July 31, 1997. This increase was due to reduced raw fiber prices, the Company's product mix sold and the ratio of net sales attributable to the Company's distributors during the period. During the nine months ended July 31, 1998, sales from orders \$50,000 or more approximated 18 percent compared to 21 percent for the nine months ended July 31, 1997. In addition, for the nine months ended July 31, 1998, net sales to distributors approximated 57 percent which was comparable to the same period in 1997. Discounts on large orders and on sales to distributors are generally greater than for sales to the Company's other customer base.

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 19.7 percent for the nine months ended July 31, 1998 compared to 18.5 percent for the nine months ended July 31, 1997. This higher percentage was primarily the result of the fact that net sales for the nine months ended July 31, 1998 decreased slightly compared to the same period in 1997, while selling, general and administrative expenses increased 6.0 percent due to increased selling efforts.

Income Before Income Tax Expense

Income before income tax expense increased 2.2 percent to \$8.5 million for the nine months ended July 31, 1998 compared to \$8.3 million for the nine months ended July 31, 1997. This was primarily due to the increased gross profit margin, offset by increased selling, general and administrative expenses.

Income Tax Expense

Income tax expense increased 2.3 percent to \$3.0 million for the nine months ended July 31, 1998 compared to \$2.9 million for the same period in 1997 due to the increase in income before income tax expense. The Company's effective tax rate was 35.2 percent during both the nine months ended July 31, 1998 and 1997.

Net Income

Net income for the nine months ended July 31, 1998 was \$5.5 million compared to \$5.4 million for the nine months ended July 31, 1997. Despite an increase in income tax expense of \$68,000, net income increased \$117,000 due to the \$185,000 increase in income before income tax expense.

FINANCIAL CONDITION

Total assets at July 31, 1998 were \$35.0 million, a decrease of \$233,000, or 0.7 percent from October 31, 1997. This decrease was primarily due to an increase of \$806,000 in trade accounts receivable, offset by decreases in cash and cash equivalents of \$590,000 and other receivables of \$383,000.

Total stockholders' equity at July 31, 1998 decreased \$1.1 million, or 3.4 percent from October 31, 1997 with net income retained, offset by the repurchase of common stock in the amount of \$6.8 million accounting for the decrease.

LIQUIDITY AND CAPITAL RESOURCES

During the first nine months of fiscal years 1998 and 1997, the Company's primary capital needs have been to fund working capital requirements and capital expenditures as needed. The Company's primary source of financing has been cash provided from operations. The Company maintains bank lines of credit and had \$405,000 outstanding under one of the lines as of the end of the third quarter of fiscal year 1998. There were no balances outstanding under the lines as of the end of fiscal year 1997.

On February 25, 1998, 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 its \$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, 1999, unless renewed or extended. As of the date hereof, the Company has no additional material sources of financing. 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 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. On April 7, 1998, the Company's Board of Directors expanded the Company's share repurchase program by authorizing the repurchase of an aggregate of up to \$10 million of the Company's common stock. Through July 31, 1998, the Company has repurchased approximately \$6.8 million of the Company's common stock. The repurchases were funded primarily through cash flows from operating activities. The Company intends to use excess working capital and other sources as appropriate to finance the remaining share repurchase program.

Cash flows from operations were approximately \$6.2 million and \$2.3 million for the nine months ended July 31, 1998 and 1997, respectively. Cash flows from operations for the nine months ended July 31, 1998 were primarily provided by operating income and an increase in accounts payable and accrued expenses of \$852,000, offset by an increase in trade accounts receivable of \$852,000 and income taxes paid of \$3.3 million. For the nine months ended July 31, 1997, cash flows from operations were primarily provided by operating income, offset by an increase in trade accounts receivable of \$967,000, an increase in inventory of \$1.9 million, a decrease in accounts payable and accrued expenses of \$806,000 and income taxes paid of \$2.8 million.

Net cash used in investing activities was for expenditures related to facilities and equipment and was \$563,000 and \$3.4 million for the nine months ended July 31, 1998 and 1997, respectively. The Company's expansion of its headquarters facilities was substantially completed as of January 31, 1997. As of July 31, 1998, there were no material commitments for additional capital expenditures.

Net cash used in financing activities was \$6.2 million and \$182,000 for the nine months ended July 31, 1998 and 1997, respectively. The net cash used in financing activities for the nine months ended July 31, 1998 included approximately \$6.8 million related to the Company's common stock repurchase program, offset by proceeds from exercise of stock options of \$195,000 and borrowings under the Company's line of credit of \$405,000. The net cash used in financing activities for the nine months ended July 31, 1997 consisted of repayment of debt outstanding under the Company's line of credit of \$182,000.

DERIVATIVES

The Company does not use derivatives or off-balance sheet instruments such as future contracts, forward obligations, interest rate swaps, or option contracts.

YEAR 2000

The "Year 2000" problem will affect many computers and other electronic devices that are not programmed to properly recognize a year that begins with "20" instead of "19." Some devices may recognize dates on or after January 1, 2000 as a date during the 1900s, or may not recognize the date at all. If not corrected, many devices could fail or create erroneous results.

Since 1997, the Company has been actively assessing, planning and responding to the risks to the Company created by the Year 2000 problem. In assessing the risks, the Company has focused on both (i) its internal information technology ("IT") and non-IT systems, including, but not limited to, computer hardware and software, manufacturing equipment, printers, facsimile machines, and other control and accounting devices, and (ii) its interfaces with third parties with which the Company has material relationships, such as suppliers, customers and financial institutions.

The Company has completed its assessment and response planning with respect to its internal IT and non-IT systems. Additionally, the Company has substantially completed necessary remediation measures with respect to those internal systems. The Company's remediation has included updating various computer hardware and software and printers to be Year 2000 compliant. The Company has also determined that the Year 2000 problem will not have a material adverse affect on its manufacturing machinery. To date, the Company has expended less than \$100,000 on its remediation measures and believes future remediation expenditures with respect to its internal systems to be less than \$50,000. With respect to the Company's internal systems, the Company believes it will complete its planned remediation and any testing in time to ensure the Year 2000 problem will not have a material adverse affect on the Company or its business. The Company does not believe contingency plans are necessary for its internal systems at this time.

The Company is still in the process of assessing, planning and responding to potential Year 2000 problems which may arise from failures of third parties to be Year 2000 compliant. To date, the Company has sent questionnaires and reviewed responses from some of its major suppliers. At present, the Company has not been made aware of any Year 2000 issues of third parties that are expected to have a material adverse effect on the Company. The process of evaluating the Company's third party risk is expected to be ongoing and at this point the Company cannot determine the level of Year 2000 risk associated with third parties.

The Company is still in the process of evaluating the potential effects of a worst-case scenario. While the Company believes that it is taking the necessary steps to resolve its Year 2000 issues in a timely manner, there can be no assurance that the Company will not have any Year 2000 problems. If any such problems occur, the Company will work to solve them as quickly as possible. At present, the Company does not expect that such problems related to the Company's internal IT and non-IT systems will have a material adverse affect on its business. The failure, however, of one or more of the Company's major suppliers, customers or financial institutions to be Year 2000 compliant could have a material adverse effect on the Company.

NEW ACCOUNTING STANDARDS

There have been no accounting pronouncements issued during the period that would have a material effect on the financial position, results of operations or liquidity of the Company.

FORWARD-LOOKING INFORMATION

This Form 10-Q may contain certain "forward-looking" information within the meaning of the federal securities laws. The forward-looking information may include, among other information, (i) statements concerning the Company's outlook for the future, (ii) statements of belief, (iii) future plans, strategies or anticipated events, and (iv) similar information and statements concerning matters that are not historical facts. Such forward-looking information is subject to risks and uncertainties that may cause actual events to differ materially from the expectations of the Company. Factors that could cause or contribute to such differences include, but are not limited to, the level of sales to key customers, actions by competitors, fluctuations in the price of raw materials (including optical fiber), the Company's dependence on a single manufacturing facility, the ability of the Company to protect its proprietary manufacturing technology, the Company's dependence on a limited number of suppliers, technological changes and introductions of new competing products, and market and economic conditions in the areas of the world in which the Company operates or markets its products.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- (a) Exhibits required by Item 601 of Regulation S-K for the nine months ended July 31, 1998.

| Exhibit No. ----- | Description ----- |
|----------------------|---|
| 10.9 | Optical Cable Corporation Employee Stock Purchase Plan |
| 27 | Financial Data Schedule |

- (b) Reports on Form 8-K filed during the three months ended July 31, 1998.

None.

SIGNATURES

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

OPTICAL CABLE CORPORATION
(Registrant)

Date: September 10, 1998

/s/Robert Kopstein

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

Date: September 10, 1998

/s/Kenneth W. Harber

Kenneth W. Harber
Vice President of Finance, Treasurer
and Secretary
(principal financial and accounting officer)

INDEX TO EXHIBITS

| Exhibit No. ----- | Description ----- |
|----------------------|---|
| 10.9 | Optical Cable Corporation Employee Stock Purchase Plan |
| 27 | Financial Data Schedule |

OPTICAL CABLE CORPORATION
EMPLOYEE STOCK PURCHASE PLAN
FEBRUARY 23, 1998

OPTICAL CABLE CORPORATION
EMPLOYEE STOCK PURCHASE PLAN

Optical Cable Corporation hereby establishes, effective February 23, 1998, the Optical Cable Corporation Employee Stock Purchase Plan for the benefit of eligible employees of the Company and any future subsidiaries of the Company.

TABLE OF CONTENTS

ARTICLE I

DEFINITIONS

| | | |
|------|------------------------------------|---|
| 1.1 | "Administrator"..... | 1 |
| 1.2 | "Authorized Leave of Absence"..... | 1 |
| 1.3 | "CEO"..... | 1 |
| 1.4 | "Committee"..... | 1 |
| 1.5 | "Committee Representative"..... | 1 |
| 1.6 | "Company"..... | 1 |
| 1.7 | "Company Stock"..... | 1 |
| 1.8 | "Compensation"..... | 1 |
| 1.9 | "Contributions"..... | 1 |
| 1.10 | "Contribution Amount"..... | 1 |
| 1.11 | "Contribution Election"..... | 2 |
| 1.12 | "Effective Date"..... | 2 |
| 1.13 | "Employee"..... | 2 |
| 1.14 | "Fair Market Value"..... | 2 |
| 1.15 | "Investment Direction"..... | 2 |
| 1.16 | "Notice Date"..... | 2 |
| 1.17 | "Participant"..... | 2 |
| 1.18 | "Plan"..... | 2 |
| 1.19 | "Plan Account"..... | 2 |
| 1.20 | "Settlement Date"..... | 2 |
| 1.21 | "Spouse"..... | 3 |
| 1.22 | "Termination of Employment"..... | 3 |
| 1.23 | "Trade Date"..... | 3 |
| 1.24 | "Transfer Date"..... | 3 |

ARTICLE II

PARTICIPATION

| | | |
|-----|----------------------------------|---|
| 2.1 | Eligibility..... | 3 |
| 2.2 | Participation..... | 3 |
| 2.3 | Plan Account..... | 3 |
| 2.4 | Suspension of Participation..... | 3 |

ARTICLE III

PARTICIPANT CONTRIBUTIONS

| | | |
|-----|----------------------------|---|
| 3.1 | Contribution Election..... | 4 |
|-----|----------------------------|---|

| | | |
|-----|---------------------------------------|---|
| 3.2 | Contribution Election Procedures..... | 4 |
| 3.3 | Transfers to Administrator..... | 5 |
| 3.4 | Notification of Administrator..... | 5 |

ARTICLE IV

ADMINISTRATION OF PARTICIPANTS' PLAN ACCOUNTS

| | | |
|-----|-------------------------------|---|
| 4.1 | Plan Account Maintenance..... | 5 |
| 4.2 | Trade Date..... | 5 |
| 4.3 | Fees and Expenses..... | 5 |
| 4.4 | Voting..... | 5 |

ARTICLE V

INVESTMENT DIRECTIONS

| | | |
|-----|--------------------------------------|---|
| 5.1 | Purchase of Shares..... | 6 |
| 5.2 | Reinvestment of Dividends..... | 6 |
| 5.3 | Withdrawals by Participants..... | 6 |
| 5.4 | Investment Direction Processing..... | 7 |

ARTICLE VI

DISTRIBUTION OF PLAN ACCOUNTS ON TERMINATION OF EMPLOYMENT

| | | |
|-----|--|---|
| 6.1 | Notification of Administrator..... | 7 |
| 6.2 | Investment Direction..... | 7 |
| 6.3 | Death of Participant..... | 7 |
| 6.4 | Failure or Inability to Provide an Investment Direction..... | 8 |

ARTICLE VII

THE ADMINISTRATOR

| | | |
|-----|---------------------------------|---|
| 7.1 | Selection of Administrator..... | 8 |
| 7.2 | Administrator's Duties..... | 8 |
| 7.3 | Statements..... | 8 |

ARTICLE VIII

CEO AND THE COMMITTEE

| | | |
|-----|--|---|
| 8.1 | Authority and Responsibility of the CEO..... | 8 |
| 8.2 | Committee Membership..... | 8 |
| 8.3 | Committee Structure..... | 9 |
| 8.4 | Committee Actions..... | 9 |
| 8.5 | Compensation..... | 9 |

| | | |
|-----|--|----|
| 8.6 | Responsibility and Authority of the Committee..... | 9 |
| 8.7 | Information to be Supplied by the Company..... | 9 |
| 8.8 | Committee Decisions Final..... | 10 |

ARTICLE IX

AMENDMENT AND TERMINATION

| | | |
|-----|-----------------------|----|
| 9.1 | Amendments..... | 10 |
| 9.2 | Plan Termination..... | 10 |

ARTICLE X

MISCELLANEOUS PROVISIONS

| | | |
|-------|--|----|
| 10.1 | No Assignment of Plan Account..... | 10 |
| 10.2 | Plan Does Not Affect Employment Rights..... | 11 |
| 10.3 | Deduction of Taxes from Amounts Payable..... | 11 |
| 10.4 | Source of Benefits..... | 11 |
| 10.5 | Indemnification..... | 11 |
| 10.6 | Limitation on Liability..... | 11 |
| 10.7 | Gender and Number..... | 11 |
| 10.8 | Invalidity of Certain Provisions..... | 11 |
| 10.9 | Headings..... | 12 |
| 10.10 | Law Governing..... | 12 |

OPTICAL CABLE CORPORATION
EMPLOYEE STOCK PURCHASE PLAN

ARTICLE I

DEFINITIONS

The following sections of this Article I provide basic definitions of terms used throughout the Plan, and whenever used herein in a capitalized form, except as otherwise expressly provided, the terms shall be deemed to have the following meanings:

1.1 "Administrator" means the Company's agent for administering the Plan which is A. G. Edwards & Sons, Inc. or such other successor Administrator appointed by the Committee from time to time.

1.2 "Authorized Leave of Absence" means a person is still considered an employee of the Company under the Company's personnel policies, but the person is not rendering services to the Company.

1.3 "CEO" means the Chief Executive Officer of the Company.

1.4 "Committee" means the committee appointed pursuant to the terms of the Plan to handle ministerial matters related to the operation and administration of the Plan.

1.5 "Committee Representative" means the individual appointed by the Committee at the Company to perform Committee functions such as the receipt of Contribution Elections and tax forms.

1.6 "Company" means Optical Cable Corporation, a Virginia corporation, or any successor corporation by merger, consolidation, purchase, or otherwise, and any subsidiaries, direct or indirect, thereof which elects to adopt the Plan.

1.7 "Company Stock" means common stock of the Company.

1.8 "Compensation" means regular salary or regular gross earnings excluding bonuses, back pay, lump sum and severance paid to an Employee by the Company prior to income or employment taxes or any other withholdings.

1.9 "Contributions" means an after-tax amount contributed by a Participant from his Compensation and delivered by the Company to the Administrator.

1.10 "Contribution Amount" means the dollar amount which a Participant has elected

to be contributed to the Plan as a Contribution.

1.11 "Contribution Election" means the election made by a Participant to reduce his Compensation each payroll period, as designated by the Participant, by the Contribution Amount.

1.12 "Effective Date" means February 23, 1998, the date upon which the provisions of this document become effective. In general, the provisions of this document only apply to Participants who are Employees on or after the Effective Date.

1.13 "Employee" means any person who renders service to the Company as a full-time employee or who is on an Authorized Leave of Absence.

1.14 "Fair Market Value" means the market price of the Company Stock prevailing on the Nasdaq National Market (or any national exchange on which the Company Stock may trade in the future) on the Trade Date, or if a transaction involves more than one purchase or sale, the average thereof as determined by the Administrator.

1.15 "Investment Direction" means a written instruction from a Participant to the Administrator to do one or more of the following financial transactions:

(a) sell shares of Company Stock held in his Plan Account and distribute the net cash proceeds to the Participant or his designee; and

(b) withdraw shares of Company Stock from his Plan Account and transfer or distribute such shares as directed by the Participant.

1.16 "Notice Date" means the date which is fourteen (14) calendar days prior to a scheduled pay date for a payroll period for which a Contribution Election is to be effective.

1.17 "Participant" means an Employee who begins to participate in the Plan after completing the eligibility requirements. A Participant's participation continues until his Plan Account is distributed.

1.18 "Plan" means the Optical Cable Corporation Employee Stock Purchase Plan, as herein set forth herein and as hereafter may be amended from time to time.

1.19 "Plan Account" means the record of a Participant's full and fractional shares of Company Stock held by the Administrator. A Participant's Plan Account and the shares held in such account will be fully vested in the Participant and nonforfeitable by the Participant.

1.20 "Settlement Date" means the date on which the transactions from the most recent Trade Date are settled in accordance with applicable securities laws.

1.21 "Spouse" means a person who is alive and married to the Participant within the meaning of the laws of the State of the Participant's residence as evidenced by a valid marriage certificate or other proof acceptable to the Committee.

1.22 "Termination of Employment" occurs when a person ceases to be an Employee for any reason including death.

1.23 "Trade Date" means the date on which the Administrator executes a financial transaction pursuant to the Plan.

1.24 "Transfer Date" means the date on which the Company transfers Contributions made by Participants to the Administrator.

ARTICLE II

PARTICIPATION

2.1 Eligibility. Each individual who is an Employee (other than an individual on an Authorized Leave of Absence) on or after the Effective Date shall be eligible to become a Participant.

2.2 Participation. For an Employee to become a Participant, he must first complete, sign and return a form provided by the Committee which sets forth the Employee's Contribution Election and Investment Direction. Participation will begin on the next payroll period with respect to which such forms have been received by the Committee Representative on or prior to its Notice Date.

2.3 Plan Account. Unless a Participant submits a written request to the Administration specifying otherwise, a Participant's Plan Account will be held in his name only. A Participant may cause the Administrator to add his Spouse as a co-owner of his Plan Account and may specify the type of ownership (i.e., tenants in common, joint tenants with rights of survivorship or tenants by the entirety). The Administrator, at its sole discretion, shall permit a Participant to add persons other than a Participant's Spouse as co-owners of a Participant's Plan Account.

2.4 Suspension of Participation. A Participant's Contribution shall be suspended as follows:

(a) If a Participant's wages are subject to a tax levy, no Contribution will be withheld until the levy is removed.

(b) If a Participant's wages are subject to a wage assignment and/or

garnishment, a Contribution will be withheld only if there is sufficient remaining Compensation to make the entire Contribution.

ARTICLE III

PARTICIPANT CONTRIBUTIONS

3.1 Contribution Election. A Participant who desires to have Contributions withheld from his Compensation shall file a Contribution Election with the Committee Representative specifying a Contribution Amount of no less than twenty dollars (\$20.00) per month and no more than ten percent (10%) of his Compensation for his last payroll period for which payment has been made (or if a new Employee with no previous Compensation, ten percent (10%) of the Employee's anticipated Compensation as determined by the Committee). The Contribution Election shall become effective with respect to the next payroll period if it is received by the Committee Representative on or before the applicable Notice Date.

3.2 Contribution Election Procedures. A Participant's Contribution Election shall continue in effect until the earliest of the date (1) his Contribution Election is changed in accordance with Section 3.2(a) hereof; (2) his Termination of Employment; or (3) his Contribution Election is canceled in accordance with Section 3.2(b) hereof.

(a) Changing the Contribution Election. A Participant may increase or decrease his Contribution Amount (subject to the percentage limits set forth in Section 3.1) by delivering to the Committee Representative a new Contribution Election on which is specified the new Contribution Amount. The Contribution Election shall become effective with respect to the next payroll period if it is received by the Committee Representative on or before the applicable Notice Date. Any Contribution Election which has not been properly completed will be deemed not to have been received by the Committee.

(b) Canceling the Contribution Election. A Participant desiring to cancel his existing Contribution Election and reduce his Contribution Amount to zero must deliver to the Committee Representative a new Contribution Election. The Contribution Election shall become effective with respect to the next payroll period if it is received by the Committee Representative on or before the applicable Notice Date. Contributions held by the Company with respect to a payroll period payment date before such Contribution Election becomes effective or held by the Administrator pending investment shall not be affected by such Contribution Election. Any Participant who has improperly completed a Contribution Election will be deemed not to have made a Contribution Election.

3.3 Transfers to Administrator. The Company will transfer to the Administrator as soon as practical funds withheld from Participants pursuant to Contribution Elections, but a Transfer Date shall in no event be later than fifteen (15) days after such withholding. No interest will be paid by the Company on funds held by it pending transfer to the Administrator.

3.4 Notification of Administrator. The Company will notify the Administrator of any change to a Participant's Contribution Election or eligibility to participate in the Plan on or about the time the next Contribution by such Participant would have been transferred to the Administrator if no such change had occurred.

ARTICLE IV

ADMINISTRATION OF PARTICIPANTS' PLAN ACCOUNTS

4.1 Plan Account Maintenance. The Administrator shall cause the Plan Account for each Participant to reflect transactions in accordance with the terms of this Plan. Fractional shares of Company Stock shall be recorded to the third decimal point.

4.2 Trade Date. The Administrator shall process transactions to ensure a Trade Date regularly occurs as soon as practical after each Transfer Date, but in no event more than fifteen (15) days after each such Transfer Date. Financial transactions shall be posted to a Participant's Plan Account as of the Settlement Date and based upon the Trade Date values provided by the Administrator.

4.3 Fees and Expenses. Except as hereinafter provided, Company will pay all account maintenance fees and transactional fees or expenses. A Participant shall pay all transactional fees and expenses associated with a sale of Company Stock and such fees and expenses shall be netted against the proceeds of such sale by the Administrator.

4.4 Voting. The Administrator will vote any shares of Company Stock that it holds in a Participant's Plan Account in accordance with the Participant's directions, provided they are received in a timely manner in accordance with the procedures developed for this purpose by the Administrator. The Administrator will not vote the shares of Company Stock held in a Plan Account for a Participant from whom no voting directions are received, however, such shares may be counted towards determining whether a quorum is present at any meeting of stockholders.

ARTICLE V

INVESTMENT DIRECTIONS

5.1 Purchase of Shares. The Administrator will purchase shares of Company Stock pursuant to a properly executed and delivered Contribution Election.

5.2 Reinvestment of Dividends.

(a) Cash Dividends - The Administrator will reinvest cash dividends paid on shares of Company Stock held in each Participant's Plan Account into additional full or fractional shares of Company Stock.

(b) Non-Cash Dividends - Non-cash dividends of Company Stock will be held in the Plan Account of the Participant. Non-cash dividends, other than of Company Stock, shall be sold and reinvested in Company Stock.

5.3 Withdrawals by Participants.

(a) Requirement - A Participant may cause the Administrator to effect a withdrawal from his Plan Account in accordance with the provisions of Section 5.4 below.

(b) Sources for Withdrawal - The withdrawal amount shall come only from shares of Common Stock posted to his or her Plan Account.

(c) Permitted Frequency - There is no restriction on the number of times a Participant may withdraw from his or her Plan Account.

(d) Minimum Amount - There is no minimum amount for any type of withdrawal.

(e) Distribution - By delivering an Investment Direction to the Administrator, the Participant may cause the Administrator to either sell the Company stock held in the Participant's Plan Account on the next scheduled Trade Date and pay the Participant for such shares, and/or to make a distribution of whole shares of Company Stock held in the Participant's Plan Account. If the Administrator sells any of the Participant's Company Stock, the Administrator shall make payment of any cash to the Participant from the sale of Company stock in the Participant's Plan Account within three (3) days of the Settlement Date or such earlier time as required by applicable securities laws. If the Administrator makes a distribution of any whole shares of Company Stock to the Participant, the Administrator shall transfer shares or deliver share certificates, as requested by a Participant, of any Company Stock withdrawn from the Participant's Plan Account as soon as practical.

(f) Medium and Form of Payment - The medium of payment for withdrawals is either cash or in whole shares of Company Stock. If no instructions for payment are received, the certificates will be issued only in the name of the Participant and any co-owner of such Participant's Plan Account. The form of payment for withdrawals shall be a single installment.

5.4 Investment Direction Processing.

(a) Application by Participant - A Participant must submit an Investment Direction to the Administrator to implement any withdraw transaction set forth in Section 5.3

(b) Approval by Administrator - The Administrator is responsible for determining that an Investment Direction conforms to the requirements of this Plan.

(c) Time of Processing - The Administrator shall process all Investment Directions as soon as practical, based on the Fair Market Value, if applicable, as of the Trade Date to which it relates, and, if applicable, fund them on the applicable Settlement Date.

(d) Fractional Shares - Fractional shares shall be sold based upon the Fair Market Value for the applicable Trade Date.

ARTICLE VI

DISTRIBUTION OF PLAN ACCOUNTS ON TERMINATION OF EMPLOYMENT

6.1 Notification of Administrator. The Committee or Committee Representative shall promptly notify the Administrator upon the Termination of Employment of any Participant.

6.2 Investment Direction. A Participant shall have thirty (30) days from the date of the Participant's Termination of Employment to provide the Administrator with an Investment Direction setting forth the method of withdrawal from the Plan pursuant to Section 5.3.

6.3 Death of Participant.

(a) If the Participant dies leaving no living co-owner of the Participant's Plan Account, the Administrator shall, after receiving notice pursuant to Section 6.1, distribute such Participant's Plan Account in a single distribution of full shares of Company Stock plus cash for any fractional share to his estate.

(b) If the Participant dies and there is a living co-owner of the Participant's Plan Account, such co-owner shall have thirty (30) days from the date of the Participant's death to provide the Administrator with an Investment Direction pursuant to Section 5.3 setting forth

the method of withdraw from the Plan for the portion of the balance of the Plan Account to which the co-owner has ownership rights in accordance with applicable law as if such co-owner were a Participant.

6.4 Failure or Inability to Provide an Investment Direction. In the event that the Administrator has received notice of the Termination of Employment of a Participant pursuant to Section 6.1 and the Administrator does not receive a valid Investment Direction from the Participant, or from a co-owner in the case of the Participant's death, within thirty (30) days of the Participant's Termination of Employment, the Administrator shall distribute such Participant's Plan Account in a distribution of full shares of Company Stock, plus cash for any fractional share, to such Participant and/or any co-owner in accordance with applicable law, and/or such Participant's estate, as the case may be.

ARTICLE VII

THE ADMINISTRATOR

7.1 Selection of Administrator. The Administrator shall serve at the will of the Committee and the Committee may from time to time remove the Administrator with or without cause and shall appoint its successor.

7.2 Administrator's Duties. The powers, duties and responsibilities of the Administrator shall be as stated in this Plan. All Contributions shall be paid to the Administrator, and all Plan Accounts under the Plan shall be maintained by the Administrator. The Company shall have no rights or claims of any nature in or to the assets of a Plan Account.

7.3 Statements. The Administrator will issue quarterly statements to Participants reflecting the full and fractional shares of Company Stock held in his or her Plan Account.

ARTICLE VIII

CEO AND THE COMMITTEE

8.1 Authority and Responsibility of the CEO. The CEO shall have overall responsibility for the establishment, amendment and termination of the Plan. The Committee shall be delegated such responsibilities as set forth herein or as otherwise delegated by the CEO.

8.2 Committee Membership. The Committee shall consist of not less than three (3) persons, who shall be appointed by the CEO. In the absence of such appointment of the

Committee, the CEO will be the Committee. Committee members shall remain in office at the will of the CEO and the CEO may from time to time remove any of said members with or without cause and shall appoint their successors.

8.3 Committee Structure. Any Employee may be a member of the Committee. Any member of the Committee may resign by delivering his written resignation to the CEO, and such resignation shall become effective upon the date specified therein. A member of the Committee who is an Employee shall automatically cease to be a member upon his Termination of Employment. In the event of a vacancy in membership, the remaining members shall constitute the Committee in question with full power to act until said vacancy is filled. The CEO may remove any member of the Committee without cause.

8.4 Committee Actions. The action of the Committee shall be determined by the vote or other affirmative expression of a majority of its members.

8.5 Compensation. The members of the Committee shall serve without compensation for their services as such.

8.6 Responsibility and Authority of the Committee. The Committee on behalf of the Participants will enforce the Plan in accordance with its respective terms and shall have the authority and discretion to, among other things:

(a) Formulate, adopt, issue and apply procedures and rules and change, alter or amend such procedures and rules as may be consistent with the terms of the Plan;

(b) Exercise such discretion as may be required to construe and apply the provisions of the Plan, subject only to the terms and conditions of the Plan; and

(c) Take all necessary and proper acts as are required for the Committee to fulfill its duties and obligations under the Plan.

Notwithstanding the foregoing, it is intended that the Committee's day-to-day administrative responsibilities with respect to the Plan shall be ministerial in nature only.

8.7 Information to be Supplied by the Company. The Company shall supply to the Committee, within a reasonable time of its request, the names of all Employees, their age, their date of hire, and the amount of Compensation paid to each Employee, the names and dates of all Employees who incurred a Termination of Employment. The Company shall provide to the Committee or its delegate such other information as it shall from time to time need in the discharge of its duties. The Committee may rely conclusively on the information certified to it by an the Company.

8.8 Committee Decisions Final. The decision of the Committee in matters within its jurisdiction shall be final, binding, and conclusive upon the Company and upon each Employee, Participant, Spouse, the Administrator and every other person or party interested or concerned.

ARTICLE IX

AMENDMENT AND TERMINATION

9.1 Amendments.

(a) Power to Amend - The CEO, or the Committee as provided in Section 9.1(b) below, may amend, modify, change, revise or discontinue this Plan by amendment at any time; provided, however, that no amendment shall:

(1) increase the duties or liabilities of the Administrator or the Committee without its written consent; or

(2) have the effect of vesting in the Company any interest in any funds, securities or other property.

(b) The Committee - The Committee may amend, modify, change or revise the Plan by amendment if such amendment could have been adopted under Paragraph (a) hereof and it does not materially increase the duties and obligations of the Company with respect to the Plan.

9.2 Plan Termination. It is the expectation of the Company that it will continue the Plan and the forwarding of Contributions hereunder indefinitely, but the continuation of the Plan and the forwarding of Contributions hereunder is not assumed as a contractual obligation of the Company. The right is reserved by the Company to terminate the Plan at any time. Upon termination of the Plan, all Plan Accounts will be distributed as if such Participant had elected a withdrawal of shares of Company Stock.

ARTICLE X

MISCELLANEOUS PROVISIONS

10.1 No Assignment of Plan Account. Except to the extent permitted by the Administrator in its sole discretion, shares of Company Stock credited to the Plan Account of a Participant may not be assigned, pledged as collateral or otherwise hypothecated. A Participant who has an involuntary transfer imposed upon him or her will be deemed to have elected to withdraw such shares.

10.2 Plan Does Not Affect Employment Rights. The Plan does not provide any employment rights to any Employee. The Company expressly reserves the right to discharge an Employee at any time, with or without cause, without regard to the effect such discharge would have upon the Employee's interest in the Plan.

10.3 Deduction of Taxes from Amounts Payable. The Administrator shall have the power and authority to deduct from the amount to be distributed such amount as the Administrator deems proper to protect the Administrator against liability for the payment of death, succession, inheritance, income, or other taxes, and out of money so deducted, the Administrator may discharge any such liability and pay the amount remaining to the Participant or the deceased Participant's estate, as the case may be.

10.4 Source of Benefits. All benefits payable under the Plan shall be paid or provided for solely from the Plan Account and the Company assumes no liability or responsibility therefor.

10.5 Indemnification. To the extent permitted by law the Company shall indemnify and hold harmless the CEO and each member of the Committee, and each officer and employee of the Company to whom are delegated duties, responsibilities, and authority with respect to the Plan against all claims, liabilities, fines and penalties, and all expenses reasonably incurred by or imposed upon him (including but not limited to reasonable attorney fees and amounts paid in any settlement relating to the Plan) by reason of his service under the Plan if he did not act dishonestly, with gross negligence, or otherwise in knowing violation of the law under which such liability, loss, cost or expense arises. This indemnity shall not preclude such other indemnities as may be available under insurance purchased or provided by the Company under any bylaw, agreement, or otherwise, to the extent permitted by law. Payments of any indemnity, expenses or fees under this Section shall be made solely from assets of the Company.

10.6 Limitation on Liability. No Company nor any agent or representative of any Company who is an employee, officer, or director of the Company in any manner guarantees the assets of the Plan against loss or depreciation and none of them shall be liable (except for his own gross negligence or willful misconduct), for any act or failure to act, done or omitted in good faith, with respect to the Plan. The Company, the CEO and the Committee shall have no responsibility for any act of or failure to act by the Administrator.

10.7 Gender and Number. Except when the context indicates to the contrary, when used herein, masculine terms shall be deemed to include the feminine, and singular the plural.

10.8 Invalidity of Certain Provisions. If any provision of this Plan shall be held invalid or unenforceable, such invalidity or unenforceability shall not affect any other provisions hereof and the Plan shall be construed and enforced as if such provisions, to the

extent invalid or unenforceable, had not been included.

10.9 Headings. The headings or articles are included solely for convenience of reference, and if there is any conflict between such headings and the text of this Plan, the text shall control.

10.10 Law Governing. The Plan shall be construed and enforced according to the laws of the Commonwealth of Virginia, without regard to its rules regarding conflict of laws.

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED JULY 31, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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 DOLLARS | |
| 9-MOS | | |
| | OCT-31-1998 | |
| | NOV-01-1997 | |
| | JUL-31-1998 | |
| | 1 | 396 |
| | 0 | |
| | 11,063 | |
| | 325 | |
| | 12,022 | |
| | 23,690 | 15,485 |
| | 4,233 | |
| | 34,981 | |
| | 4,513 | 0 |
| | 0 | 0 |
| | 0 | 12,007 |
| | | 18,311 |
| 34,981 | | 37,290 |
| | 37,336 | 21,473 |
| | 28,804 | |
| | 5 | |
| | 45 | |
| | 0 | |
| | 8,528 | |
| | 3,001 | |
| | 5,527 | 0 |
| | 0 | 0 |
| | 0 | 0 |
| | 5,527 | |
| | 0.144 | |
| | 0.143 | |