SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED OCTOBER 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 of incorporation)	54-1237042 (I.R.S. Employer Identification No.)
5290 Concourse Drive Roanoke, Virginia 24019 (Address of principal executive offices)	(540) 265-0690 (Telephone Number)

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 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[ ]

Indicate by check mark 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-affiliates at January 15, 1999 was $22,453,512.

As of January 15, 1999, 37,862,936 shares of the Registrant's Common Stock were outstanding.

DOCUMENT INCORPORATED BY REFERENCE

Portions of Optical Cable Corporation's definitive Proxy Statement for its 1999 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. The cost of the necessary electro-optical transmitters and recorders has been reduced to the point where fiber optic cable is economically feasible for many moderate distance applications.

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

Private industry initially developed optical fiber systems for long distance commercial applications, particularly the U.S. telephone networks. For the long distance telephone market, "single mode" optical fiber is generally used. To protect the optical fiber without adversely affecting its optical performance, fiber optic cable producers use a high-density (i.e., high fiber count) "loose tube" cable construction. This cable design was intended to put many optical fibers in a small, relatively inexpensive cable. To protect such cables from water penetration, manufacturers add a water-blocking but flammable gel, making them unsuitable for indoor use.

U.S. long distance carriers have aggressively installed fiber optic routes across the United States. Since the late 1980s, optical fiber has 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.

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 have begun to use, on a limited basis, 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 tight-buffered 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-FoxTM product line provides optical fiber products that are competitively priced, with features that the Company believes are superior to its competitors' offerings. The Ultra-FoxTM 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 January 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, Automated Manufacturing Processes

The Company believes that its customized, internally developed and highly automated manufacturing processes provide a competitive advantage. The Company has developed proprietary process control systems to ensure consistency and uniformity at high throughput rates. Ample capacity, versatile automated 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.

Distribution and Marketing Presence

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 25%, 27% and 22% in fiscal 1996, 1997 and 1998, respectively. The Company does not separately track gross profit or expenses attributable to international sales. Substantially, all of the Company's international sales are denominated in U.S. dollars. The Company has no material assets located outside of the United States. (See also Note 9 to the Financial Statments which begin on page 35.)

Additionally, in December 1998, the Company announced its plans to establish an Internet subsidiary to offer one-stop shopping to global purchasers of communication materials. Working with IBM's E-Commerce division, the Company is in the initial stages of site design, but expects to be operational sometime in the spring of 1999. Initially, the venture will be part of the Company's existing web site, http://www.occfiber.com, and will include only the Company's product line. The Company intends to look for opportunities to establish strategic alliances with other leading suppliers of communications equipment to expand the web-site's future offerings and eventually create an independent communications superstore.

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-LockedTM 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-FoxTM Plus premium product and the Ultra-FoxTM highly featured but cost competitive commercial product.

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Product Type	Features/Description	Applications
A-Series Simplex and Duplex "Assembly" Cables	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	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	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-LockedTM outer jacket o rugged o flame retardant o moisture and fungus resistant	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	o 2 to 156 optical fibers o tight-buffered coating on each optical fiber o Core-LockedTM 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	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	o up to 864 optical fibers in various subgroup sizes o multi-fiber subcables, each similar to a D-Series cable o Core-LockedTM outer jacket surrounds subcables o high density "micro" construction o rugged o flame retardant o moisture and fungus resistant	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 "pigtails" (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-LockedTM 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-LockedTM 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 tight-buffered optical fiber and Core-LockedTM 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-LockedTM 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 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 modify 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 workstations, 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. 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 other types of businesses. 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. 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.

Additionally, the Company has plans to establish a subsidiary which will offer the Company's products over the Internet. 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 1996, 1997 or 1998. However, in fiscal 1998, 27% of net sales were attributable to two major domestic distributors. 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 January 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. Siecor Corp. (a joint venture of Siemens AG and Corning) 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 Siecor Corp.'s fiber optic cable sales are tight-buffered fiber optic cable products in the moderate distance market. Also, Corning and Lucent Technologies are principal suppliers of optical fiber worldwide. The Company's competitors, including Siecor 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 competition 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, 1998, the Company employed a total of 133 persons, including 34 in sales, marketing and customer service, 12 in engineering, product development and quality control, 75 in manufacturing, and 12 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.

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 facilitates. 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, 1998.

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". 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. On January 15, 1999, the Company's Common Stock closed at a price of $ 12.125 per share.

FISCAL YEAR ENDED OCTOBER 31, 1998	HIGH	LOW
First Quarter (November 1, 1997 to January 31, 1998)	$ 12.125	$ 8.125
Second Quarter (February 1 to April 30, 1998)	13.500	9.000
Third Quarter (May 1 to July 31, 1998)	11.250	8.500
Fourth Quarter (August 1 to October 31, 1998)	12.750	6.500
FISCAL YEAR ENDED OCTOBER 31, 1997		
First Quarter (November 1, 1996 to January 31, 1997)	$ 14.750	$ 10.375
Second Quarter (February 1 to April 30, 1997)	17.750	9.875
Third Quarter (May 1 to July 31, 1997)	13.125	7.125
Fourth Quarter (August 1 to October 31, 1997)	16.250	7.875

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As of January 15, 1999, there were an estimated 4,279 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 its initial public offering in 1996. While there are no restrictions on the payment of dividends, the Company does not anticipate paying any cash dividends on its common stock in the foreseeable future.

ITEM 6. SELECTED FINANCIAL DATA

OPTICAL CABLE CORPORATION
SELECTED FINANCIAL DATA

	YEARS ENDED OCTOBER 31,				
	1998	1997	1996	1995	1994
	(IN THOUSANDS, EXCEPT PER SHARE DATA)				
STATEMENT OF INCOME DATA:					
Net sales	$ 50,589	$ 52,189	$ 45,152	$ 36,360	$ 26,217
Cost of goods sold	29,330	30,613	24,907	20,121	14,138

Gross profit	21,259	21,576	20,245	16,239	12,079
Total operating expenses	9,939	9,572	8,416	7,660	7,967
Income from operations	11,320	12,004	11,829	8,579	4,112
Other income (expense), net	57	(47)	198	(379)	(614)
Income before income tax expense and extraordinary item	11,377	11,957	12,027	8,200	3,498
Income tax expense (1)	4,107	4,150	2,806	-	-
Income before extraordinary item	7,270	7,807	9,221	8,200	3,498
Extraordinary item	-	-	-	-	(149)
Net income	$ 7,270	$ 7,807	$ 9,221	$ 8,200	$ 3,349
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		
Earnings per common share (pro forma for 1996)	$ .190	$ .202	$ .190		
Earnings per common share - assuming dilution (pro forma for 1996)	$ .188	$ .200	$ .189		
BALANCE SHEET DATA:					
Working capital	$ 18,991	$ 19,912	$ 14,377	$ 9,076	$ 10,140
Total assets	32,829	35,214	31,127	18,819	19,056
Long-term debt, less current maturities	-	-	-	-	8,000
Total stockholders' equity	29,991	31,379	23,572	14,952	7,832

- ----------

(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

OPTICAL CABLE CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS
OF OPERATIONS AND FINANCIAL CONDITION

FORWARD-LOOKING INFORMATION

This report may contain certain "forward-looking" information within the meaning of the federal securities laws. The forward-looking information may include, among other information, (i) statements concerning 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, changes in market demand, and market and economic conditions in the areas of the world in which the Company operates and markets its products.

RESULTS OF OPERATIONS

Net Sales

Net sales consists of gross sales of products, less discounts, refunds and returns. Net sales decreased 3.1 percent to $50.6 million in fiscal 1998 from $52.2 million for fiscal 1997. This decrease was primarily attributable to reduced raw fiber prices resulting in some downward pressure on selling prices as well as reduced demand in the Far and Middle East as a result of volatile economic conditions in those regions. In addition, 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 contributed to the decrease.

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.

Management believes that the Company's business will grow as the global market for fiber optic cable used for moderate distance applications expands. Management anticipates that new electronic communication devices will continue to become more reliant on fiber optic technology to achieve improved performance. Additionally, the Company expects new markets for fiber optic cable to emerge as fiber optic sensors are developed for production plant automation, smart highways, security applications, and other specialty applications. Management believes the Company's unique technological background and specialty market expertise should assist the Company in capturing its share of any increase in the global market for fiber optic cable used for moderate distance applications and contribute to future earnings growth for the Company. The Company also intends to use its existing product line to make inroads into other markets such as moderate distance applications for 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) increased to 42.0 percent in fiscal 1998 from 41.3 percent in fiscal 1997. This slight increase was due to reduced raw fiber prices, partially offset by some downward pressure on selling prices, by the impact of the increase in the ratio of large orders and the increase in the ratio of net sales attributable to the Company's distributors during the year. During fiscal 1998, sales from orders $50,000 or more approximated 18 percent of net sales compared to 20 percent for fiscal 1997. Discounts on large orders are generally greater than for sales from orders less than $50,000. In addition, for fiscal 1998, net sales to distributors approximated 62 percent of net sales versus 57 percent for fiscal 1997. Discounts on sales to distributors are generally greater than for sales to the Company's other customer base.

The Company's gross profit margin decreased to 41.3 percent in fiscal 1997 from 44.8 percent in fiscal 1996. This decrease was due to increased raw 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. In addition, for fiscal 1997, net sales to distributors approximated 57 percent of net sales versus 49 percent for fiscal 1996.

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 19.6 percent in fiscal 1998 compared to 18.3 percent in fiscal 1997. This higher percentage was primarily the result of the fact that net sales for fiscal 1998 decreased while selling, general and administrative expenses increased 3.8 percent compared to fiscal 1997. The ratio of selling, general and administrative expenses as a percentage of net sales was also impacted due to incurring approximately $130,000 of expenses to develop and distribute a new catalog during fiscal 1998 in an effort to improve international sales.

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.

Income Before Income Tax Expense

Income before income tax expense of $11.3 million in fiscal 1998 decreased $579,000 compared to fiscal 1997. This decrease was primarily due to decreased sales volume and decreasing sales prices resulting from reduced raw fiber costs offset by the slight increase in gross profit margin.

Income before income tax expense of $12.0 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 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 statements of income for the years ended October 31, 1998 and 1997 includes income taxes, at effective tax rates of 36.1 percent and 34.7 percent, respectively, 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 higher effective tax rate for fiscal 1998 compared to fiscal 1997 is due primarily to a reduced benefit of the Company's foreign sales corporation due to lower international sales. The lower effective tax rate for fiscal 1997 compared to fiscal 1996 is due primarily to the benefit of the Company's foreign sales corporation.

Net Income

Net income for fiscal 1998 was $7.3 million compared to $7.8 million for fiscal 1997. Net income decreased $537,000 due primarily to decreased sales volume and decreasing sales prices resulting from reduced raw fiber costs offset by the slight increase in gross profit margin.

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 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.

FINANCIAL CONDITION

Total assets at October 31, 1998 were $32.8 million, a decrease of $2.4 million, or 6.8 percent from October 31, 1997. This decrease was primarily due to management's efforts to decrease inventories, which resulted in a $2.1 million reduction in inventories.

Total stockholders' equity at October 31, 1998 decreased $1.4 million, or 4.4 percent from October 31, 1997. This decrease was primarily due to net income retained, offset by the repurchase of approximately $9 million of the Company's common stock.

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, (iv) repurchase its common stock and (v) 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.

Under a loan agreement with its bank dated April 27, 1997, as amended, the Company has a $5 million secured revolving line of credit available for general corporate purposes as well as 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, 1999, unless renewed or extended. As of the date hereof, the Company has no additional material sources of financing.

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. Through October 31, 1998, approximately $9 million of common stock had been repurchased by the Company under this authorization.

Cash flows from operations were approximately $9.6 million, $4.0 million and $4.1 million in fiscal 1998, 1997 and 1996, respectively. Cash flows from operations in fiscal 1998 were primarily provided by operating income and a decrease in inventory of $2.1 million. In 1998, the Company reduced its inventory of optical fiber due to anticipated continued reductions in raw fiber prices. 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.

Net cash used in investing activities was for expenditures related to facilities and equipment and was $622,000, $3.6 million and $3.1 million in fiscal 1998, 1997 and 1996, respectively. The Company's expansion of its headquarters facilities was completed in fiscal 1997.

Net cash provided by (used in) financing activities was $(8.8) million, $(1.1) million and $193,000 in fiscal 1998, 1997 and 1996, respectively. The net cash used in financing activities in fiscal 1998 consisted of a repurchase of common stock in the amount of $9 million, offset by proceeds received from the exercise of employee stock options of $198,000. 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.

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 has completed its assessment of potential Year 2000 problems which may arise from failures of third parties to be Year 2000 compliant. However, many of the Company's suppliers and customers are still engaged in executing their Year 2000 readiness efforts and, as a result, the Company cannot fully evaluate the Year 2000 risks to its supply chain and its distribution channels at this time. The Company's assessment efforts included sending questionnaires to major third party suppliers and reviewing responses, and taking other steps to assess risks as deemed appropriate.

The Company has not been made aware of any Year 2000 issues of third parties that are expected to be unresolved prior to December 31, 1999 and that would have a material adverse effect on the Company. Nonetheless, the Company is considering contingency plans, as appropriate, including relying on raw material inventory on hand and identification of alternative suppliers. The Company will continue to monitor the Year 2000 status of third parties with which it has material relationships to minimize its risk from failures of such parties to be Year 2000 compliant.

The most likely worst case scenario for the Company with respect to the Year 2000 problem is the failure of a supplier, including an energy supplier, to be Year 2000 compliant such that its supply of needed products or services to the Company's manufacturing facility is interrupted temporarily. This could result in the Company not being able to produce fiber optic cable for a period of time, which in turn could result in lost sales and gross profit.

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

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. The adoption of SFAS No. 130 during the 1998 fiscal year did not have any 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

OPTICAL CABLE CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS
OF OPERATIONS AND FINANCIAL CONDITION (CONTINUED)

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. The Company will adopt SFAS No. 131 as of November 1, 1998. It is not anticipated that SFAS No. 131 will have any material effect on current or prior period segment disclosures presented by the Company.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

OPTICAL CABLE CORPORATION
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FINANCIAL STATEMENTS
AND FINANCIAL STATEMENT SCHEDULES

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FINANCIAL STATEMENT SCHEDULES:

No financial statement schedules have been included 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, 1998 and 1997, and the related statements of income, stockholders' equity, and cash flows for each of the years in the three-year period ended October 31, 1998. 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, 1998 and 1997, and the results of its operations and its cash flows for each of the years in the three-year period ended October 31, 1998, in conformity with generally accepted accounting principles.

KPMG LLP

Roanoke, Virginia
December 11, 1998

OPTICAL CABLE CORPORATION
Balance Sheets
October 31, 1998 and 1997

	OCTOBER 31,	
ASSETS	1998	1997
Current assets:		
Cash and cash equivalents	$ 1,122,277	$ 985,807
Trade accounts receivable, net of allowance for doubtful accounts of $311,500 in 1998 and $307,400 in 1997	10,012,699	9,931,276
Other receivables	295,199	540,102
Due from employees	5,589	3,534
Inventories	9,967,012	12,019,443
Prepaid expenses	95,766	121,046
Deferred income taxes	212,738	81,484
Total current assets	21,711,280	23,682,692
Other assets, net	33,950	50,953
Property and equipment, net	11,083,921	11,480,433
Total assets	$32,829,151	$35,214,078
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 1,952,360	$ 2,593,256
Accrued compensation and payroll taxes	656,028	612,736
Income taxes payable	111,449	564,999
Total current liabilities	2,719,837	3,770,991

Deferred income taxes	118,121	64,382
Total liabilities	2,837,958	3,835,373
Stockholders' equity:		
Preferred stock, no par value, authorized 1,000,000 shares; none issued and outstanding	--	--
Common stock, voting; no par value, authorized 100,000,000 shares in 1998 and 50,000,000 shares in 1997; issued and outstanding 37,879,036 shares in 1998 and 38,675,416 shares in 1997	9,786,281	18,594,116
Paid-in capital	150,359	--
Retained earnings	20,054,553	12,784,589
Total stockholders' equity	29,991,193	31,378,705
Commitments and contingencies		
Total liabilities and stockholders' equity	$32,829,151	$35,214,078

See accompanying notes to financial statements.

OPTICAL CABLE CORPORATION
Statements of Income
Years Ended October 31, 1998, 1997 and 1996

	YEARS ENDED OCTOBER 31,		
	1998	1997	1996
Net sales	$ 50,588,893	$ 52,188,850	$ 45,152,299
Cost of goods sold	29,329,822	30,612,690	24,907,373
Gross profit	21,259,071	21,576,160	20,244,926
Selling, general and administrative expenses	9,939,258	9,572,061	8,415,798
Income from operations	11,319,813	12,004,099	11,829,128
Other income (expense):			
Interest income	56,260	15,351	94,888
Interest expense	(505)	(17,930)	(9,595)
Other, net	1,891	(44,580)	112,988
Other income (expense), net	57,646	(47,159)	198,281
Income before income tax expense	11,377,459	11,956,940	12,027,409
Income tax expense	4,107,495	4,149,794	2,806,849
Net income	$ 7,269,964	$ 7,807,146	$ 9,220,560
Pro forma income data (unaudited):			
Net income before pro forma income tax provision, as reported			$ 9,220,560
Pro forma income tax provision			1,746,513
Pro forma net income			$ 7,474,047
Earnings per share:			
Earnings per common share (unaudited pro forma for 1996)	$ .190	$ .202	$ .190
Earnings per common share - assuming dilution (unaudited pro forma for 1996)	$ .188	$ .200	$ .189

See accompanying notes to financial statements.

OPTICAL CABLE CORPORATION
Statements of Stockholders' Equity
Years Ended October 31, 1998, 1997 and 1996

	COMMON STOCK				
	SHARES	AMOUNT	PAID-IN CAPITAL	RETAINED EARNINGS	TOTAL STOCKHOLDERS' EQUITY
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
Exercise of employee stock options ($2.50 per share)	79,350	198,375	--	--	198,375
Tax benefit of disqualifying disposition of stock options exercised	--	--	150,359	--	150,359
Repurchase of common stock (at cost)	(875,730)	(9,006,210)	--	--	(9,006,210)
Net income	--	--	--	7,269,964	7,269,964
Balances at October 31, 1998	37,879,036	$ 9,786,281	$ 150,359	$ 20,054,553	$ 29,991,193

See accompanying notes to financial statements.

OPTICAL CABLE CORPORATION
Statements of Cash Flows
Years Ended October 31, 1998, 1997 and 1996

	YEARS ENDED OCTOBER 31,		
	1998	1997	1996
Cash flows from operating activities:			
Net income	$ 7,269,964	$ 7,807,146	$ 9,220,560
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	787,674	706,076	533,445
Bad debt expense (recovery)	88,005	(10,778)	266,366
Deferred income taxes	(77,515)	88,975	(106,077)
Loss on disposal of property and equipment	2,669	--	--
(Increase) decrease in:			
Trade accounts receivable	(169,428)	(552,022)	(3,447,954)
Other receivables	244,903	(186,061)	(255,744)
Due from employees	(2,055)	(2,059)	1,750
Inventories	2,052,431	(1,758,006)	(4,228,395)
Prepaid expenses	25,280	(56,183)	21,690
Other assets	--	39	116,237
Increase (decrease) in:			
Accounts payable and accrued expenses	(395,330)	(2,260,416)	1,881,379
Accrued compensation and payroll taxes	43,292	(63,989)	(154,472)
Income taxes payable	(303,191)	327,073	237,926
Net cash provided by operating activities	9,566,699	4,039,795	4,086,711

Cash flows from investing activities:			
Purchase of property and equipment	(622,394)	(3,628,727)	(3,137,421)
Net cash used in investing activities	(622,394)	(3,628,727)	(3,137,421)
Cash flows from financing activities:			
Net borrowings (payments) on notes payable	--	(1,103,000)	794,000
Proceeds from issuance of common stock, net of issuance costs	--	--	5,549,214
Cash distributions to previously sole stockholder	--	--	(6,150,000)
Repurchase of common stock	(9,006,210)	--	--
Proceeds from exercise of employee stock options	198,375	--	--
Net cash provided by (used in) financing activities	(8,807,835)	(1,103,000)	193,214
Net increase (decrease) in cash and cash equivalents	136,470	(691,932)	1,142,504
Cash and cash equivalents at beginning of year	985,807	1,677,739	535,235
Cash and cash equivalents at end of year	$ 1,122,277	$ 985,807	$ 1,677,739
Supplemental Disclosure of Cash Flow Information:			
Cash payments for interest	$ 505	$ 17,930	$ 9,595
Income taxes paid	$ 4,488,201	$ 3,733,746	$ 2,675,000
Noncash investing and financing activities:			
Capital expenditures accrued in accounts payable	$ --	$ 245,566	$ 880,659
Income tax benefit from exercise of stock options	$ 150,359	$ --	$ --

See accompanying notes to financial statements.

OPTICAL CABLE CORPORATION
Notes to Financial Statements
Years Ended October 31, 1998, 1997 and 1996

(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

At October 31, 1998 and 1997, cash equivalents consist of $1,381,790 and $763,000, respectively, of overnight repurchase agreements and money market mutual funds. 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 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 reviews long-lived assets and certain identifiable intangibles 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.

(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) EARNINGS PER SHARE

Effective November 1, 1997, the Company adopted 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.

Unaudited pro forma earnings 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.

(K) RECLASSIFICATIONS

Certain reclassifications have been made in the notes to the 1997 financial statements to conform with the 1998 presentation.

(2) ALLOWANCE FOR DOUBTFUL ACCOUNTS RECEIVABLE

A summary of changes in the allowance for doubtful accounts receivable for the years ended October 31, 1998, 1997 and 1996 follows:

	YEARS ENDED OCTOBER 31,		
	1998	1997	1996
Balance at beginning of year	$ 307,400	$ 300,000	$ 200,000
Bad debt expense (recovery)	88,005	(10,778)	266,366
Losses charged to allowance	(90,147)	(26,592)	(176,512)
Recoveries added to allowance	6,242	44,770	10,146
Balance at end of year	$ 311,500	$ 307,400	$ 300,000

(3) INVENTORIES

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

	OCTOBER 31,	
	1998	1997
Finished goods	$ 4,152,094	$ 4,854,697
Work in process	1,896,858	1,976,970
Raw materials	3,873,824	5,125,044
Production supplies	44,236	62,732
	$ 9,967,012	$12,019,443

(4) PROPERTY AND EQUIPMENT

Property and equipment at October 31, 1998 and 1997 consists of the following:

	OCTOBER 31,	
	1998	1997

Land	$ 2,745,327	$ 2,745,327
Building and improvements	6,888,444	6,853,527
Machinery and equipment	5,007,050	4,783,764
Furniture and fixtures	729,341	732,963
Construction in progress	69,938	33,619
Total property and equipment, at cost	15,440,100	15,149,200
Less accumulated amortization and depreciation	(4,356,179)	(3,668,767)
Property and equipment, net	$ 11,083,921	$ 11,480,433

(5) NOTES PAYABLE

Under a loan agreement with its bank dated April 27, 1997, as amended, the Company has a $5 million secured revolving line of credit available for general corporate purposes and 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 (6.72 percent as of October 31, 1998) 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, 1999, 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 $21,527 for the year ended October 31, 1998, and $25,030 for the years ended October 31, 1997 and 1996.

(7) RELATED PARTY AGREEMENTS

Since February 1, 1995, the Company has entered into employment agreements with the individual who is the Company's Chairman, President and Chief Executive Officer and its previously sole stockholder which typically have a term of less than two years. Annual compensation under the agreements consists of salary payments equal to 1 percent of the previous fiscal year's net sales 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 this agreement amounted to $521,889, $521,889 and $451,523 for the years ended October 31, 1998, 1997 and 1996, respectively.

(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, 1998, 1997 and 1996, total claims expense of $725,535, $872,582 and $876,481, respectively, was incurred, which represents claims processed and an estimate for claims incurred but not reported.

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 7 percent of their annual compensation on a pretax basis during the 1998 fiscal year and up to 6 percent of their annual

compensation on a pretax basis during the 1997 and 1996 fiscal years. 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 $353,096, $313,365 and $233,072 for the years ended October 31, 1998, 1997 and 1996, 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, 1998, there were 3,430,850 additional shares available for grant under the Plan. Although not required under the Plan, stock options granted to date have been 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 estimated 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 - unaudited) and earnings per share (pro forma for 1996 - unaudited) would have been reduced to the SFAS No. 123 pro forma amounts indicated below:

	YEARS ENDED OCTOBER 31,		
	1998	1997	1996
Net income:			
As reported (pro forma for 1996 - unaudited)	$7,269,964	$7,807,146	$7,474,047
Pro forma	$6,926,736	$7,638,186	$7,400,134

	YEARS ENDED OCTOBER 31,		
	1998	1997	1996
Earnings per share:			
Earnings per common share:			
As reported (pro forma for 1996 - unaudited)	$.190	$.202	$.190
Pro forma	$.181	$.197	$.188

	YEARS ENDED OCTOBER 31,		
	1998	1997	1996
Earnings per common share - assuming dilution:			
As reported (pro forma for 1996 - unaudited)	$.188	$.200	$.189
Pro forma	$.180	$.196	$.187

Stock option activity during the periods indicated is as follows:

	NUMBER OF SHARES	WEIGHTED-AVERAGE EXERCISE PRICE
Balance at October 31, 1996	442,000	$ 2.500
Granted	254,000	11.125
Forfeited	(32,500)	6.348
Balance at October 31, 1997	663,500	5.613
Exercised	(79,350)	2.500
Forfeited	(15,000)	9.400
Balance at October 31, 1998 (31,150 options exercisable; 341,650 options at exercise price of $2.50 per share with remaining contractual life of 7.5 years, and 227,500 options at exercise price of $11.125 per share with remaining contractual life of 7.5 years)	569,150	5.948

(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, 1998 and 1997 have been adequately provided for in the financial statements.

For the years ended October 31, 1998, 1997 and 1996, 78 percent, 73 percent and 75 percent, respectively, of net sales were from customers located in the United States, while 22 percent, 27 percent and 25 percent, respectively, were from international customers. No foreign geographic areas accounted for more than 10 percent of net sales for the years ended October 31, 1998 and 1996 while Europe accounted for approximately 10 percent of net sales for the year ended October 31, 1997. As of October 31, 1998 and 1997, there were no significant amounts receivable from any one customer other than those described below.

For the year ended October 31, 1998, 27 percent of net sales were attributable to two major domestic distributors. The combined trade accounts receivable for these distributors at October 31, 1998 totaled approximately $2,989,000. No single customer or other distributor accounted for more than 5 percent of net sales for the year ended October 31, 1998. As of October 31, 1998, one of these major distributors had an outstanding balance payable to the Company in excess of 5 percent of total stockholders' equity in the amount of approximately $1,630,000.

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.

(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.

Income tax expense for the years ended October 31, 1998, 1997 and 1996 consists of:

YEAR ENDED OCTOBER 31, 1998	CURRENT	DEFERRED	TOTAL
U.S. Federal	$3,733,231	$ (69,192)	$3,664,039
State	451,779	(8,323)	443,456
Totals	$4,185,010	$ (77,515)	$4,107,495

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, 1998, 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,		
	1998	1997	1996
"Expected" tax expense	$ 3,982,111	$ 4,184,929	$ 4,209,593
Increase (reduction) in income tax expense resulting from:			
Foreign Sales Corporation benefit	(122,282)	(164,459)	(98,473)
State income taxes, net of federal benefits	288,822	254,592	215,967
S Corporation taxable income for the five months ended March 31, 1997	--	--	(1,485,091)
Net deferred income tax asset balance at March 31, 1997	--	--	(114,045)
Other differences, net	(41,156)	(125,268)	78,898
Reported income tax expense	$ 4,107,495	$ 4,149,794	$ 2,806,849

The tax effects of temporary differences that give rise to significant portions of the Company's net deferred tax asset as of October 31, 1998 and 1997 are presented below:

	OCTOBER 31,	
	1998	1997
Deferred tax assets:		
Accounts receivable, due to allowance for doubtful accounts	$ 117,205	$ 115,662
Inventories, due to additional costs inventoried for tax purposes pursuant to the Tax Reform Act of 1986	68,628	64,671
Self-insured health care costs, due to accrual for financial reporting purposes	41,208	45,986
Compensated absences due to accrual for financial reporting purposes	37,262	25,076
Total gross deferred tax assets	264,303	251,395
Less valuation allowance	--	--

Net deferred tax assets	264,303	251,395
Deferred tax liabilities:		
Plant and equipment, due to differences in depreciation and capital gain recognition	(118,121)	(64,381)
Other receivables, due to accrual for financial reporting purposes	(51,565)	(169,912)
Total gross deferred tax liabilities	(169,686)	(234,293)
Net deferred tax asset	$ 94,617	$ 17,102

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, 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.

(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, accounts payable and accrued expenses approximate fair value because of the short maturity of these instruments.

(13) EARNINGS PER SHARE

As discussed in note 1, SFAS No. 128 was adopted by the Company on November 1, 1997. SFAS No. 128 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:

YEAR ENDED OCTOBER 31, 1998	NET INCOME (NUMERATOR)	SHARES (DENOMINATOR)	PER SHARE AMOUNT
Earnings per common share	$ 7,269,964	38,287,271	$ .190
Effect of dilutive stock options	--	288,247	
Earnings per common share - assuming dilution	$ 7,269,964	38,575,518	$ .188

YEAR ENDED OCTOBER 31, 1997	NET INCOME (NUMERATOR)	SHARES (DENOMINATOR)	PER SHARE AMOUNT
Earnings per common share	$ 7,807,146	38,675,416	$ .202
Effect of dilutive stock options	--	341,867	
Earnings per common share - assuming dilution	$ 7,807,146	39,017,283	$ .200

YEAR ENDED OCTOBER 31, 1996	NET INCOME (NUMERATOR)	SHARES (DENOMINATOR)	PER SHARE AMOUNT
Unaudited pro forma earnings per common share	$ 7,474,047	39,360,659	$ .190
Effect of dilutive stock options	--	247,459	
Unaudited pro forma earnings per comon share - assuming dilution	$ 7,474,047	39,608,118	$ .189

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 227,500 for the year ended October 31, 1998.

(14) QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following is a summary of the unaudited quarterly results of operations for the years ended October 31, 1998 and 1997:

	QUARTER ENDED			
YEAR ENDED OCTOBER 31, 1998	JANUARY 31	APRIL 30	JULY 31	OCTOBER 31
Net sales	$11,873,115	$11,689,100	$13,727,433	$13,299,245
Gross profit	5,068,908	5,076,615	5,670,681	5,442,867
Income before income taxes	2,808,872	2,646,442	3,072,777	2,849,368
Net income	1,822,972	1,712,448	1,991,374	1,743,170
Earnings per common share	.047	.045	.052	.046
Earnings per common share - assuming dilution	.047	.044	.052	.045

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
Earnings per common share	.054	.034	.052	.062
Earnings per common share - assuming dilution	.053	.034	.052	.061

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, Executive Officers" concerning directors, persons nominated to become directors, executive officers 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 23 through 39.

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:

3.1 Amended and Restated Articles of Incorporation of Optical Cable Corporation (as amended) (filed as exhibit 3.1 to the Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1997 (file number 0-27022), and incorporated herein by reference).

3.2 Bylaws of Optical Cable Corporation, as amended (filed as exhibit 3.2 to the Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1997 (file number 0-27022), and incorporated herein by reference).

4.1 Form of certificate representing Common Stock (filed as exhibit 4.1 to the Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1997 (file number 0-27022), and incorporated herein by reference).

10.1 Royalty Agreement, dated November 1, 1993, by and between Robert Kopstein and Optical Cable Corporation (filed as exhibit 10.1 to the Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1997 (file number 0-27022), and incorporated herein by reference).

10.2 Assignment of Technology Rights from Robert Kopstein to Optical Cable Corporation, effective as of October 31, 1994 (filed as exhibit 10.2 to the Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1997 (file number 0-27022), and incorporated herein by reference).

10.3 Employment Agreement by and between Optical Cable Corporation and Robert Kopstein, effective November 1, 1998.

10.4 Tax Indemnification Agreement, dated as of October 19, 1995, by and between Optical Cable Corporation and Robert Kopstein (filed as exhibit 10.4 to the Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1997 (file number 0-27022), and incorporated herein by reference).

10.6 Loan Agreement dated April 25, 1997, by and between Optical Cable Corporation and First Union National Bank of Virginia, as amended by Modification Number One to the Loan Agreement, dated March 8, 1998, as amended by Modification Number Two to the Loan Agreement, dated August 11, 1998, and as extended, the confirmation of which is set forth in a letter from First Union National Bank of Virginia, dated January 25, 1999.

10.7 Security Agreement, dated April 25, 1997, by and between Optical Cable

Corporation and First Union National Bank of Virginia (filed as exhibit 10.7 to the Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1997 (file number 0-27022), and incorporated herein by reference).

10.8 Promissory Note, dated April 25, 1997, issued by Optical Cable Corporation to First Union National Bank of Virginia in the amount of $5 million, as amended by Modification Number One to the ($5 million) Promissory Note, dated March ___, 1998, and the related Sweep Plus Loan/Investment Services Description, and Promissory Note, dated April 25, 1997, issued by Optical Cable Corporation to First Union National Bank of Virginia in the amount of $10 million, as amended by Modification Number One to the ($10 million) Promissory Note, dated March ___, 1998 (filed as exhibit 10.8 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended April 30, 1998 (file number 0-27022), and incorporated herein by reference).

10.9 Optical Cable Corporation Employee Stock Purchase Plan (filed as exhibit 10.9 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended July 31, 1998 (file number 0-27022), and incorporated herein by reference).

23 Consent of KPMG 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

None

(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 28, 1999

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 28, 1999.

/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

INDEX TO ATTACHED EXHIBITS

Exhibit No.	Description
10.3	Employment Agreement by and between Optical Cable Corporation and Robert Kopstein, effective November 1, 1998.
10.6	Loan Agreement dated April 25, 1997, by and between Optical Cable Corporation and First Union National Bank of Virginia, as amended by Modification Number One to the Loan Agreement, dated March 8, 1998, as amended by Modification Number Two to the Loan Agreement, dated August 11, 1998, and as extended, the confirmation of which is set forth in a letter from First Union National Bank of Virginia, dated January 25, 1999.
23	Consent of KPMG 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.

EXHIBIT 10.3

[OPTICAL CABLE CORPORATION LOGO]

OPTICAL CABLE CORPORATION
EMPLOYMENT AGREEMENT

This agreement made effective November 1, 1998 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 November 1, 1998 and shall terminate on the 31st day of October, 1999.

3. STARTING DATE: This Agreement becomes effective November 1, 1998.

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 will, for all inventions or improvements which may be patentable, do all lawful acts and execute and acknowledge any and all letters and/or patents in the United States of America and foreign countries for any such inventions and improvements, 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 OF INFORMATION: Since the work for which Kopstein is employed and upon which he shall be engaged, will include trade secrets and confidential

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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 anyone else to publish, disclose, or make use of any such secrets or information unless and until such secrets or information shall have ceased to be secret or confidential as evidenced by 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 customers 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 is 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 his employment by either party for any reason (i) 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 such business OCC wishes to conduct within three (3) months following termination of his employment; and (ii) he will not 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 sole 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 and 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 or 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 reasonable 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 by law, and the parties hereby consent and agree that such scope may be modified accordingly in a 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 (with a person other than Kopstein acting on behalf of OCC). 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/ Deborah R. Griffith
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WITNESS

/s/ Robert Kopstein

Robert Kopstein

Optical Cable Corporation

By: /s/ Kenneth W. Harber

Kenneth W. Harber
Vice President of Finance

EXHIBIT 10.6

[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

MODIFICATION NUMBER ONE
TO THE LOAN AGREEMENT

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

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

THIS AGREEMENT is entered into as of March 5, 1998 by and between Bank and Borrower.

WHEREAS, Bank is the holder of a Promissory Note executed and delivered by Borrower, dated April 25, 1997, in the original principal amount of $10,000,000.00 (the "Note Number 1"); and Bank is the holder of a Promissory Note executed and delivered by Borrower, dated April 25, 1997, in the original principal amount of $5,000,000.00 (the "Note Number 2");

WHEREAS, in connection with execution of the Note, Borrower also executed and delivered to Bank certain other Loan Documents, including a Loan Agreement, dated April 25, 1997 (the "Loan Agreement"); and

WHEREAS, Borrower and Bank have agreed to modify the terms of the Loan Agreement.

NOW, THEREFORE, in consideration of the premises contained herein and other good and valuable consideration, receipt and sufficiency of which is acknowledged, the parties agree as follows:

OUTSTANDING BALANCE. The total outstanding unpaid principal balance under the Note Number 1 as of March 6, 1998 is $0.00 and total outstanding unpaid principal balance under the Note Number 2 as of March 6, 1998 is $0.00. The parties acknowledge that interest on the obligations under Note 1 and Note Number 2 are paid through March 6, 1998.

MODIFICATIONS.

1. The section entitled FINANCIAL STATEMENTS of the Loan Agreement is hereby amended by deleting the subparagraph(s) entitled PERIODIC FINANCIAL STATEMENTS and adding the following in its place and stead:

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 60 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.

2. The section entitled NEGATIVE COVENANTS of the Loan Agreement is hereby amended by deleting the subparagraph(s) entitled Retire or Repurchase Capital Stock and adding the following in its place and stead:

RETIRE OR REPURCHASE CAPITAL STOCK. Retire or otherwise acquire its capital stock in an amount greater than $5,000,000.00. Any such acquisition of capital stock must be paid for from available cash on hand.

3. The section entitled NEGATIVE COVENANTS of the Loan Agreement is hereby amended by adding the subparagraph(s) entitled Guarantees:

GUARANTEES. Guarantee or otherwise become responsible for obligations of any other person or persons other than the endorsement of check and drafts for collection in the ordinary course of business.

4. The section entitled AFFIRMATIVE CONVENANTS of the Loan Agreement is hereby amended by deleting the subparagraph(s) entitled Change of Control and adding the following it its place and stead as a Negative Covenant paragraph.

CHANGE OF CONTROL. Make a material change of ownership that effectively changes control of Borrower.

ACKNOWLEDGEMENTS. Borrower acknowledges and represents that the Note and other Loan Documents, as amended hereby, are in full force and effect and are binding upon it, its successors, assigns, administrators and heirs without any defense, counterclaim, right or claim of set-off or of other sum due; that, after giving effect to this Agreement, no default or event that with the passage of time or giving of notice would constitute a default under the Loan Documents has occurred; that all representations and warranties contained in the Loan Documents are true and correct as of this date; that there have been no changes in the ownership of any collateral pledged to secure the Obligations since the dates of the instruments originally pledging such collateral; and that Borrower has taken all necessary action (corporate or otherwise) to authorize the execution and delivery of this Agreement. This Agreement constitutes only a modification of an existing obligation owing by Borrower to Bank, and is not a novation.

LIENS. Borrower acknowledges and confirms the extent, validity and priority of the Bank's security interests and liens in the collateral pledged, if any, pursuant to the Loan Documents, and agrees that such security interest and liens shall secure the Borrower's Obligations to Bank, including any modification of the Note or Loan Agreement, and all future modifications, extensions, renewals and/or replacements of the Loan Documents.

MISCELLANEOUS. This Agreement shall be construed in accordance with and governed by the laws of the applicable state as originally provided in the Loan Documents, without reference to the state's conflicts of laws principles. This Agreement and the other Loan Documents constitute the sole agreement of the parties with respect to the subject matter thereof and supersede all oral negotiations and prior writings with respect to the subject matter thereof. No amendment of this Agreement, and no waiver of any one or more of the provisions hereof shall be effective unless set forth in writing and signed by the parties hereto. The illegality, unenforceability or inconsistency of any provision of this Agreement shall not in any way affect or impair the legality, enforceability or consistency of the remaining provisions of this Agreement or the other Loan Documents. This Agreement and the other Loan Documents are intended to be consistent. However, in the event of any inconsistencies among this Agreement and by any of the Loan Documents, the terms of this Agreement, and then the Note, shall control. This Agreement may be executed in any number of counterparts and by the different parties on separate counterparts. Each such counterpart shall be deemed an original, but all such counterparts shall together constitute one and the same agreement.

DEFINITIONS. The term "Loan Documents" used in this Agreement and other Loan Documents refers to all documents, agreements, and instruments executed in connection with any of the Obligations (as defined herein), and may include, without limitation, modification agreements, a commitment letter that survives closing, a loan agreement, any note, guaranty agreements, security agreements, security instruments, financing statements, mortgage instruments, letters of credit and any renewals or modifications, whenever any of the foregoing are executed, but does not include swap agreements (as defined in 11 U.S.C. ss. 101). The term "Obligations" used in this Agreement refers to any and all indebtedness and other obligations of every kind and description of the Borrower to the Bank or to any Bank affiliate, whether or not under the Loan Documents, and whether such debts or obligations are primary or secondary, direct or indirect, absolute or contingent, sole, joint or several, secured or unsecured, due or to become due, contractual, including, without limitation, swap agreements (as defined in 11 U.S.C. ss. 101), arising by tort, arising by operation of law, by overdraft or otherwise, or now or hereafter existing, including, without limitation, principal, interest, fees, late fees, expenses, attorneys' fees and costs that have been or may hereafter be contracted or incurred. Terms used in this Agreement which are capitalized and not otherwise defined herein shall have the meanings ascribed to such terms in the Note and/or other Loan Documents.

ARBITRATION. Upon demand of any party hereto, whether made before or after institution of any judicial proceeding, any dispute, claim or controversy arising out of, connected with or relating to this Agreement and other Loan Documents ("Disputes") between or among parties to this Agreement shall be resolved by binding arbitration as provided herein. Institution of judicial proceeding by a party does not waive the right of that party to demand arbitration hereunder. Disputes may include, without limitations, tort claims, counterclaims, disputes as to whether a matter is subject to arbitration, claims brought as class actions, claims arising from Loan Documents executed in the future, or claims arising out of or connected with the transaction reflected by this Agreement.

Arbitration shall be conducted under and governed by the Commercial Financial Disputes Arbitration Rules (the "Arbitration Rules") of the American Arbitration Association (the "AAA") and Title 9 of the U.S. Code. All arbitration hearings shall be conducted in the city in which the office of Bank first stated above is located. The expedited procedures set forth in Rule 51 et seq. of the Arbitration Rules shall be applicable to claims of less than $1,000,000.00. All applicable statutes of limitation shall apply to any Dispute. A judgment upon the award may be entered in any court having jurisdiction. The panel from which all arbitrators are selected shall be comprised of licensed attorneys. The single arbitrator selected for expedited procedure shall be a retired judge from the highest court of general jurisdiction, state or federal, of the state where the hearing will be conducted or if such person is not available to serve, the single arbitrator may be a licensed attorney. Notwithstanding the foregoing, this arbitration provision does not apply to disputes under or related to swap agreements.

PRESERVATION AND LIMITATION OF REMEDIES. Notwithstanding the preceding binding arbitration provisions, Bank and Borrower agree to preserve, without diminution, certain remedies that any party hereto may employ or exercise freely, independently or in connection with an arbitration proceeding or after an arbitration action is brought. Bank and Borrower shall have the right to proceed in any court of proper jurisdiction or by self-help to exercise or prosecute the following remedies, as applicable: (i) all rights to foreclose against any real or personal property or other security by exercising a power of sale granted under Loan Documents or under applicable law or by judicial foreclosure and sale, including a proceeding to confirm the sale; (ii) all rights of self-help including peaceful occupation of real property and collection of rents, set-off, and peaceful possession of personal property; (iii) obtaining provisional or ancillary remedies including injunctive relief, sequestration, garnishment, attachment, appointment of receiver and filing an involuntary bankruptcy proceeding; and (iv) when applicable, a judgment by confession of judgment. Preservation of these remedies does not limit the power of an arbitrator to grant similar remedies that may be requested by a party in a Dispute.

Borrower and Bank agree that they shall not have a remedy of punitive or exemplary damages against the other in any Dispute and hereby waive any right or claim to punitive or exemplary damages they have now or which may arise in the future in connection with any Dispute whether the Dispute is resolved by arbitration or judicially.

IN WITNESS WHEREOF, the undersigned have signed and sealed this agreement the day and year first above written.

Optical Cable Corporation
Taxpayer Identification Number: 54-1237042

CORPORATE SEAL

By:/s/ Robert Kopstein

Robert Kopstein, President

First Union National Bank

CORPORATE SEAL

By:/s/ Susan K. Doyle

Susan K. Doyle, Vice President

MODIFICATION NUMBER TWO
TO THE LOAN AGREEMENT

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

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

THIS AGREEMENT is entered into as of August 11, 1998 by and between Bank and Borrower.

RECITALS

WHEREAS, Bank is the holder of a Promissory Note executed and delivered by Borrower, dated April 25, 1997, in the original principal amount of $10,000,000.00 (the "Note Number 1"); and Bank is the holder of a Promissory Note executed and delivered by Borrower, dated April 25, 1997, in the original principal amount of $5,000,000.00 (the "Note Number 2").

WHEREAS, in connection with execution of Note Number 1 and Note Number 2, Borrower also executed and delivered to Bank certain other Loan Documents, including a Loan Agreement, dated April 25, 1997 and all modification thereafter (the "Loan Agreement"); and

Borrower and Bank have agreed to modify the terms of the Loan Agreement.

In consideration of Bank's continued extension of credit and the agreements contained herein, the parties agree as follows:

AGREEMENT

ACKNOWLEDGMENT OF BALANCE. Borrower acknowledges that the most recent Commercial Loan Invoice sent to Borrower with respect to the Obligations under the Note is correct.

MODIFICATIONS.

1. The Section entitled NEGATIVE COVENANTS of the Loan Agreement is hereby amended by deleting the subparagraph(s) entitled Retire or Repurchase Capital Stock and adding the following in its place and stead:

   NEGATIVE COVENANTS. Borrower agrees that from the date hereof and until final payment in full of the Obligations, unless Bank shall otherwise consent in writing, Borrower will not: RETIRE OR REPURCHASE CAPITAL STOCK. Retire or otherwise acquire its capital stock in an amount greater than $10,000,000.00. Any such acquisition of capital stock must be paid for from working capital or other sources deemed appropriate by the officers of the corporation.

ACKNOWLEGMENTS. Borrower acknowledges and represents that the Note and other Loan Documents, as amended hereby, are in full force and effect without any defense, counterclaim, right or claim of set-off; that, after giving effect to this Agreement, no default or event that with the passage of time or giving of notice would constitute a default under the Loan Documents has occurred; that all representations and warranties contained in the

Loan Documents are true and correct as of this date; that Borrower has taken all necessary action to authorize the execution and delivery of this Agreement; and that this Agreement is a modification of an existing obligation and is not a novation.

COLLATERAL. The Borrower acknowledges and confirms that there have been no changes in the ownership of any collateral pledged to secure the Obligations (the "Collateral") since the Collateral was originally pledged; that the Bank has existing, valid first priority security interests and liens in the Collateral; and that such security interests and liens shall secure the Borrower's Obligations to Bank, including any modification of the Note or Loan Agreement, and all future modifications, extension, renewals and/or replacements of the Loan Documents.

MISCELLANEOUS. This Agreement shall be construed in accordance with and governed by the laws of the applicable state as originally provided in the Loan Documents, without reference to that state's conflicts of laws principles. This Agreement and the other Loan Documents constitute the sole agreement of the parties with respect to the subject matter thereof and supersede all oral negotiations and prior writings with respect to the subject matter thereof. No amendment of this Agreement, and no waiver of any one or more of the provisions hereof shall be effective unless set forth in writing and signed by the parties hereto. The illegality, unenforceability or inconsistency of any provision of this Agreement shall not in any way affect or impair the legality, enforceability or consistency of the remaining provisions of this Agreement or the other Loan Documents. This Agreement and the other Loan Documents are intended to be consistent. However, in the event of any inconsistencies among this Agreement and any of the Loan Documents, the terms of this Agreement, and then the Note, shall control. This Agreement may be executed in any number of counterparts and by the different parties on separate counterparts. Each such counterpart shall be deemed an original, but all counterparts shall together constitute one and the same agreement. Terms used in this Agreement which are capitalized and not otherwise defined herein shall have the meanings ascribed to such terms in the Loan Documents.

IN WITNESS WHEREOF, the undersigned have signed and sealed this Agreement the day and year first above written.

Optical Cable Corporation

CORPORATE SEAL

By: /s/ Robert Kopstein

Robert Kopstein, President

First Union National Bank

CORPORATE SEAL

By: /s/ Susan Doyle

Susan Doyle, Vice President

First Union National Bank
of Virginia
Post Office Box 13327
Roanoke, Virginia 24040

[FIRST UNION LOGO]

January 25, 1999

Mr. Neil D. Wilken, Jr.
McGuire, Woods, Battle & Boothe, LLP
One James Center
901 East Cary Street
Richmond, Virginia 23219-4030

RE: Optical Cable Corporation

Dear Mr. Wilkin:

Please accept this letter as confirmation that the Loan Agreement between Optical Cable Corporation and First Union National Bank dated April 27, 1997 has been extended as described in the Commitment Letter dated February 25, 1998. Specifically, advances under the two referenced lines of credit in the amounts of $10,000,000 and $5,000,000 are permitted through February 28, 1999.

Please call me at (540) 563-6667 or (800) 813-0722 if you need additional information.

Sincerely,

/s/ William C. Moses
- --------------------------
William C. Moses
Vice President

EXHIBIT 23

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 11, 1998, relating to the balance sheets of Optical Cable Corporation as of October 31, 1998 and 1997, and the related statements of income, stockholders' equity, and cash flows for each of the years in the three-year period ended October 31, 1998, which report appears in the October 31, 1998 Annual Report on Form 10-K of Optical Cable Corporation.

KPMG LLP

Roanoke, Virginia
January 28, 1999

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THIS SCHEDULE  CONTAINS SUMMARY FINANCIAL  INFORMATION  EXTRACTED FROM FINANCIAL
STATEMENTS  FOR THE YEAR ENDED OCTOBER 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
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