

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended October 31, 2001

Commission file number 0-27022

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

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

5290 Concourse Drive, Roanoke, VA 24019  
(Address of principal executive offices) (Zip Code)

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

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

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

Name of Each Exchange on Title of Each Class	Which Registered
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Common Stock, No Par Value OTC (Nasdaq National Market)

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

As of December 31, 2001, the last practicable date available with respect to affiliate holdings, 37,486,249 shares of voting common stock, with a market value of \$61,102,585 were held by non-affiliates of the registrant.

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the last practicable date.

Class	Outstanding at December 31, 2001
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COMMON STOCK, NO PAR VALUE 55,431,279 SHARES

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Optical Cable Corporation Proxy Statement for the 2002 Annual Meeting of Shareholders are incorporated by reference into Part III hereof.

PART I

Item 1. Business.

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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, statements concerning our outlook for the future, statements of belief, future plans, strategies or anticipated events, and similar information and statements concerning matters that are not historical facts. The forward-looking information is subject to risks and uncertainties that may cause actual events to differ materially from our expectations. Factors that could cause or contribute to such differences include, but are not limited to, the level of sales to key customers or distributors; the economic conditions affecting network service providers; the slowdown in corporate spending on information technology; actions by competitors; fluctuations in the price of raw materials (including optical fiber); our dependence on a single manufacturing facility; our ability to protect our proprietary manufacturing technology; market conditions influencing prices or pricing; our dependence on a limited number of suppliers; volume commitments made to certain of our suppliers; an adverse outcome in litigation, claims and other actions, and potential litigation, claims and other actions against us, including, but not limited to, the shareholder litigation that has been filed and other claims related to actions of our former Chairman, President and Chief Executive Officer; the effect of sales of common stock by the various brokerage firms alleging that our former Chairman, President and Chief Executive Officer pledged substantially all of his personally-held unregistered shares of Optical Cable Corporation (the "Company") to cover personal margin loans; technological changes and introductions of new competing products; the current recession; terrorist attacks or acts of war, particularly given the acts of terrorism against the United States on September 11, 2001 and subsequent military responses by the United States; ability to retain key personnel; changes in market demand; exchange rates; productivity; weather; and market and economic conditions in the areas of the world in which the Company operates and markets its products.

GENERAL

We are a leading manufacturer of a broad range of tight-buffered fiber optic cables for the local area network and premise markets, often referred to as the enterprise market. Our tight-buffered fiber optic cables are well-suited for use in short to moderate distance applications to connect metropolitan, access and enterprise networks. Our tight-buffered fiber optic cables are derived from technology originally developed for military applications requiring rugged, flexible and compact fiber optic cables. Our tight-buffered fiber optic cables can be used both indoors and outdoors, are easy and economical to install, provide a high degree of reliability and offer industry leading performance characteristics. We have designed and implemented an efficient and automated manufacturing process based on proprietary technologies. This enables us to produce high quality indoor/outdoor tight-buffered fiber optic cable rapidly and cost efficiently.

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

INDUSTRY BACKGROUND

Increased Demand for Bandwidth

The number of communications networks and the quantity of information transmitted over them have increased in recent years due to the growth of data intensive applications, such as Internet access and e-commerce, e-mail, video conferencing, multimedia file transfers, and the movement of large blocks of stored data across networks. Despite the recent slowdown in such growth, we believe that demand for bandwidth will increase over the long term.

Network service providers have focused on improving the transmission capacity, or bandwidth, and performance of their networks to keep pace with the increase in traffic. At the same time, the bandwidth of enterprise

networks continues to increase with innovations in networking equipment. These improvements have resulted in additional bandwidth intensive applications, further increasing the demand for bandwidth. We believe that these ongoing

improvements will continue to generate growth in data, video and voice communications over networks.

#### Deployment of Optical Networks

To meet the demand for more bandwidth and better network performance, optical networks are being deployed because they provide substantially higher data transmission rates, significantly increased bandwidth and improved reliability. Compared to copper wire, optical fiber has thousands of times the information carrying capacity, occupies much less space and operates more reliably over greater distances. Optical fiber is immune to the electromagnetic interference that causes static in copper wire transmission, as well as to electrical surges. Optical fiber is also a safer choice in environments where flammability is an issue because it does not carry electricity. In addition, communications over optical fiber networks are more secure than communications over copper wire networks because tapping into fiber optic cable without detection is difficult.

Optical networks are comprised of a variety of networking equipment and components required to transmit, process, change, amplify and receive light that carries data, video and voice communications over fiber optic cables from one location to another. Optical networks were originally deployed to serve the needs of large network service providers to carry communications traffic over long distances between cities and across continents. Improvements in performance and reductions in the cost of optical networking equipment have made it economically feasible to deploy optical networks in short to moderate distance applications such as enterprise networks. To bring the bandwidth and performance of optical networks to metropolitan markets and end-users, short to moderate distance fiber optic cabling infrastructure must be deployed in cities and enterprises and connected to the long-haul fiber optic infrastructure.

Optical fiber is deployed in four primary types of communications networks: long-haul, enterprise, metropolitan and access.

**Long-haul Networks.** Long-haul networks are long distance, inter-continental and inter-city communications systems that typically employ high fiber count fiber optic cables and advanced, expensive fiber optic networking equipment for the purpose of transmitting large quantities of data, video and voice communications over long distances. Until recently, this segment has historically experienced strong growth as network providers have sought to improve network infrastructure and support the increased demand for new services and greater traffic volumes. To date, the telecommunications industry has mainly focused on the build-out of the long-haul fiber optic infrastructure. This build-out has slowed substantially recently.

**Enterprise Networks.** Enterprise networks, often referred to as local area networks or LANs, are communications systems used to transport data, video and voice communications within organizations such as businesses, government agencies and educational institutions. Enterprise networks connect computer users within an organization and allow users to share computer resources. As demand for bandwidth has increased, enterprise networks have increasingly utilized fiber optic technology. Optical fiber was first deployed in the major data routes or backbones of enterprise networks and is increasingly deployed to the end-user's desktop for high performance applications.

**Metropolitan Networks.** Metropolitan networks are communications systems used to transport data, video and voice communications between major distribution points in metropolitan areas. These networks connect long-haul networks to access networks. They are generally rings of optical fiber that circle metropolitan areas, with branches of optical fiber that transmit information from the ring to co-location centers, data centers or other major distribution points located throughout the metropolitan area. These major distribution points are connected to access networks which in turn connect end-users to a communications network. Service providers, including telephone companies and cable television operators, continue to invest in the metropolitan fiber optic infrastructure to reduce capacity constraints resulting from the increase in data, video and voice

communications and demand for enhanced services.

**Access Networks.** Access networks are communications systems that connect metropolitan networks to end-users such as businesses, residences and governmental agencies. Historically, access networks have been built using

copper wire systems due to significant cost advantages over competing technologies, including fiber optic networks. However, copper wire systems are becoming increasingly insufficient to meet end-users' demand for new services that require high bandwidth and fast transmission speeds. Therefore, fiber optic technology is being increasingly deployed in access networks. This has only recently become economically feasible due to technological improvements in information transmission technologies and significant cost reductions in optical networking equipment and components. We believe that additional technological improvements and equipment cost reductions will accelerate the deployment of optical fiber to the end-user.

Historically, the vast majority of optical fiber has been installed in long-haul networks with the long-haul capacity exceeding current demand. Subject to the recent economic slowdown and funds for expansion being available, we believe that over the long term optical fiber installations in metropolitan, access and enterprise networks will experience growth as a result of several factors. Among those factors are the increasing demand for bandwidth by commercial and residential end-users, improvements in information transmission technologies and significant cost reductions in optical networking equipment and components. We believe these technological improvements and cost reductions will require the build-out of optical networks in the metropolitan, access and enterprise markets.

#### Fiber Optic Cables

Optical fiber must be processed into fiber optic cables before it can be installed in a fiber optic network. Fiber optic cables serve several purposes. Fiber optic cable aggregates multiple strands of optical fiber into a single, easy to handle package and protects the optical fiber from damage during installation and from damage that can be caused by a wide variety of environmental factors after installation. A typical fiber optic cable begins with one or more optical fibers that are each coated with a very thin layer of plastic material called a buffer. Groups of buffered optical fiber are further protected by secondary buffers or grouped into plastic tubes that are stranded together with aramid yarns, such as Kevlar(TM), which protect the optical fibers from damage that can occur when the fiber optic cable is pulled and stretched during installation. This combination of elements is then covered with one or more layers of plastic or steel that serves as a protective outer jacket, to make a fiber optic cable.

Fiber optic cable designs can be grouped into three primary categories: loose tube, indoor tight-buffered, and indoor/outdoor tight-buffered.

**Loose Tube Fiber Optic Cable.** A typical loose tube fiber optic cable consists of optical fibers that have a thin primary buffer coating and are grouped into one or more thin, rigid tubes that are flooded with gel to provide moisture protection to the optical fiber. The tubes are stranded around a strength element, such as a central strand of fiberglass or steel. This combination of elements is again flooded with gel and covered with one or more layers of plastic or steel that serves as a protective outer jacket, resulting in a loose tube fiber optic cable. A single loose tube fiber optic cable often contains many optical fibers, with groups of optical fibers contained in the individual tubes within the fiber optic cable. This type of fiber optic cable is relatively stiff and is primarily used for long, relatively straight outdoor runs, such as in long-haul networks and in parts of metropolitan networks. One major drawback to the typical design of loose tube fiber optic cable is that it is difficult to terminate. Termination is the point where the optical fiber is either connected to another optical fiber or to communications equipment. Termination of a loose tube fiber optic cable requires extensive cleaning of the gel filling and preparation of the fiber ends. This is a messy, time consuming and expensive process, which translates into higher installation costs. As a result, we believe loose tube fiber optic cables are generally less suitable for shorter distance applications and for applications that have a large number of termination points. Also, under various environmental conditions, loose tube fiber optic cables may experience problems with water penetration and chemical interaction of the gel with fiber buffers that can cause the

optical fiber to become weak and brittle over time. Furthermore, most loose tube fiber optic cables are not suited for indoor use because they are flammable.

Tight-Buffered (Indoor) Fiber Optic Cable. Tight-buffered fiber optic cable consists of optical fibers that have a primary buffer coating and an additional, heavier secondary tight buffer coating that is placed on each individual optical fiber for added protection. This combined buffer coating is typically three times thicker than the buffer used in loose tube fiber optic cables, providing much greater mechanical and environmental protection for each individual optical fiber. To form the fiber optic cable, groups of buffered optical fibers are combined with aramid yarn and sometimes other strength elements and covered with an outer protective jacket. Since these fiber optic cables are designed for indoor use, there is no need for gel or other fillings to protect against moisture. Tight-buffered fiber optic cable addresses many of the shortfalls presented by loose tube cable. It is significantly easier and faster to terminate because, without the messy gel, it requires no cleaning and little preparation. However, due to the amount of buffer material used in tight-buffered fiber optic cable, it can be too unwieldy and costly for long-haul, high fiber count applications. Furthermore, standard indoor tight-buffered fiber optic cable is not designed to withstand the additional environmental challenges presented by outdoor use.

Tight-Buffered (Indoor/Outdoor) Fiber Optic Cable. In many fiber optic cable installations, loose tube fiber optic cables are terminated at building entrances and spliced to standard indoor tight-buffered fiber optic cable, which is run indoors. We believe this installation method is not optimal due to the considerable time and expense associated with these multiple terminations and the potential for ongoing fiber failures and optical signal loss at the termination points. The introduction of indoor/outdoor tight-buffered fiber optic cable alleviated these issues. Indoor/outdoor tight-buffered fiber optic cable enjoys all of the benefits of standard tight-buffered fiber optic cable, but its design, fabrication techniques and materials enable it to survive the range of conditions presented by outdoor installations. These same characteristics can make indoor/outdoor tight-buffered cable more rugged and survivable even in indoor only installations where, for example, there can be long pulling distances through conduits with a variety of bends and corners. Additional outdoor environmental challenges might include exposure to moisture, ultra-violet radiation and a variety of microorganisms, animals and insects.

Indoor/outdoor tight-buffered fiber optic cable can be run directly into buildings without the need for costly and time-consuming transitions from loose tube fiber optic cable at building entrances. As a result, we believe indoor/outdoor tight-buffered fiber optic cable is ideal for use in short and moderate distance applications in metropolitan, access and enterprise networks which require a strong, flexible cable and have numerous termination points and subject to the recent economic slowdown and funds being available for expansion, such as in installations at universities, corporate campuses, industrial and office complexes, and in a variety of other applications where multiple buildings are interconnected. Due to the significant advantages in moderate distance applications with numerous termination points and subject to the recent economic slowdown and funds being available for expansion, we believe that the market for indoor/outdoor tight-buffered fiber optic cable is poised for growth as fiber optic technology is increasingly deployed in metropolitan and access networks. Additionally, indoor/outdoor tight-buffered fiber optic cable is also well suited and more survivable in enterprise installations.

## OUR SOLUTION

### Focus on Indoor/Outdoor Tight-buffered Cable

We manufacture and market a broad range of indoor/outdoor tight-buffered fiber optic cables for use in a variety of short to moderate distance applications which are designed to be rugged and more survivable.

Fiber optic cables used for short to 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. We recognized that, for many applications, the stresses on the cables during installation are similar to those in the military tactical environment, for which our technology was initially developed. We applied this technology to commercial products serving a market that could not be adequately served by loose-tube gel-filled cable or indoors only tight-buffered fiber optic cable.

We believe our indoor/outdoor tight-buffered fiber optic cables provide significant advantages to distributors, installers, systems integrators and most importantly, end-users. We believe installers and systems integrators find that the multipurpose feature of our fiber optic cables can significantly reduce installation costs by eliminating the need to transition from outdoor fiber optic cable to indoor fiber optic cable at a building entrance. Our products also enhance network reliability by eliminating splices and reducing potential stress on optical fibers that could lead to breakage. We believe the simplified installation, lower cost and enhanced reliability of our products are valued by the end-user because a long lasting, trouble-free fiber optic cable minimizes down time and maximizes system availability.

#### Technological Advantages

As a result of our experience developing tight-buffered fiber optic cables, in particular to meet the stringent requirements for military applications, we believe we have a unique technology base that provides significant advantages in addressing the tight-buffered fiber optic cable market. We have developed considerable expertise in fiber optic cable design, manufacturing and production processes that enable us to produce high performance fiber optic cables cost effectively. Our indoor/outdoor tight-buffered fiber optic cables are designed to provide superior protection against exposure to the elements.

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#### Automated Manufacturing Capabilities

We have designed and developed proprietary manufacturing software and hardware that provides us with automated and technically precise manufacturing capabilities. The automation of our manufacturing process has provided us with a number of important benefits. The most important benefit is that it allows us to produce high-quality fiber optic cable at a low cost. Another important benefit is that we are able to respond to customer requests for additional or unique products. Finally, many of our important technological advances result from our ability to modify and refine our production process.

#### Customer Focus

We focus on supporting our customers to enhance their business, and we work closely with our customers to identify and define their unique requirements. Sometimes this requires us to create custom fiber optic cables for a variety of special applications and environments. We have established close relationships with our customers. We believe these close relationships allow us to better understand our customers' specific needs, gives our customers an opportunity to understand how our products can uniquely satisfy their needs, and allow us to deliver more responsive solutions and support. By becoming involved early in our customers' network design process, we hope to have the opportunity to have our products specified as the fiber optic cables for the customer's network.

#### Broad Product Offering

We manufacture a broad, state-of-the-art line of tight-buffered fiber optic cables. We produce what we believe to be the industry's widest array of indoor/outdoor tight-buffered fiber optic cables with features and performance characteristics to address the needs of the metropolitan, access and enterprise markets. Our fiber optic cables range from small single fiber

cables for patch cords to large high fiber count fiber optic cables for major network trunks and from fiber optic cables used in computer facilities to those used in underground installations. We also offer aerial self-supporting fiber optic cables for easy installation on pole lines, military tactical fiber optic cables, and specialty fiber optic cables for special markets. This wide range of products makes us attractive as a one-stop source for customers with unique as well as standard fiber optic cable requirements.

#### Our Strategy

Our objective is to be the leading manufacturer and supplier of indoor/outdoor tight-buffered fiber optic cables for metropolitan, access and enterprise networks. We intend to expand our business by providing fiber optic cables that are versatile, reliable, cost effective and responsive to evolving market requirements.

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#### PRODUCTS

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

The following summarizes the various types of fiber optic cables we produce and their attributes:

A-Series Assembly Fiber Optic Cables. Our A-Series fiber optic cables contain one or two optical fiber units. A-Series fiber optic cables contain tight-buffered optical fibers which are surrounded by a layer of Kevlar(TM) or other aramid yarn strength members to prevent the optical fiber from being stretched if there is tension on the fiber optic cable. A flexible and resilient thermoplastic outer jacket is then applied to further strengthen and protect the

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optical fiber. These fiber optic cables are used for jumpers, which are short length patch cords, and for pigtailed, which are short lengths of fiber optic 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 fiber optic cables are often privately labeled and sold to original equipment manufacturers that produce the fiber optic cable assemblies.

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

D-Series Distribution Fiber Optic Cables. Our D-Series fiber optic cables are made with the same tight-buffered optical fiber as the B-Series fiber

optic cables and with a high performance PVC outer jacket. Our D-Series fiber optic cables are also available with a Core-Locked jacket. Unlike the B-Series fiber optic cables, however, each tight-buffered optical fiber in a D-Series fiber optic cable is not covered with a separate subcable jacket. D-Series fiber optic cables are 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 high performance PVC outer jacket make D-Series fiber optic cables rugged and survivable, with a small, lightweight configuration. They can also be armored for additional protection for use in buried and overhead installations. The high strength to weight ratio of these fiber optic cables makes them well suited for installations where long lengths of fiber optic cables must be pulled through duct systems. D-Series fiber optic cables are used in relatively longer length segments of installations, such as trunking, LAN and distribution applications, optical fiber in the loop, optical fiber to the curb and drop cables.

G-Series Subgrouping Fiber Optic Cables. Our G-Series fiber optic cables combine a number of multifiber subcables, each similar to a D-Series fiber optic cable. Each multifiber subcable is tightbound with an elastomeric jacket, providing excellent mechanical and environmental performance. These subcables are contained in a pressure extruded, high performance Core-Locked(TM) PVC outer jacket to form the finished fiber optic cable. This design permits the construction of very high fiber count fiber optic cables. These fiber optic cables may be used where groups of optical fibers are routed to different locations. We have developed a subgroup fiber optic cable containing over 1,000 optical fibers intended for high density, moderate length routes such as urban telephone distribution systems.

Other Fiber Optic Cable Types. We produce many variations on the basic fiber optic cable styles discussed above for more specialized installations. For outdoor applications, we can armor both the B-Series and D-Series fiber optic cables with corrugated steel tape for further protection in underground or overhead installations. For overhead installations on utility poles, we offer several self-supporting versions of the D-Series fiber optic cables, with higher performance outer jackets. Our fiber optic 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 fiber optic cables are available for use in enclosed spaces where there is concern over release of toxic gases during fire. We offer composite fiber optic cables combining optical fiber and copper wires to facilitate the transition from copper wire to optical fiber-based systems without further installation of fiber optic cables. We also offer specialty fiber optic cables, including military tactical and mining fiber optic cables.

## CUSTOMERS

We have a global customer base, including distributors, original equipment manufacturers, system integrators, electrical contractors, value added resellers and end-users. The following is a list of representative types of end-users of our fiber optic cables:

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- o Cable Television System Operators. Cable television system operators continue to upgrade their networks to add optical fiber to their networks. Similar to other build-outs in the access network, we are supplying lower fiber count, moderate distance fiber optic cables to these applications.

- o Educational Institutions. Colleges, universities, high schools and grade schools are continually upgrading and improving their networks, with existing LANs being expanded and upgraded for higher data transmission speeds, optical fiber to the dorm and other applications. These systems link personal computers with central file servers. As interactive learning systems require increased transmission speeds, optical fiber becomes a logical medium.

- o Financial Institutions, Insurance Companies and Other Large Businesses. Banks, stock trading companies, insurance companies, and other large businesses often need to distribute time critical data among a large number of workstations. Businesses are increasingly using fiber optic backbones to cable their enterprise networks to meet these needs.

- o Government Agencies. Government agencies tend to have large buildings or

complexes, many people, and the need to access and process large quantities of data. Like commercial institutions, these routinely include high performance LANs with fiber optic segments in the backbone. Security may also be desired, and therefore, optical fiber to the desk or workstation may be implemented.

- o Industrial and Manufacturing Facilities. Industrial and manufacturing facilities typically have a more severe environment than other types of businesses with heavy electrical equipment. Fiber optic cable in this environment offers: immunity to electrical noise, ruggedness, high information carrying capacity and greater distance capability. Our products are installed in automotive assembly plants, steel plants, chemical and drug facilities, petrochemical facilities and petroleum refineries, mines and other similar environments.

- o Original Equipment Manufacturers. Original equipment manufacturers typically manufacture fiber optic cable assemblies, which are short lengths of fiber optic cable pre-terminated with connectors. Supporting virtually all segments of the market, these manufacturers consume large quantities of fiber optic cables, which are often privately labeled.

- o Military. Our core technologies enable us to develop and efficiently produce fiber optic cables for military tactical applications that survive extreme mechanical and environmental conditions.

- o Telephone Companies. We have worked with several regional bell operating companies and competitive local exchange carriers to help them meet their business customers' requirements. As high bandwidth services of the information highway are brought closer to more homes and businesses, the bandwidth provided by optical fiber becomes more important, and our tight buffer, rugged designs become the most appropriate fiber optic cable for applications.

- o Internet Infrastructure Companies. Fiber optic cables are favored in many Internet infrastructure applications, including storage area networks and riser management systems that feed data to multiple clients in a facility by means of a fiber optic network. Distribution of high bandwidth to support growing clusters of DSL users and high speed fiber optic cable modems require fiber optic cables.

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

#### SALES AND MARKETING

We use a combination of employee sales staff, dedicated sales representatives, multi-line sales representatives and distributors to serve and attract customers both domestically and in over 65 countries. We believe

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it is important to maintain customer diversity in order to avoid dependence on any particular segment of the economy or area of the world. Our international net sales in fiscal years 2001, 2000 and 1999 were, \$14.1 million, \$12.3 million and \$10.0 million, respectively, or 23.3%, 21.2% and 19.7% of our net sales. International sales are made primarily through foreign distributors, system integrators and value-added resellers.

The decision to purchase our products may be made by end-users, distributors, electrical contractors, system integrators, or specialized installers and influenced by architects, engineers and consultants. We strive to reach and influence decision-makers by advertising in fiber optic trade journals and other communications magazines. We also participate in numerous domestic and international trade shows attended by customers and prospective customers.

Selling sophisticated and technologically advanced products requires on-going interaction with customers and a focused effort by the sales and marketing group during the product selection process. Our field sales force consists of employees and dedicated and multi-line sales representatives located in various geographic areas. For more in-depth technical support, the sales group has access to engineering and quality control with extensive fiber optic cable expertise and industry experience.

#### MANUFACTURING AND SUPPLIERS

We have developed considerable expertise in fiber optic cable design, manufacturing and production processes that enable us to produce high performance fiber optic cables cost effectively. Our proprietary manufacturing software and hardware provides us with automated and technically precise manufacturing capabilities which enable us to rapidly respond to customer requests for additional or unique products. Many of our important technological advances result from our ability to closely monitor, modify and refine our production process.

Our manufacturing operations consist of applying a variety of raw plastic materials to optical fibers. The key raw material in the manufacture of our products is optical fiber, which we primarily purchase from four manufacturers with other sources available. We work closely with our vendors to ensure a continuous supply. We have two sources for aramid yarns and several suppliers of plastic coating materials.

An important factor in our success is our ability to deliver product on time. Therefore, we work to obtain adequate supplies of raw materials in a timely manner from existing or, when necessary, alternate sources. Any disruption in the supply of raw materials could adversely affect our fiber optic cable production capability and our operating results. Some of our suppliers of optical fiber are also our competitors. We believe that we carry a sufficient supply of raw materials and finished goods inventory to deal with short-term disruptions in supply of raw materials and to meet customer orders promptly.

Our quality control procedures have been instrumental in achieving high performance and reliability in our products. Since January 1994, our 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 9001 is the highest level of accreditation and includes an assessment of 20 elements covering various aspects of design, development, distribution and production of fiber optic cables. We must continue to comply with these standards to maintain our certification.

#### COMPETITION

The market for fiber optic cable is highly competitive. There are approximately five leading producers of fiber optic cables in the United States. In general, these companies primarily supply loose tube fiber optic cables, but they also produce large volumes of

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tight-buffered fiber optic cables. Corning Cabling Systems and OFS Brightwave (formerly Lucent Technologies) are the dominant producers of fiber optic cables for the long-haul market and are principal suppliers of optical fiber worldwide. In the market for tight-buffered fiber optic cables supplying the short to moderate distance market, we compete with Corning Cabling Systems and OFS Brightwave, as well as other domestic and international companies such as Alcatel, Draka, General Cable, Pirelli Mohawk/CDT and CommScope.

We also compete with producers of copper wire cable on the basis of cost and performance tradeoffs. The cost of the electro-optical interfaces required for the fiber optic networks and higher speed electronics generally associated with high performance fiber optic networks can make them less desirable for use in applications where the advantages of fiber optic cables are not required. We also compete with producers of other alternative transmission media, including wireless and satellite communications. As fiber optic components continue to improve in performance while costs decrease, fiber optic networks become a more cost effective solution, especially with the increasing demand for higher transmission speeds or bandwidth.

We believe that we compete successfully against our competitors on the basis of:

- o breadth of product features;
- o quality;
- o ability to meet delivery schedules;
- o technical support and service; and
- o total cost of installation and ownership.

Maintaining these competitive advantages requires continued investment in product development and sales and marketing. There can be no assurance that we will have sufficient resources to make these investments or that we will be able to make the technological advances necessary to maintain our competitive position. An increase in competition could have a material adverse effect on our 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.

Many of our competitors have substantially greater financial, marketing, technical, human and other resources than us, and greater brand recognition and market share which may give them competitive advantages, including the ability to negotiate lower prices on raw materials than those available to us. We cannot assure you that we will be able to compete successfully with existing or future competitors or that competitive pressures will not seriously harm our business, operating results and financial condition.

#### INTELLECTUAL PROPERTY

Our current manufacturing processes and products are not protected by patents. We rely on a combination of trade secret and technical measures to establish and protect our production technology rights. This protection may not deter misappropriation or stop competitors from developing production techniques or equipment with features identical, similar, or even superior to us.

We consider our proprietary knowledge of the development and manufacture of fiber optic cables to be a valuable asset. This expertise enables us to formulate new fiber optic 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. We restrict access to our manufacturing facility and engineering documentation to maintain security.

We believe that none of our products, trademarks or other proprietary rights infringes upon the proprietary rights of others. There can be no assurance,

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however, that third parties will not assert infringement claims against us in the future with respect to our present or future products, which may require us to enter into license agreements or result in protracted and costly litigation, regardless of the merits of these claims.

#### EMPLOYEES

As of October 31, 2001, we employed a total of 201 persons on a full-time basis, including 40 in sales, marketing and customer service, 25 in engineering, product development and quality control, 113 in manufacturing, and 23 in finance and administration. None of our employees is represented by a labor union. We have experienced no work stoppages and believe our employee relations are good.

#### Item 2. Properties

Our principal administration, marketing, manufacturing, and product development facilities are located in a 148,000 square foot building adjacent to the Roanoke, Virginia airport and major trucking company facilities. We also lease a 385 square foot sales office in Fort Wayne, Indiana. We believe that we are currently operating at approximately 60% of our production capacity.

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#### Item 3. Legal Proceedings.

On September 27, 2000, the Equal Employment Opportunity Commission ("EEOC") filed a lawsuit under Title VII of the Civil Rights Act against the Company in the United States District Court for the Western District of Virginia. The lawsuit alleged a pattern or practice of discrimination on the bases of gender and race. The

lawsuit sought injunctive and other relief and damages in an unspecified amount. On December 13, 2001, the parties reached an agreement as to the amount of a settlement (subject to final documentation and judicial review and approval), that affords both individual and class relief, without any admission of liability. Pursuant to this agreement, the Company will pay \$500,000 upon entry of a consent decree by the court, \$175,000 on the first anniversary and \$175,000 on the second anniversary of the consent decree, to satisfy any gender and race class claims, \$75,000 to one individual specifically named in the complaint, and at least \$75,000 for the Company's planned diversity, recruitment and human resource management programs over the term of the consent decree.

The Company, Mr. Robert Kopstein, our former Chairman, President and Chief Executive Officer, and various John Does (officers and/or directors of the Company during the class period) were named as defendants in three class action lawsuits filed in the United States District Court for the Western District of Virginia (the "Suits"). The first class action lawsuit was filed on November 26, 2001, by Charles S. Farrell, Jr., on behalf of himself and others similarly situated. The second class action lawsuit was filed on December 14, 2001, by Lerner Group, on behalf of itself and others similarly situated. The third class action lawsuit was filed on December 27, 2001, by Richard Simone, on behalf of himself and others similarly situated. In each of the substantially similar suits, the plaintiffs purport to represent purchasers of the Company's common stock during the period ranging from July 31, 2000, through October 8, 2001, (the "class period") and allege that the Company violated federal securities laws and made fraudulent and/or negligent misrepresentations and/or omissions. The plaintiffs in each of the Suits seek compensatory and exemplary damages in an unspecified amount, as well as reasonable costs and expenses incurred in the cause of action, including attorneys' fees and expert fees. Management intends to vigorously defend the Suits. The Company may, however, incur substantial costs in defending itself against the Suits, regardless of their merit or outcome.

The Company was named as a defendant in two lawsuits filed in the United States District Court for the Southern District of New York seeking to compel the Company to authorize the transfer agent to transfer unregistered, restricted stock on the Company's stock ledger. The first suit was filed on October 22, 2001 by Bear, Stearns & Co. Inc. and Bear, Stearns Securities Corporation, (collectively, "Bear Stearns"). The second suit was filed on October 26, 2001 by UBS PaineWebber Inc. ("PaineWebber"). In each case the plaintiffs sought injunctive relief with respect to transfers of shares of unregistered, restricted common stock of the Company sold in the course of liquidating brokerage accounts or repossessed shares of the former Chairman, President and Chief Executive Officer to cover personal margin loans to him. Each of the lawsuits contains a claim for damages caused by the alleged wrongful refusal by the Company to authorize the transfers in connection with the liquidations. On October 31, 2001, the Court in the Bear Stearns case entered an order directing the Company to authorize the stock transfers in connection with such transfers. In early November, the Company reached agreement with UBS PaineWebber pursuant to which the Company would authorize stock transfers in connection with the liquidation of unregistered, restricted stock of the Company held by PaineWebber upon the foreclosure of a brokerage account of the former officer. Neither of the cases has been dismissed; however, the Company believes that they will be resolved without any material liability on the part of the Company.

Item 4. Submission of Matters to a Vote of Security Holders.  
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There were no matters submitted to a vote of security holders during the fourth quarter of the year ended October 31, 2001.

## PART II

## Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.

Our Common Stock is traded on the Nasdaq National Market under the symbol "OCCF." As of October 31, 2001, there were approximately 7,841 shareholders of record. On January 25, 2002, our Common Stock closed at a price of \$1.26 per share.

The following table sets forth for the fiscal periods indicated the high and low bid prices of our Common Stock, as reported on the Nasdaq National Market, during the two most recent fiscal years:

## RANGE OF BID PRICES

FISCAL YEAR ENDED OCTOBER 31, 2001

	HIGH	LOW
First Quarter (November 1, 2000 to January 31, 2001)	\$17.94	\$8.50
Second Quarter (February 1 to April 30, 2001)	\$14.25	\$9.06
Third Quarter (May 1 to July 31, 2001)	\$14.05	\$7.10
Fourth Quarter (August 1 to October 31, 2001)	\$9.35	\$1.06

## RANGE OF BID PRICES

FISCAL YEAR ENDED OCTOBER 31, 2000

	HIGH	LOW
First Quarter (November 1, 1999 to January 31, 2000)	\$32.15	\$7.08
Second Quarter (February 1 to April 30, 2000)	\$44.92	\$12.92
Third Quarter (May 1 to July 31, 2000)	\$25.67	\$12.50
Fourth Quarter (August 1 to October 31, 2000)	\$24.88	\$11.14

We have not paid or declared any cash dividends on our common stock since our initial public offering in April 1996 and do not expect to do so in the foreseeable future. We currently intend to retain future earnings, if any, to finance the expansion of our business.

We did declare a rights dividend in connection with the adoption of our shareholders' rights plan on November 2, 2001. See Note 12 to the financial statements for additional details.

## Item 6. Selected Financial Data.

OPTICAL CABLE CORPORATION  
Selected Financial Information  
(in thousands, except per share data and footnotes)

Years Ended October 31,

2001	2000	1999	1998	1997
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Statement of Operations Information:

Net sales	\$ 60,405	\$ 58,219	\$ 50,699	\$ 50,589	\$ 52,189
Cost of goods sold	35,983	30,878	27,547	29,330	30,613
	-----	-----	-----	-----	-----
Gross profit	24,422	27,341	23,152	21,259	21,576
Selling, general and administrative expenses	17,131	15,024	10,799	9,939	9,572
	-----	-----	-----	-----	-----
Income from operations	7,291	12,317	12,353	11,320	12,004
Other income (expense):					
Gains (losses) on trading securities, net (1)	(11,414)	289	--	--	--
Interest income (expense), net	(318)	173	202	55	(3)
Other, net	9	(45)	(36)	2	(44)
	-----	-----	-----	-----	-----
Income (loss) before income tax expense	(4,432)	12,734	12,519	11,377	11,957
Income tax expense (2)	2,297	4,479	4,214	4,107	4,150
	-----	-----	-----	-----	-----
Net income (loss)	\$ (6,729)	\$ 8,255	\$ 8,305	\$ 7,270	\$ 7,807
	=====	=====	=====	=====	=====
Net income (loss) per share:					
Basic	\$ (0.12)	\$ 0.15	\$ 0.15	\$ 0.13	\$ 0.14
	=====	=====	=====	=====	=====
Diluted	\$ (0.12)	\$ 0.15	\$ 0.15	\$ 0.13	\$ 0.13
	=====	=====	=====	=====	=====
Weighted average shares:					
Basic	56,156	56,307	56,504	57,431	58,013
	=====	=====	=====	=====	=====
Diluted	56,346	56,758	56,865	57,863	58,526
	=====	=====	=====	=====	=====
Balance Sheet Information:					
Cash and cash equivalents	\$ 2,088	\$ 1,459	\$ 6,817	\$ 1,122	\$ 986
Trading securities	--	17,983	--	--	--
Working capital	14,205	31,986	21,980	18,991	19,912
Total assets	42,798	52,688	37,512	32,829	35,214
Short-term borrowings	8,271	5,659	--	--	--
Total stockholders' equity	27,865	43,508	32,847	29,991	31,379

- (1) In January 2000, we began actively buying and selling shares in the Nasdaq 100 Trust, which is designed to closely track the price and yield performance of the Nasdaq 100 stock index. Our active trading in the Nasdaq 100 Trust continued through May 14, 2001, the date of the last purchase of these shares. On October 3, 2001, as part of a policy to invest future excess funds only in short-term interest-bearing investments, we sold all of our remaining investment in the Nasdaq 100 Trust and paid off the outstanding margin borrowings. For accounting purposes, we categorized our investment in the Nasdaq 100 Trust as trading securities, and we recorded the investment on our balance sheet at fair value, which was based on quoted market prices. Realized and unrealized net gains or losses were included in other income (expense), net.
- (2) The effect of establishing a valuation allowance against our deferred tax assets relating to the capital loss carryforward generated by the sale of our trading securities during fiscal year 2001 resulted in an increase in income tax expense of approximately \$4.1 million for fiscal year 2001. See note 9 of the notes to the financial statements for further information on income taxes.

Item 7. Management's Discussion and Analysis of Financial Condition and Result  
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of Operations  
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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, statements concerning our outlook for the

future, statements of belief, future plans, strategies or anticipated events, and similar information and statements concerning matters that are not historical facts. The forward-looking information is subject to risks and uncertainties that may cause actual events to differ materially from our expectations. Factors that could cause or contribute to such differences include, but are not limited to, the level of sales to key customers or distributors; the economic conditions affecting network service providers; the slowdown in corporate spending on information technology; actions by competitors; fluctuations in the price of raw materials (including optical fiber); our dependence on a single manufacturing facility; our ability to protect our proprietary manufacturing technology; market conditions influencing prices or pricing; our dependence on a limited number of suppliers; volume commitments made to certain of our suppliers; an adverse outcome in litigation, claims and other actions, and potential litigation, claims and other actions against us, including, but not limited to, the shareholder litigation that has been filed and other claims related to actions of our former Chairman, President and Chief Executive Officer; the effect of sales of common stock by the various brokerage firms alleging that our former Chairman, President and Chief Executive Officer pledged substantially all of his personally-held unregistered shares of the Company to cover personal margin loans; technological changes and introductions of new competing products; the current recession; terrorist attacks or acts of war, particularly given the acts of terrorism against the United States on September 11, 2001 and subsequent military responses by the United States; ability to retain key personnel; changes in market demand; exchange rates; productivity; weather; and market and economic conditions in the areas of the world in which the Company operates and markets its products.

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

#### Overview

We are a leading manufacturer of a broad range of tight-buffered fiber optic cables primarily for the local area network and premise markets, often referred to as the enterprise market. Our tight-buffered fiber optic cables are well-suited for use in short to moderate distance applications to connect metropolitan, access and enterprise networks. Our tight-buffered fiber optic cables are derived from technology originally developed for military applications requiring rugged, flexible and compact fiber optic cables. Our tight-buffered fiber optic cables can be used both indoors and outdoors, are easy and economical to install, provide a high degree of reliability and offer industry leading performance characteristics. We have designed and implemented an efficient and automated manufacturing process based on proprietary technologies. This enables us to produce high quality indoor/outdoor tight-buffered fiber optic cable rapidly and cost efficiently.

We sell our products through our sales force to original equipment manufacturers and to major distributors, regional distributors and various smaller distributors. In fiscal years 2001, 2000 and 1999, 49.6%, 58.0% and 63.2% of our net sales were from sales to our distributors. International net sales were 23.3%, 21.2% and 19.7% in fiscal years 2001, 2000 and 1999. Substantially all of our international sales are denominated in U.S. dollars.

Net sales consist of gross sales of products, less discounts, refunds and returns. Revenue is recognized at the time of product shipment or delivery to the customer and the customer takes ownership and assumes risk of loss, based on shipping terms. In fiscal year 2001, 13.6% of our net sales were attributable to one major domestic distributor. In fiscal years 2000 and 1999, this same distributor accounted for 12.5% and 15.8% of our net sales, respectively. Subsequent to October 31, 2001, this distributor advised us that it will no longer stock our products as part of its regular product offering. In fiscal years 2000 and 1999, 15.5% and 14.8% of our net sales were attributable to a second major distributor. This second distributor filed for protection from its creditors under bankruptcy laws in January 2001. As of October 31, 2000, we reserved and expensed approximately \$1.8 million for estimated uncollectible accounts receivable from this second distributor. As of January 31, 2001, we wrote off that \$1.8 million reserve as well as expensed an additional \$419,000, for a total expense of \$2.2 million for estimated uncollectible accounts receivable from this distributor over fiscal years 2001 and 2000. Other than these two distributors, no single customer accounted for more than 10% of our net sales in fiscal years 2001, 2000 or 1999.

A significant percentage of the selling price of our fiber optic cable is based on the cost of raw materials used. Because single-mode fiber is less expensive than multimode fiber, single-mode fiber optic cables have a lower per unit selling price than comparable multimode fiber optic cables. We believe that the metropolitan and access markets are predominantly users of single-mode fiber optic cable, and that increasingly, single-mode fiber is also being used for other short to moderate distance installations. To the extent that our product mix shifts toward single-mode cables (whether or not as a result of a shift in our sales mix shifts toward the metropolitan and access markets), we will have to increase the volume of our sales to maintain our current level of net sales. Although we currently have excess capacity, increased volume may require us to expand our manufacturing capacity more rapidly.

Cost of goods sold consists of the cost of materials, compensation costs, product warranty costs and overhead related to our manufacturing operations. The largest percentage of costs included in cost of goods sold is attributable to costs of materials which are variable as opposed to fixed costs. As a result, cost of goods sold typically changes in proportion to increases and decreases in net sales.

Selling, general and administrative expenses consist of the compensation costs for sales and marketing personnel, shipping costs, travel expenses, customer support expenses, trade show expenses, advertising, bad debt expense, the compensation cost for administration, finance and general management personnel, as well as legal and accounting fees.

Other income (expense), net consists primarily of realized and unrealized net gains (losses) on trading securities, interest income and interest expense. In January 2000, we began actively buying and selling shares in the Nasdaq 100 Trust, which is designed to closely track the price and yield performance of the Nasdaq 100 stock index. We utilized short-term margin borrowings payable to an investment broker to finance our position in these trading securities. Our margin borrowings were collateralized by the trading securities and were subject to margin provisions, which could have resulted in the sale of some or all of, and on certain occasions did result in the sale of some of, the trading securities to meet margin calls. Our active trading in the Nasdaq 100 Trust continued through May 14, 2001, the date of the last purchase of these shares. On October 3, 2001, as part of a policy to invest future excess funds only in short-term interest bearing investments, we sold all of our remaining investment in the Nasdaq 100 Trust and paid off the outstanding margin borrowings. Our Board of Directors has adopted an Investment Objectives and Guidelines policy, in which we state that we will make no additional cash investments in the above-mentioned Nasdaq 100 Trust or in stocks of other companies. In addition, our Investment Objectives and Guidelines policy states that any future investments will be in U.S. dollar denominated, short-term, interest-bearing, investment-grade securities.

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For accounting purposes, we categorized our investment in the Nasdaq 100 Trust as trading securities, and we recorded the investment on our balance sheet at fair value, which was based on quoted market prices. Purchases and sales of trading securities were recognized on a trade-date basis, the date the order to buy or sell is executed. Net realized gains or losses were determined on the first-in, first-out cost method. We marked our investment to market on each balance sheet date. Any decline in fair value was recorded as an unrealized loss, while any increase in fair value was recorded as an unrealized gain. Realized gains and losses and unrealized holding gains and losses for trading securities were included in other income (expense), net.

In fiscal year 2001, we recognized realized net losses of \$11.4 million in connection with our securities trading activities in other expense, net. In fiscal year 2001, we incurred interest expense of \$305,000 on the margin borrowings. As of October 31, 2001, we held no trading securities in accordance with our current investment policy and had no outstanding margin borrowings.

In fiscal year 2000, we recognized realized and unrealized net gains of \$289,000 in other income, net and continued to hold approximately \$18.0 million of these trading securities as of October 31, 2000. The amount of net unrealized holding loss included in other income, net in fiscal year 2000 was \$500,000. As of October 31, 2000, we had short-term margin borrowings of \$5.7 million payable to an investment broker related to the trading securities. We incurred interest expense of \$57,000 on the margin borrowings in fiscal year 2000.

## Results of Operations

The following table sets forth selected line items from our statements of operations as a percentage of net sales for the periods indicated:

	Years Ended October 31,		
	2001	2000	1999
Net sales	100.0 %	100.0%	100.0%
Cost of goods sold	59.6	53.0	54.3
Gross profit	40.4	47.0	45.7
Selling, general and administrative expenses	28.3	25.8	21.3
Income from operations	12.1	21.2	24.4
Other income (expense), net	(19.4)	0.7	0.3
Income (loss) before income tax expense	(7.3)	21.9	24.7
Income tax expense	3.8	7.7	8.3
Net income (loss)	(11.1)%	14.2%	16.4%

Net Sales. Net sales increased 3.8% from \$58.2 million in fiscal year 2000 to \$60.4 million in fiscal year 2001. This increase was attributable to record net sales during our first and second quarters of fiscal year 2001, substantially offset by lower sales in the third and fourth quarters. The decrease in net sales in the third and fourth quarters resulted from the impact of weak economic conditions on market demand, as the industries we serve reduced or delayed capital spending. During fiscal year 2001, a decrease in demand for cable containing multimode fiber (which typically has a higher relative sales price) was partially offset by an increase in demand for cable containing single-mode fiber (which typically has a lower relative sales price). Total fiber meters shipped increased 9.8% from 199.3 million fiber meters shipped in fiscal year 2000, to 218.8 million fiber meters shipped in fiscal year 2001. This net increase in fiber meters shipped was a result of a 5.2 million decrease in multimode fiber meters shipped and a 24.7 million increase in single-mode fiber meters shipped. Cable containing multimode fiber is generally used for communications over shorter distances where the higher bandwidth capacity and the higher transmission equipment cost of single-mode fiber is not required. Multimode fiber cable is often used in datacom applications. Cable containing single-

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mode fiber is generally used for communications over longer distances and where higher bandwidth capacity is required. Single-mode fiber cable is often used in telecom, CATV and various internet applications. Net sales increased 14.8% from \$50.7 million in fiscal 1999 to \$58.2 million in fiscal 2000. This increase was attributable to increased sales volume. Total fiber meters shipped increased 18.5% from 168.2 million during fiscal year 1999 to 199.3 million shipped for the same period in 2000. This increase in fiber meters shipped was a result of a 13.8 million increase in multimode fiber meters shipped and a 17.3 million increase in single-mode fiber meters shipped.

Gross Profit. Gross profit decreased 10.7% from \$27.3 million in fiscal year 2000 to \$24.4 million in fiscal year 2001. Gross margin, or gross profit as a percentage of net sales, was 47.0% in fiscal year 2000 compared to 40.4% in fiscal year 2001. This decrease in gross margin is primarily attributable to adjustments booked in the fourth quarter of fiscal year 2001 that increased cost of goods sold. These adjustments included a \$1.2 million write-down of slow moving and impaired inventory to net realizable value, the disposal of \$197,000 of impaired finished goods inventory during the fourth quarter of fiscal year 2001, and adjustments of approximately \$1.3 million caused by book to physical variances resulting from year-end physical inventory counts, a substantial

portion of which related to work-in-process inventories. Net sales to distributors were 58.0% of net sales in fiscal year 2000 compared to 49.6% in fiscal year 2001, while during fiscal year 2001 there was an increase in the ratio of large orders to total orders. Gross profit increased 18.1% from \$23.2 million in fiscal year 1999 to \$27.3 million in fiscal year 2000. Gross margin was 45.7% in fiscal year 1999 compared to 47.0% in fiscal year 2000. This slight increase was due to the impact of the decrease in the ratio of large orders, the decrease in the ratio of net sales attributable to our distributors and reduced raw fiber prices during the year. Net sales to distributors were 63.2% of total net sales in fiscal year 1999 compared to 58.0% in fiscal year 2000.

Selling, General and Administrative. Selling, general and administrative expenses increased 14.0% from \$15.0 million in fiscal year 2000 to \$17.1 million in fiscal year 2001. Selling, general and administrative expenses as a percentage of net sales were 25.8% in fiscal year 2000 compared to 28.3% in fiscal year 2001. This increase is partly attributable to various charges incurred during the fourth quarter of fiscal year 2001, including a \$902,000 charge for an anticipated settlement with the Equal Opportunity Commission (EEOC) for alleged prior discriminatory practices and related complaints (on December 13, 2001 we reached an agreement with the EEOC as to the amount of a settlement, but it is subject to final documentation and judicial review and approval), a \$411,000 charge to write off deferred costs related to the aborted securities offering previously anticipated during fiscal year 2001, and a \$102,000 charge for costs related to a business development project. In addition, legal expenses for fiscal year 2001 totaled \$705,000 compared to \$250,000 in fiscal year 2000. Also contributing to the increase in selling, general and administrative expenses in fiscal year 2001 were higher other professional fees. Bad debt expense for fiscal year 2001 totaled \$1.1 million, of which \$508,000 related to an increase in the bad debt reserve in the fourth quarter and \$419,000 related to one of our distributors that filed for protection from its creditors under the bankruptcy laws in January 2001. By comparison bad debt expense for fiscal year 2000 totaled \$2 million, of which \$1.8 million related to a specific reserve for estimated uncollectible accounts receivable from that same bankrupt distributor. Selling, general and administrative expenses increased 39.1% from \$10.8 million in fiscal year 1999 to \$15.0 million in fiscal year 2000. Selling, general and administrative expenses as a percentage of net sales were 21.3% in fiscal year 1999 compared to 25.8% in fiscal year 2000. This increase was primarily the result of an increase in bad debt expense of \$2 million. This increase is primarily attributable to a \$1.8 million specific reserve for estimated uncollectible accounts receivable from one of our distributors that filed for protection from its creditors under the bankruptcy laws in January 2001. Other factors that contributed to the increase in selling, general and administrative expenses in fiscal year 2000 include an increase in our sales force, the continued expansion of marketing efforts and an increase in legal fees associated with the EEOC litigation and related complaints that had been filed against us with the EEOC.

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Income from Operations. Income from operations decreased 40.8% from \$12.3 million in fiscal year 2000 to \$7.3 million in fiscal year 2001. This decrease was due to the \$2.9 million decrease in gross profit and the \$2.1 million increase in selling, general and administrative expenses. Income from operations decreased 0.3% from \$12.4 million in fiscal year 1999 to \$12.3 million in fiscal year 2000. This slight decrease was due to the \$4.2 million increase in gross profit, offset by the \$4.2 million increase in selling, general and administrative expenses.

Other Income (Expense), Net. Other income, net decreased from \$417,000 in fiscal year 2000 to other expense, net of \$(11.7) million in fiscal year 2001. This decrease was primarily due to losses on our trading securities. We recognized gains on trading securities, net of \$289,000 in fiscal year 2000 compared to losses on trading securities, net of \$11.4 million in fiscal year 2001. In addition, in fiscal year 2000, we incurred interest expense of \$57,000, compared to \$363,000 in fiscal year 2001. Also, interest income was \$184,000 lower in fiscal year 2001 when compared to fiscal year 2000. Please see our discussion of trading securities in "Overview" above. Other income, net increased 151.3% from \$166,000 in fiscal year 1999 to \$417,000 in fiscal year 2000. We began investing in trading securities and recognized related gains on trading securities, net of \$289,000 in other income, net for fiscal year 2000. The increase in other income, net resulting from gains on trading securities, net was partially offset by interest expense of \$57,000 on short-term margin borrowings related to the trading securities.

Income (Loss) Before Income Tax Expense. Income (loss) before income tax expense decreased from \$12.7 million in fiscal year 2000 to \$(4.4) million in fiscal year 2001. This decrease was primarily due to the \$11.4 million losses on trading securities, net and the \$2.1 million increase in selling, general and administrative expenses, and the \$2.9 million decrease in gross profit. Income before income tax expense increased 1.7% from \$12.5 million in fiscal year 1999 to \$12.7 million in fiscal year 2000. This increase was primarily due to increases in sales volume, gross profit and other income, net, partially offset by the \$4.2 million increase in selling, general and administrative expenses.

Income Tax Expense. Income tax expense decreased 48.7% from \$4.5 million in fiscal year 2000 to \$2.3 million in fiscal year 2001. Notwithstanding the loss before income taxes during fiscal year 2001, we reported income tax expense in fiscal year 2001 rather than an income tax benefit, due to the establishment of a valuation allowance for deferred tax assets in the amount of \$4.1 million relating to the capital loss carryforward generated by the sale of our trading securities during fiscal year 2001. As of October 31, 2001, this valuation allowance was established because we believe it is more likely than not that we will not be able to generate future taxable capital gains to realize the benefit of our deferred tax asset related to the capital loss carryforward generated by our securities trading losses. In addition, the capital loss carryforward may be limited due to certain stock ownership changes. In order to fully realize this deferred tax asset, we would need to generate future taxable capital gains of approximately \$11.1 million prior to the expiration of the capital loss carryforward in 2006. Income tax expense increased 6.3% from \$4.2 million in fiscal year 1999 to \$4.5 million in fiscal year 2000. Our effective tax rate was 33.7% in fiscal year 1999 compared to 35.2% in fiscal year 2000. Fluctuations in our effective tax rates are due primarily to the amount and timing of the tax benefits related to our Extraterritorial Income Exclusion and foreign sales corporation which exempts from federal income taxation a portion of the net profit realized from sales outside of the United States of products manufactured in the United States.

Net Income (Loss). Net income decreased from \$8.3 million in fiscal year 2000 to a net loss of \$(6.7) million in fiscal year 2001. This decrease was primarily due to the \$11.4 million in losses on trading securities, net and the \$2.1 million increase in selling, general and administrative expenses, the \$2.9 million decrease in gross profit, partially offset by the \$2.2 million decrease in income tax expense. Net income decreased \$50,000 from fiscal year 1999 to \$8.3 million in fiscal year 2000. This slight decrease was due to the increase in selling, general and administrative expenses and the \$265,000 increase in income tax expense, partially offset by the increases in sales volume, gross margin and other income, net.

#### Liquidity and Capital Resources

Our primary capital needs have been to fund working capital requirements and capital expenditures. Our primary source of capital for these purposes has been cash provided from operations and borrowings under our bank lines of credit described below. The outstanding balance under our lines of credit totaled \$8.3 million as of the end of fiscal year 2001. There was no balance outstanding under our lines of credit as of the end of fiscal year 2000. During the course of fiscal year 2001, we also used \$9.3 million to repurchase shares of our common stock under our share repurchase program described below.

Our cash and cash equivalents totaled \$2.1 million as of October 31, 2001, an increase of \$629,000, compared to \$1.5 million as of October 31, 2000. The cash and cash equivalents increase in fiscal year 2001 was primarily due to cash provided by operating activities of \$3.9 million (which includes the liquidation of all trading securities on October 3, 2001, as part of a policy to invest future excess funds only in short-term interest-bearing investments and the pay off of all margin borrowings in connection with the securities trading), and borrowings under our bank lines of credit in the amount of \$8.3 million, which was partially offset by the purchase of property and equipment totaling \$2.5 million and the repurchase of common stock totaling \$9.3 million related to our common stock repurchase program.

On October 31, 2001, we had working capital of \$14.2 million, compared to \$32.0 million as of October 31, 2000, a decrease of \$17.8 million. The ratio of current assets to current liabilities as of October 31, 2001, was 2.0 to 1, compared to 4.6 to 1 as of October 31, 2000. The change in working capital was primarily caused by a decrease in trading securities of \$18.0 million, a

decrease in trade accounts receivable, net of \$679,000, an increase in the amount payable under our bank lines of credit of \$8.3 million and an increase in accounts payable and accrued expenses of \$3.1 million, partially offset by an increase in inventories of \$6.5 million and a decrease in the amount payable to investment broker of \$5.7 million.

Net cash provided by operating activities was \$3.9 million in fiscal year 2001. Net cash used in operating activities was \$5 million in fiscal year 2000. Net cash provided by operating activities was \$11.9 million for fiscal year 1999. Net cash provided by operating activities in fiscal year 2001 was primarily affected by the sale of approximately \$18.0 million in trading securities resulting in a realized loss of \$11.4 million, cash provided by operating income, and an increase in accounts payable and accrued expenses and other liabilities of \$3.6 million, partially offset by an increase in inventories of \$6.5 million and a decrease in the amount payable to investment broker of \$5.7 million. For fiscal year 2000, net cash used in operating activities was primarily affected by the net purchase of approximately \$18.5 million in trading securities, an increase in trade accounts receivable of \$3.0 million, and a decrease in accounts payable and accrued expenses of \$1.1 million, partially offset by cash provided by operating income, realized net gains on trading securities of \$788,000, a decrease in inventories of \$1.2 million and an increase in amounts payable to investment broker of \$5.7 million. Net cash provided by operating activities in fiscal year 1999 was primarily provided by operating income, a decrease in inventory of \$1.2 million and an increase in accounts payable and accrued expenses of \$1.3 million. We have entered into written agreements to purchase raw optical fiber. These commitments total \$12.2 million, \$14.1 million, \$8.6 million, and \$1.2 million in fiscal years 2002, 2003, 2004 and 2005, respectively.

Net cash used in investing activities totaled \$2.6 million, \$1.4 million and \$553,000 for fiscal years 2001, 2000 and 1999. Net cash used in investing activities was mainly for expenditures related to facilities and equipment for fiscal years 2001, 2000 and 1999. There are no material commitments for capital expenditures as of October 31, 2001.

Net cash used in financing activities was \$715,000 for fiscal year 2001. Net cash provided in financing activities was \$1 million for fiscal year 2000. Net cash used in financing activities was \$5.7 million for fiscal

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year 1999. Net cash used in financing activities for the fiscal year 2001 was primarily the result of \$9.3 million used to repurchase shares of our common stock, partially offset by an \$8.3 million increase in our bank lines of credit. Net cash provided by financing activities for fiscal year 2000 was primarily related to proceeds received from the exercise of employee stock options. Net cash used in financing activities for fiscal year 1999 was primarily related to the repurchase of shares of our common stock.

On September 27, 2000, the EEOC filed a lawsuit under Title VII of the Civil Rights Act against us in the United States District Court for the Western District of Virginia. The lawsuit alleges a pattern or practice of discrimination on the bases of gender and race. The lawsuit seeks injunctive and other relief and damages in an unspecified amount. On December 13, 2001, the parties reached an agreement as to the amount of a settlement (subject to final documentation and judicial review and approval) that affords both individual and class relief, without any admission of liability. Pursuant to this agreement, we will pay \$500,000 upon entry of a consent decree by the court, \$175,000 on the first anniversary and \$175,000 on the second anniversary of the consent decree to satisfy any gender and race class claims; \$75,000 to one individual specifically named in the complaint; and at least \$75,000 for our planned diversity, recruitment, and human resource management programs over the term of the consent decree.

The Company, Mr. Robert Kopstein, our former chairman, president, chief executive officer and majority shareholder, and various John Does (our officers and/or directors during the class period) were named as defendants in three class action lawsuits filed in the United States District Court for the Western District of Virginia. In each of the substantially similar suits, the plaintiffs purport to represent purchasers of our common stock during the period ranging from July 31, 2000 through October 8, 2001, and allege that we violated federal securities laws and made fraudulent and/or negligent misrepresentations and/or omissions. The plaintiffs in each of these lawsuits seek compensatory and exemplary damages in an unspecified amount, as well as reasonable costs and

expenses incurred in the causes of action, including attorneys' fees and expert fees. Management intends to vigorously defend these lawsuits. We may, however, incur substantial costs in defending ourselves against the lawsuits, regardless of their merit or outcome. At this early stage in the lawsuits, management cannot make a reasonable estimate of the monetary amount of their resolution or estimate a range of reasonably possible losses, if any. If we are unsuccessful in defending these lawsuits, we could be subject to damages that may be substantial and could have a material adverse affect on our financial position, results of operations or liquidity.

We were named as a defendant in two lawsuits filed in United States District Court for the Southern District of New York seeking to compel us to authorize our transfer agent to transfer unregistered, restricted stock on our stock ledger. The first suit was filed on October 22, 2001, by Bear, Stearns & Co. Inc. and Bear, Stearns Securities Corporation (collectively, "Bear Stearns"). The second suit was filed on October 26, 2001, by UBS PaineWebber Inc. ("PaineWebber"). In each case the plaintiffs sought injunctive relief with respect to transfers of shares of unregistered, restricted common stock of Optical Cable Corporation sold in the course of liquidating brokerage accounts or repossessed shares of our former Chairman, President, Chief Executive Officer and majority shareholder to cover personal loans to him. Each of the lawsuits contains a claim for damages caused by the alleged wrongful refusal by us to authorize the transfers in connection with the liquidation. On October 31, 2001, the court in the Bear Stearns case entered an order directing us to authorize the stock transfers sought by Bear Stearns and imposing certain conditions on Bear Stearns in connection with such transfers. In early November 2001, we reached an agreement with PaineWebber pursuant to which we would authorize stock transfers in connection with the liquidation of unregistered, restricted stock held by PaineWebber upon the foreclosure of a brokerage account of the former officer. Neither of the cases has been dismissed; however, management believes that these

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suits will be resolved without any material liability. Management also believes that any claim that we improperly interfered with the sale or transfer of the unregistered, restricted shares is without merit.

In October 1997, our Board of Directors authorized the initiation of a stock repurchase program whereby we could repurchase shares of our common stock in open market or in privately negotiated transactions. From time to time, our Board of Directors increased the total dollar amount of the stock repurchase program, which was eventually increased to \$25 million. Through October 31, 2001, we had repurchased 3.2 million shares of our common stock for approximately \$24.1 million under this stock repurchase program. The repurchases were funded through operating cash flow and borrowings under our lines of credit. During fiscal year 2001, we repurchased 1.1 million shares of our common stock in open market transactions at a total cost of \$9.3 million. Effective September 20, 2001, we ceased the repurchase of shares of our common stock under the share repurchase program.

Under a loan agreement with our bank dated March 10, 1999, we had \$5 million secured revolving line of credit and a \$10 million secured revolving line of credit. The lines of credit are subject to certain restrictive covenants. During fiscal year 2001, we violated certain restrictive covenants. Effective October 30, 2001, the bank waived our defaults under the loan agreement, amended the loan agreement and reduced the \$10 million line of credit to \$4.5 million for a maximum combined availability of \$9.5 million. As of October 31, 2001, we had combined outstanding borrowings under these lines of credit in the amount of \$8.3 million, with \$1.2 million unused and available. The lines of credit bear interest at 1.5% above the monthly LIBOR rate (3.79% at October 31, 2001) and are equally and ratably collateralized by our accounts receivable, contract rights, inventory, furniture and fixtures, machinery and equipment and general intangibles. The lines of credit will expire on March 31, 2002, unless they are further renewed or extended. We are currently negotiating potential lines of credit of \$15 to \$20 million with a number of financial institutions, including our bank, to replace our current lines of credit. We believe that our cash flow from operations, current cash balances, and the lines of credit we are working to put in place will be adequate to fund our operations for at least the next twelve months.

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## Recent Developments

On December 3, 2001, the Company issued a press release that announced that, upon the recommendation of an independent Special Committee of its Board of Directors (the "Special Committee"), the Board of Directors had removed Robert Kopstein as the Company's Chairman, President and Chief Executive Officer. We have offered Mr. Kopstein to consider entering into a consulting arrangement with us and are currently in discussions with him.

On October 31, 2001, we announced that the Special Committee had retained C.E. Unterberg, Towbin ("Unterberg") as the exclusive financial advisor to the Company and the Special Committee. On January 17, 2002, our Board of Directors dissolved the Special Committee, however, we have continued to retain Unterberg with respect to certain strategic financial matters.

## New Accounting Standards

In July 2001, the FASB issued SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 requires the use of the purchase method of accounting for all business combinations. The use of the pooling-of-interests method is prohibited for business combinations initiated after June 30, 2001. SFAS No. 142 requires that goodwill and certain intangible assets would no longer be amortized, but rather be tested for impairment annually or whenever an event occurs indicating that the asset may be impaired. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001. Neither standard is expected to have a material effect on our financial position, results of operations or liquidity.

In August 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations, which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The standard applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and (or) normal use of the asset.

SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The fair value of the liability is added to the carrying amount of the associated asset and this additional carrying amount is depreciated over the life of the asset. The liability is accreted at the end of each period through charges to operating expense. If the obligation is settled for other than the carrying amount of the liability, an entity would recognize a gain or loss on settlement.

SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. We are currently evaluating the impact of SFAS No. 143 on our financial position, results of operations and liquidity.

In October 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 supersedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of; however, it retains many of the fundamental provisions of that Statement.

SFAS No. 144 also supersedes the accounting and reporting provisions of APB Opinion No. 30, Reporting the Results of Operations--Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, for the disposal of a segment of a business. However, it retains the requirement in APB No. 30 to report separately discontinued operations and extends that reporting to a component of an entity that either has been disposed of (by sale, abandonment, or in a distribution to owners) or is classified as held for sale. By broadening the presentation of discontinued operations to include more disposal transactions, the FASB has enhanced management's ability to provide information that helps financial statement users to assess the effects of a disposal transaction on the ongoing operations of an entity.

SFAS No. 144 is effective for fiscal years beginning after December 15, 2001 and interim periods within those fiscal years. Early application is encouraged. The provisions of SFAS No. 144 generally are to be applied prospectively. We

are currently evaluating the impact of SFAS No. 144 on our financial position, results of operations and liquidity.

As of October 31, 2001, there are no other new accounting standards issued, but not yet adopted by us, which are expected to be applicable to our financial position, operating results or financial statement disclosures.

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We do not engage in transactions in derivative financial instruments or derivative commodity instruments. As of October 31, 2001, our financial instruments were not exposed to significant market risk due to interest rate risk, foreign currency exchange risk, commodity price risk or equity price risk.

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Item 8. Financial Statements and Supplementary Data

OPTICAL CABLE CORPORATION

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Financial Statement Schedules

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Financial Statement Schedules:

All schedules are omitted as the required information is inapplicable or the information is presented in the financial statements or related notes thereto.

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, 2001 and 2000, and the related statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended October 31, 2001. 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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, 2001 and 2000, and the results of its operations and its cash flows for each of the years in the three-year period ended October 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

/s/KPMG LLP

Roanoke, Virginia  
December 14, 2001, except as to note 13,  
which is as of December 27, 2001

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OPTICAL CABLE CORPORATION  
Balance Sheets  
October 31, 2001 and 2000

Assets	October 31,	
	2001	2000
Current assets:		
Cash and cash equivalents	\$ 2,087,608	\$ 1,458,896
Trading securities	--	17,982,830
Trade accounts receivable, net of allowance for doubtful accounts of \$572,853 in 2001 and \$1,909,069 in 2000	10,678,214	11,357,522
Income taxes refundable	1,108,007	1,162,118
Other receivables	371,656	362,000
Due from employees, net of allowance for uncollectible advances of \$70,000 in 2001	35,018	2,890
Inventories	14,084,931	7,572,153
Prepaid expenses	185,831	112,794
Deferred income taxes	260,709	959,665
Total current assets	28,811,974	40,970,868
Other assets	367,469	261,937
Property and equipment, net	12,685,053	11,455,372
Deferred income taxes	933,801	--
Total assets	\$42,798,297	\$52,688,177
Liabilities and Stockholders' Equity		
Current liabilities:		
Notes payable to bank	\$ 8,271,000	\$ --
Accounts payable and accrued expenses	5,537,313	2,479,116
Accrued compensation and payroll taxes	798,203	847,572
Payable to investment broker related to securities trading	--	5,658,574
Total current liabilities	14,606,516	8,985,262
Other liabilities	326,553	--
Deferred income taxes	--	195,085
Total liabilities	14,933,069	9,180,347
Stockholders' equity:		
Preferred stock, no par value, authorized 1,000,000 shares; none issued and outstanding	--	--
Common stock, no par value, authorized 100,000,000 shares; issued and outstanding 55,431,279 shares in 2001 and 56,391,993 shares in 2000	--	6,893,579
Retained earnings	27,865,228	36,614,251
Total stockholders' equity	27,865,228	43,507,830
Commitments and contingencies		
Total liabilities and stockholders' equity	\$42,798,297	\$52,688,177

See accompanying notes to financial statements.

OPTICAL CABLE CORPORATION  
Statements of Operations  
Years Ended October 31, 2001, 2000 and 1999

	Years Ended October 31,		
	2001	2000	1999
Net sales	\$ 60,405,437	\$ 58,218,994	\$ 50,698,637
Cost of goods sold	35,983,719	30,877,688	27,547,022
Gross profit	24,421,718	27,341,306	23,151,615
Selling, general and administrative expenses	17,130,704	15,024,198	10,798,643
Income from operations	7,291,014	12,317,108	12,352,972
Other income (expense):			
Gains (losses) on trading securities, net	(11,414,151)	288,667	--
Interest income	45,620	230,038	201,708
Interest expense	(363,417)	(57,084)	--
Other, net	9,201	(45,015)	(35,944)
Other income (expense), net	(11,722,747)	416,606	165,764
Income (loss) before income tax expense	(4,431,733)	12,733,714	12,518,736
Income tax expense	2,297,466	4,478,656	4,214,096
Net income (loss)	\$ (6,729,199)	\$ 8,255,058	\$ 8,304,640
Net income (loss) per share:			
Basic and diluted	\$ (0.12)	\$ 0.15	\$ 0.15

See accompanying notes to financial statements.

OPTICAL CABLE CORPORATION  
Statements of Stockholders' Equity  
Years Ended October 31, 2001, 2000 and 1999

	Common Stock		Retained	Total
	Shares	Amount	Earnings	Stockholders' Equity
Balances at October 31, 1998	56,818,554	\$ 9,936,640	\$ 20,054,553	\$ 29,991,193
Exercise of employee stock options (\$1.67 per share)	119,700	199,500	--	199,500
Tax benefit of disqualifying disposition of stock options exercised	--	209,207	--	209,207
Repurchase of common stock (at cost)	(816,847)	(5,857,465)	--	(5,857,465)
Net income	--	--	8,304,640	8,304,640
Balances at October 31, 1999	56,121,407	4,487,882	28,359,193	32,847,075
Exercise of employee stock options (\$3.86 per share)	268,336	1,036,916	--	1,036,916
Restricted stock award (\$6.25 per share)	2,250	14,063	--	14,063
Tax benefit of disqualifying disposition of stock options exercised	--	1,354,718	--	1,354,718
Net income	--	--	8,255,058	8,255,058
Balances at October 31, 2000	56,391,993	6,893,579	36,614,251	43,507,830
Exercise of employee stock options (\$2.07 per share)	142,436	295,261	--	295,261
Restricted stock award (\$6.25 per share)	750	4,687	--	4,687
Stock-based compensation	--	5,593	--	5,593
Tax benefit of disqualifying disposition of stock options exercised	--	62,749	--	62,749
Repurchase of common stock (at cost)	(1,103,900)	(7,261,869)	(2,019,824)	(9,281,693)
Net loss	--	--	(6,729,199)	(6,729,199)

Balances at October 31, 2001	55,431,279	\$ --	\$ 27,865,228	\$ 27,865,228
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See accompanying notes to financial statements.

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OPTICAL CABLE CORPORATION  
Statements of Cash Flows  
Years Ended October 31, 2001, 2000 and 1999

	Years Ended October 31,		
	2001	2000	1999
Cash flows from operating activities (including securities trading):			
Net income (loss)	\$ (6,729,199)	\$ 8,255,058	\$ 8,304,640
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	1,058,489	841,646	764,652
Bad debt expense	1,052,447	2,018,128	87,490
Deferred income tax expense (benefit)	(429,930)	(737,717)	67,754
Loss on disposal of property and equipment	--	7,807	--
Tax benefit of disqualifying disposition of stock options exercised	62,749	1,354,718	209,207
Stock-based compensation expense	10,280	14,063	--
Unrealized losses on trading securities, net	--	499,755	--
(Increase) decrease in trading securities	17,982,830	(18,482,585)	--
Increase (decrease) in payable to investment broker related to securities trading	(5,658,574)	5,658,574	--
(Increase) decrease in:			
Trade accounts receivable (before bad debt expense)	(303,139)	(3,051,328)	(417,913)
Income taxes refundable	54,111	(1,162,118)	--
Other receivables	(9,656)	(81,781)	14,980
Due from employees	(102,128)	5,210	(2,511)
Inventories	(6,512,778)	1,182,270	1,212,589
Prepaid expenses	(73,037)	(6,258)	(10,770)
Increase (decrease) in:			
Accounts payable and accrued expenses and other liabilities	3,578,276	(1,053,960)	1,328,540
Accrued compensation and payroll taxes	(49,369)	154,894	36,650
Income taxes payable	--	(421,803)	310,354
Net cash provided by (used in) operating activities (including securities trading)	3,931,372	(5,005,427)	11,905,662
Cash flows from investing activities:			
Purchase of property and equipment	(2,481,696)	(1,298,717)	(400,714)
Increase in cash surrender value of life insurance	(105,532)	(90,554)	(171,382)
Advances on note receivable from former officer	500,000	--	--
Collection from note receivable from former officer	(500,000)	--	--
Collection from note receivable	--	--	18,800
Net cash used in investing activities	(2,587,228)	(1,389,271)	(553,296)
Cash flows from financing activities:			
Repurchase of common stock	(9,281,693)	--	(5,857,465)
Proceeds from exercise of employee stock options	295,261	1,036,916	199,500
Proceeds from notes payable to bank, net	8,271,000	--	--
Net cash provided by (used in) financing activities	(715,432)	1,036,916	(5,657,965)
Net increase (decrease) in cash and cash equivalents	628,712	(5,357,782)	5,694,401
Cash and cash equivalents at beginning of year	1,458,896	6,816,678	1,122,277
Cash and cash equivalents at end of year	\$ 2,087,608	\$ 1,458,896	\$ 6,816,678
Supplemental disclosure of cash flow information:			
Cash payments for interest	\$ 320,750	\$ 57,084	\$ --
Income taxes paid	\$ 2,610,536	\$ 5,445,576	\$ 3,615,300
Noncash investing and financing activities:			
Capital expenditures accrued in accounts payable	\$ 58,650	\$ 252,176	\$ 89,344
Trade accounts receivable financed as note receivable	\$ --	\$ --	\$ 112,405

See accompanying notes to financial statements.

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OPTICAL CABLE CORPORATION  
Notes to Financial Statements  
Years Ended October 31, 2001, 2000 and 1999

(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 tight-buffered fiber optic cables for high bandwidth transmission of data, video and audio communications over short to moderate distances. The Company utilizes a tight-buffer coating process that protects each optical fiber. The Company's fiber optic cables are sold nationwide and in over 65 foreign countries. Also see note 8.

(b) Cash and Cash Equivalents

The Company maintains its primary cash accounts at two commercial banks located in Virginia. Accounts in these banks are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. As of October 31, 2001, the Company had bank deposits in excess of \$100,000 totaling \$1,795,243. As of October 31, 2000, the Company had no domestic bank deposits in excess of \$100,000.

As of October 31, 2000, cash equivalents consist of \$1,171,777 of overnight repurchase agreements. As of October 31, 2001, the Company had no cash equivalents. 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) Trading Securities

Trading securities were recorded at fair value, which was based on quoted market prices. Purchases and sales of trading securities were recognized on a trade-date basis, the date the order to buy or sell was executed. The Company's trading securities were bought and held principally for the purpose of selling them in the near term. In addition to realized gains and losses, unrealized holding gains and losses for trading securities were included in net income. The amount of net unrealized holding loss that was included in net income for the year ended October 31, 2000 was \$499,755. Net realized gains or losses were determined on the first-in, first-out cost method. As of October 31, 2000, the Company's trading securities consisted of shares in the Nasdaq 100 Trust, which is designed to closely track the price and yield performance of the Nasdaq stock index.

As of October 31, 2000, the Company had short-term margin borrowings of \$5,658,574 payable to an investment broker related to the trading securities. The margin account incurred interest at rates ranging from the Call Money rate plus .025% to the Call Money rate plus 2.50%, depending on the outstanding balance of margin borrowings (8.50% as of October 31, 2000). Obligations of the Company to the investment broker were collateralized by the trading securities and were subject to margin provisions, which could have resulted in the sale of some or all of the trading securities to meet margin calls.

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OPTICAL CABLE CORPORATION  
Notes to Financial Statements (Continued)  
Years Ended October 31, 2001, 2000 and 1999

In fiscal year 2000, the Company recognized realized and unrealized net gains on trading securities of \$288,667 and incurred interest expense on margin borrowings of \$57,084. Subsequent to October 31, 2000, the Company continued to purchase and sell shares in the Nasdaq 100 Trust and during this period, the fair value of those shares continued to decline substantially resulting in the sale of some of the trading securities to meet margin calls. The Company's last purchase of shares in the Nasdaq 100 Trust was on May 14, 2001. On October 3, 2001, the Company sold all of its remaining investment in the Nasdaq 100 Trust and paid off the outstanding margin borrowings as part of a policy to invest future excess funds only in short-term interest-bearing investments. In fiscal year 2001, the Company recognized realized net losses on trading securities of \$11,414,151

and incurred interest expense on margin borrowings of \$304,595.

(d) 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. Also see note 3.

(e) 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. Also see note 4.

(f) Revenue Recognition

Revenue is recognized at the time of product shipment or delivery to the customer, and the customer takes ownership and assumes risk of loss based on shipping terms.

(g) Shipping and Handling Costs

Shipping and handling costs include the costs incurred to physically move finished goods from the Company's warehouse to the customers designated location and the costs to store, move and prepare the finished goods for shipment. All amounts billed to a customer in a sale transaction related to shipping and handling are classified as sales revenue. Shipping and handling costs of approximately \$2,155,000, \$1,948,000 and \$1,425,000 are included in selling, general and administrative expenses for the years ended October 31, 2001, 2000 and 1999, respectively.

(h) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax

OPTICAL CABLE CORPORATION  
Notes to Financial Statements (Continued)  
Years Ended October 31, 2001, 2000 and 1999

bases and operating loss, capital loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Also see note 9.

(i) 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 undiscounted 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.

(j) Stock Option Plan

The Company applies the intrinsic value-based method of accounting prescribed by Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations including Financial Accounting Standards Board ("FASB") Interpretation No. 44, Accounting for Certain Transactions Involving Stock Compensation an interpretation of APB Opinion No. 25, issued in March 2000, to account for its fixed plan stock options granted to employees. Under this method, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. Statement of Financial Accounting Standards ("SFAS") No. 123, Accounting for Stock-Based Compensation, established accounting and disclosure requirements using a fair value-based method of accounting for stock-based employee compensation plans. As allowed by SFAS No. 123, the Company has elected to continue to apply the intrinsic value-based method of accounting described above, and has adopted the disclosure requirements of SFAS No. 123. The Company applies the provisions of SFAS No. 123 and EITF Issue No. 96-18, Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services, for nonemployee stock option grants. Also see note 7.

(k) Net Income (Loss) Per Share

Basic net income (loss) per share excludes dilution and is computed by dividing net income (loss) available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted net income (loss) per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the net income (loss) of the Company. Also see note 11.

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OPTICAL CABLE CORPORATION  
Notes to Financial Statements (Continued)  
Years Ended October 31, 2001, 2000 and 1999

(l) Comprehensive Income

SFAS No. 130, Reporting Comprehensive Income, establishes standards for reporting and display of comprehensive income and its components in 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. The Company has no items of other comprehensive income in any period presented.

(m) Commitments and Contingencies

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

(n) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

(o) Reclassifications

Certain reclassifications have been made to the prior years'

financial statements to place them on a basis comparable with the current year's financial statements.

(2) Allowance for Doubtful Accounts for Trade Accounts Receivable

A summary of changes in the allowances for doubtful accounts for trade accounts receivable for the years ended October 31, 2001, 2000 and 1999 follows:

	Years Ended October 31,		
	2001	2000	1999
Balance at beginning of year	\$ 1,909,069	\$ 316,000	\$ 311,500
Bad debt expense	982,447	2,018,128	87,490
Losses charged to allowance	(2,327,753)	(453,049)	(84,633)
Recoveries added to allowance	9,090	27,990	1,643
Balance at end of year	\$ 572,853	\$ 1,909,069	\$ 316,000

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OPTICAL CABLE CORPORATION  
Notes to Financial Statements (Continued)  
Years Ended October 31, 2001, 2000 and 1999

One of the Company's two major distributors filed for protection from its creditors under bankruptcy laws in January 2001. As of October 31, 2000, the Company specifically reserved approximately \$1,772,000 for estimated uncollectible accounts receivable from this distributor. As of January 31, 2001, the Company wrote off that \$1,772,000 reserve, as well as an additional bad debt reserve related to this distributor of approximately \$419,000 incurred during the first quarter of fiscal year 2001, for a total write-off of approximately \$2,191,000 for estimated uncollectible accounts receivable from this distributor for the year ended October 31, 2001. There were no net sales attributed to this distributor subsequent to the first quarter of fiscal year 2001. Also see note 8.

(3) Inventories

Inventories as of October 31, 2001 and 2000 consist of the following:

	October 31,	
	2001	2000
Finished goods	\$ 4,328,379	\$ 808,271
Work in process	3,064,975	3,487,611
Raw materials	6,641,985	3,194,393
Production supplies	49,592	81,878
	\$ 14,084,931	\$ 7,572,153

During fiscal year 2001, the Company entered into separate long-term supply agreements with two raw optical fiber suppliers. One agreement expires on December 31, 2003 and the other on December 31, 2004.

The aggregate purchases related to these agreements totaled approximately \$9.5 million for the year ended October 31, 2001. The aggregate purchases related to these agreements (subject to certain annual price adjustments) for each of the fiscal years subsequent to October 31, 2001 are approximated as follows:

Fiscal Year Ending October 31,	Amount
--------------------------------	--------

2002	\$	12,207,000
2003		14,104,000
2004		8,641,000
2005		1,247,000
		-----
Total	\$	36,199,000
		=====

Additionally, one of the supply agreements requires that one-half of all single-mode fiber purchases through December 31, 2004 above the committed amounts be purchased from that supplier at market prices.

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OPTICAL CABLE CORPORATION  
Notes to Financial Statements (Continued)  
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(4) Property and Equipment

Property and equipment as of October 31, 2001 and 2000 consists of the following:

	October 31,	
	2001	2000
	-----	-----
Land	\$ 2,745,327	\$ 2,745,327
Building and improvements	6,896,842	6,896,842
Machinery and equipment	8,193,773	6,676,960
Furniture and fixtures	794,418	735,052
Construction in progress	948,062	236,071
	-----	-----
Total property and equipment, at cost	19,578,422	17,290,252
Less accumulated amortization and depreciation	(6,893,369)	(5,834,880)
	-----	-----
Property and equipment, net	\$ 12,685,053	\$ 11,455,372
	=====	=====

As of October 31, 2001, construction in progress represents machinery and equipment purchased for expansion in 2001, which is ready for service but has not yet been placed into service due to a reduction in product demand.

(5) Notes Payable to Bank

Under a loan agreement with its bank dated March 10, 1999, the Company had a \$5 million secured revolving line of credit and a \$10 million secured revolving line of credit. The lines of credit are subject to certain restrictive covenants with the bank. During fiscal year 2001, the Company violated certain restrictive covenants. Effective October 30, 2001, the bank waived the Company's defaults under the loan agreement, amended the loan agreement and reduced the \$10 million line of credit to \$4.5 million for a maximum combined availability of \$9.5 million. As of October 31, 2001, the Company had combined outstanding borrowings under these lines of credit in the amount of \$8,271,000, with \$1,229,000 unused and available. As of October 31, 2000, no borrowings were outstanding under these lines of credit.

The lines of credit bear interest at 1.50% above the monthly LIBOR rate (3.79% as of October 31, 2001 and 8.12% as of October 31, 2000) and are equally and ratably collateralized by the Company's accounts receivable, contract rights, inventory, furniture and fixtures, machinery and equipment and general intangibles. The lines of credit have been extended and will expire on March 31, 2002, unless they are further 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.

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OPTICAL CABLE CORPORATION  
Notes to Financial Statements (Continued)  
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The Company is seeking to obtain \$15 to \$20 million in new credit (part revolving line of credit and part term loan) to be collateralized by all of the assets of the Company. This planned credit facility would replace the current credit facilities described above.

(6) Related Party Transactions

Since February 1, 1995, the Company had entered into employment agreements with the individual who was the Company's former Chairman, President and Chief Executive Officer and its previously sole stockholder, which typically had a term of less than two years. Annual compensation under the agreements consisted of a base salary equal to one percent of the previous fiscal year's net sales and a sales commission or incentive bonus of one percent of any increase between the current fiscal year's net sales and the prior fiscal year's net sales. The Company calculated and paid this individual's incentive bonus on a monthly basis by comparing the prior month's net sales with the net sales for the corresponding month in the prior fiscal year. Such calculations were not cumulative, so, depending on monthly net sales fluctuations during any given fiscal year, the individual might receive monthly incentive bonuses with respect to net sales increases in certain months even though annual cumulative net sales decreased when compared to the prior fiscal year. Compensation under this arrangement, which terminated on October 31, 2001, amounted to \$681,546, \$586,981 and \$539,997 for the years ended October 31, 2001, 2000 and 1999, respectively.

On December 3, 2001, the Company issued a press release that announced that, upon the recommendation of the independent Special Committee of its Board of Directors (the "Special Committee"), the Board of Directors had removed this individual as the Company's Chairman, President and Chief Executive Officer. Also see note 13.

During the year ended October 31, 2001, the Company paid \$90,000 to Serendipity Motorsports, a company owned by the daughter of the Company's former Chairman, President and Chief Executive Officer. The payments were for the sponsorship of a NASCAR Goody's Dash Series Team involving a race car driven by the daughter.

(7) Employee Benefits

Through December 31, 2000, the Company maintained an independently administered self-insurance program that provided health insurance coverage for employees and their dependents on a cost-reimbursement basis. Under the program, the Company was obligated for claims payments. Effective January 1, 2001, the Company no longer independently administers the health insurance coverage, but has contracted for insurance coverage with a third-party administrator. During the years ended October 31, 2001, 2000 and 1999, total expense of \$1,682,107, \$925,347 and \$837,488,

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OPTICAL CABLE CORPORATION  
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respectively, was incurred under the Company's current insured and previous self-insured health care program.

Effective January 1, 1994, the Company adopted a 401(k) retirement savings plan. To become eligible for the plan, an employee must complete

at least six months of service and be at least 21 years of age. Employees are eligible to enter the plan on January 1 or July 1 each year. The plan allows participants to contribute through salary reduction up to 7% of their annual compensation on a pretax basis. Company matching contributions are two dollars for every one dollar contributed by an employee up to 4% of the employees' annual compensation. The Company made matching contributions to the plan of \$454,825, \$406,934 and \$365,887 for the years ended October 31, 2001, 2000 and 1999, 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 6,000,000 shares of common stock for issuance pursuant to incentive awards under the Plan. As of October 31, 2001, there were 4,986,438 additional shares available for grant under the Plan. The options have terms ranging from 5.41 to 10 years, and generally vest 25% after two years, 50% after three years, 75% after four years and 100% after five years, with certain option grants vesting in equal monthly installments over four years.

The per share weighted-average estimated fair value of stock options granted during 2001 was \$4.22 on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions: no expected cash dividend yield, risk-free interest rate of 5.57%, expected volatility of 106.8% and an expected life of 4.87 years. No new stock options were granted during the fiscal years ended October 31, 2000 and 1999; however, certain replacement options were granted as further described below.

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

	Years Ended October 31,		
	2001	2000	1999
Net income (loss):			
As reported	\$ (6,729,199)	\$ 8,255,058	\$ 8,304,640
Pro forma	\$ (7,295,776)	\$ 7,911,830	\$ 7,961,412

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OPTICAL CABLE CORPORATION  
Notes to Financial Statements (Continued)  
Years Ended October 31, 2001, 2000 and 1999

	Years Ended October 31,		
	2001	2000	1999
Net income (loss) per share:			
Basic:			
As reported	\$ (0.12)	\$ 0.15	\$ 0.15
Pro forma	\$ (0.13)	\$ 0.14	\$ 0.14
Diluted:			
As reported	\$ (0.12)	\$ 0.15	\$ 0.15
Pro forma	\$ (0.13)	\$ 0.14	\$ 0.14

=====

Stock option activity for the years ended October 31, 2001, 2000 and 1999 is as follows:

	Number of Shares -----		Weighted-Average Exercise Price -----
Balance at October 31, 1998	853,725	\$	3.97
Replacement options issued	3,449		7.25
Exercised	(119,700)		1.67
Forfeited	(26,250)		5.94
	-----		
Balance at October 31, 1999	711,224		4.28
Replacement options issued	1,500	\$	7.25
Exercised	(268,336)		3.86
Forfeited	(15,389)		6.02
	-----		
Balance at October 31, 2000	428,999		4.53
Granted	750,000	\$	7.54
Exercised	(142,436)		2.07
Forfeited	(23,001)		10.26
	-----		
Balance at October 31, 2001, (283,562 options exercisable; 83,200 options at exercise price of \$1.67 per share with remaining contractual life of 4.5 years, and 200,362 options at exercise price of \$7.42 per share with remaining contractual life of 4.5 years)	1,013,562	\$	6.97
	=====		

Included in the 750,000 options granted during the fiscal year ended October 31, 2001 were 100,000 options to nonemployee sales representatives. The Company recorded compensation expense of \$5,593 related to these options for the fiscal year ended October 31, 2001.

No new stock options were granted during the fiscal years ended October 31, 2000 and 1999. However, prior stock options granted have a replacement feature contained in the original terms of the award, whereby the participant automatically receives a replacement option to purchase additional shares of the Company's common stock equal to the number of shares surrendered, if any, to the Company by the participant in payment of the exercise price with respect to stock options exercised.

OPTICAL CABLE CORPORATION  
Notes to Financial Statements (Continued)  
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Replacement options were issued under this replacement feature during the fiscal years ended October 31, 2000 and 1999.

Subsequent to October 31, 2001, the Board of Directors approved grants of stock options for a total of 250,000 shares effective November 16, 2001 under the Company's 1996 Stock Incentive Plan. The per share exercise price of \$1.25 associated with these stock options was equal to the closing price of the Company's common stock on the date of grant.

(8) Business and Credit Concentrations, Major Customers and Geographic Information

On November 1, 1998, the Company adopted SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information. SFAS No. 131 establishes

standards for the way public business enterprises are to report information about operating segments in annual financial statements and requires those enterprises to report selected information about operating segments in interim financial reports. It also establishes standards for related disclosures about products and services, geographic areas and major customers.

The Company has a single reportable segment for purposes of segment reporting pursuant to SFAS No. 131. In addition, the Company's fiber optic cable products are similar in nature. Therefore, the Company has disclosed enterprise-wide information about geographic areas and major customers below in accordance with the provisions of SFAS No. 131.

The Company provides credit, in the normal course of business, to various commercial enterprises, governmental entities and not-for-profit organizations. Concentration of credit risk with respect to trade receivables is limited due to the Company's large number of customers. The Company also manages exposure to credit risk through credit approvals, credit limits and monitoring procedures. Management believes that credit risks as of October 31, 2001 and 2000 have been adequately provided for in the financial statements. As of October 31, 2001 and 2000, there were no significant amounts receivable from any one customer other than those described below.

For the year ended October 31, 2001, 13.6% or approximately \$8,213,000 of net sales were attributable to one major domestic distributor. Subsequent to October 31, 2001, this distributor advised the Company that it will no longer stock the Company's product line as part of its regular product offering. The related trade accounts receivable for this distributor as of October 31, 2001 totaled approximately \$1,916,000. No single customer or other distributor accounted for more than 10% of net sales for the year ended October 31, 2001. As of October 31, 2001, no single customer or other distributor had an outstanding balance payable to the Company in excess of 5% of total stockholders' equity.

For the year ended October 31, 2000, 28.0% or approximately \$16,241,000 of net sales were attributable to two major domestic distributors (12.5% or approximately \$7,246,000 to one of these major distributors and 15.5% or approximately \$8,995,000 to the other major distributor that filed for protection from its creditors under the bankruptcy laws in January 2001). The combined related trade accounts receivable for these distributors as of October 31, 2000 totaled approximately \$3,468,000. The Company specifically reserved \$1,772,000 for estimated uncollectible accounts receivable from

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OPTICAL CABLE CORPORATION  
Notes to Financial Statements (Continued)  
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one of these major distributors that filed for protection from its creditors under the bankruptcy laws in January 2001 (see note 2). No single customer or other distributor accounted for more than 10% of net sales for the year ended October 31, 2000. As of October 31, 2000, no single customer or other distributor had an outstanding balance payable to the Company in excess of 5% of total stockholders' equity.

For the year ended October 31, 1999, 30.6% or approximately \$15,513,000 of net sales were attributable to two major domestic distributors (15.8% or approximately \$8,002,000 to one of these major distributors and 14.8% or approximately \$7,511,000 to the other major distributor that filed for protection from its creditors under the bankruptcy laws in January 2001). The combined related trade accounts receivable for these distributors as of October 31, 1999 totaled approximately \$3,294,000. No single customer or other distributor accounted for more than 10% of net sales for the year ended October 31, 1999. As of October 31, 1999, no single customer or other distributor had an outstanding balance payable to the Company in excess of 5% of total stockholders' equity.

For the years ended October 31, 2001, 2000 and 1999, approximately 77%, 79% and 80%, respectively, of net sales were from customers located in the United States, while approximately 23%, 21% and 20%, respectively, were from international customers. Net sales attributable to the United States and other foreign countries for the years ended October 31, 2001,

2000 and 1999 were as follows:

	Years Ended October 31,		
	2001	2000	1999
United States	\$ 46,342,042	\$ 45,878,300	\$ 40,687,466
Australia	828,006	801,641	702,780
Brazil	877,559	924,122	741,962
Canada	2,564,758	1,808,469	1,756,928
England	1,404,508	1,163,587	694,680
Japan	1,040,509	871,423	740,987
Other foreign countries	7,348,055	6,771,452	5,373,834
	-----	-----	-----
Total net sales	\$ 60,405,437	\$ 58,218,994	\$ 50,698,637
	=====	=====	=====

None of the Company's long-lived assets are located outside the United States.

(9) Income Taxes

Total income taxes for the years ended October 31, 2001, 2000 and 1999 were allocated as follows:

	Years Ended October 31,		
	2001	2000	1999
Income from continuing operations	\$ 2,297,466	\$ 4,478,656	\$ 4,214,096
Stockholders' equity, for disqualifying disposition of stock options exercised	(62,749)	(1,354,718)	(209,207)
	-----	-----	-----
	\$ 2,234,717	\$ 3,123,938	\$ 4,004,889
	=====	=====	=====

OPTICAL CABLE CORPORATION  
Notes to Financial Statements (Continued)  
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Income tax expense (benefit) attributable to income from continuing operations for the years ended October 31, 2001, 2000 and 1999 consists of:

Fiscal Year Ended October 31, 2001	Current	Deferred	Total
-----	-----	-----	-----
U.S. Federal State	\$ 2,458,680	\$ (381,647)	\$ 2,077,033
	268,716	(48,283)	220,433
Totals	\$ 2,727,396	\$ (429,930)	\$ 2,297,466
	=====	=====	=====
Fiscal Year Ended October 31, 2000	Current	Deferred	Total
-----	-----	-----	-----
U.S. Federal State	\$ 4,667,627	\$ (658,506)	\$ 4,009,121
	548,746	(79,211)	469,535
Totals	\$ 5,216,373	\$ (737,717)	\$ 4,478,656
	=====	=====	=====
Fiscal Year Ended October 31, 1999	Current	Deferred	Total
-----	-----	-----	-----
U.S. Federal State	\$ 3,729,606	\$ 60,479	\$ 3,790,085
	416,736	7,275	424,011
Totals	\$ 4,146,342	\$ 67,754	\$ 4,214,096
	=====	=====	=====

Reported income tax expense for the years ended October 31, 2001, 2000 and 1999 differs from the "expected" tax expense (benefit), computed by applying the U.S. Federal statutory income tax rate of 35% to income (loss) before income tax expense, as follows:

	Years Ended October 31,		
	2001	2000	1999
"Expected" tax expense (benefit)	\$ (1,551,107)	\$ 4,456,800	\$ 4,381,558
Increase (reduction) in income tax expense resulting from:			
Benefits from Extraterritorial Income Exclusion and Foreign Sales Corporation	(155,846)	(201,098)	(326,662)
State income taxes, net of federal benefit (expense)	(145,804)	295,853	254,359
Increase in the valuation allowance for deferred tax assets	4,059,822	--	--
Other differences, net	90,401	(72,899)	(95,159)
Reported income tax expense	\$ 2,297,466	\$ 4,478,656	\$ 4,214,096

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OPTICAL CABLE CORPORATION  
Notes to Financial Statements (Continued)  
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The significant components of deferred income tax expense (benefit) attributable to income from continuing operations for the years ended October 31, 2001, 2000 and 1999 are as follows:

	Years Ended October 31,		
	2001	2000	1999
Deferred tax expense (benefit) (exclusive of the effects of the other component below)	\$ (4,489,752)	\$ (737,717)	\$ 67,754
Increase in the valuation allowance for deferred tax assets	4,059,822	--	--
	\$ (429,930)	\$ (737,717)	\$ 67,754

The tax effects of temporary differences that give rise to significant portions of the Company's deferred tax assets and deferred tax liabilities as of October 31, 2001 and 2000 are presented below:

	October 31,	
	2001	2000
Deferred tax assets:		
Accounts receivable, due to allowance for doubtful accounts and allowance for sales returns	\$ 561,400	\$ 718,312
Inventories, due to allowance for damaged and slow-moving inventories and additional costs inventoried for tax purposes pursuant to the Tax Reform Act of 1986	527,770	66,070
Self-insured health care costs, due to accrual for financial reporting purposes	--	44,780
Compensated absences due to accrual for financial reporting purposes	48,118	49,594
Capital loss carryforward and unrealized net loss on trading securities	4,059,822	187,368
Liabilities recorded for loss contingencies, deductible for tax purposes when paid	413,002	--
Other	2,042	4,205
Total gross deferred tax assets	5,612,154	1,070,329
Less valuation allowance	(4,059,822)	--
Net deferred tax assets	1,552,332	1,070,329
Deferred tax liabilities:		

Plant and equipment, due to differences in depreciation and capital	(222,130)	(195,085)
Other receivables, due to accrual for financial reporting purposes	(135,692)	(110,664)
	-----	-----
Total gross deferred tax liabilities	(357,822)	(305,749)
	-----	-----
Net deferred tax asset	\$ 1,194,510	\$ 764,580
	=====	=====

As of October 31, 2001, the Company has assessed the realizability of its deferred tax asset relating to the capital loss carryforward generated by the sale of the Company's trading securities during the fiscal year ended October 31, 2001. The Company has determined that it is more likely than not that this deferred tax asset totaling \$4,059,822 as of October 31, 2001, will not be realized. In addition, the capital loss carryforward may be limited due to certain stock ownership changes. Accordingly, the

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OPTICAL CABLE CORPORATION  
Notes to Financial Statements (Continued)  
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Company has established a valuation allowance for deferred tax assets in the amount of \$4,059,822 as of October 31, 2001, which is included in income tax expense for the fiscal year ended October 31, 2001. In order to fully realize this deferred tax asset, the Company would need to generate future taxable capital gains of approximately \$11.1 million prior to the expiration of the capital loss carryforward in 2006.

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

(10) Fair Value of Financial Instruments

The carrying amounts reported in the balance sheet for cash, cash equivalents, trade accounts receivable, other receivables, notes payable to bank, accounts payable and accrued expenses, and payable to investment broker related to securities trading approximate fair value because of the short maturity of these instruments. For trading securities, fair value was based on quoted market prices. The fair value for other noncurrent liabilities is estimated by discounting the future cash flows at an estimated interest rate of similar instruments of comparable maturities and approximates the carrying amount reported in the balance sheet.

(11) Net Income (Loss) Per Share

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

Fiscal Year Ended October 31, 2001	Net Loss (Numerator)	Shares (Denominator)	Per Share Amount
-----	-----	-----	-----
Basic net loss per share	\$ (6,729,199)	56,156,379	\$ (0.12)
Effect of dilutive stock options	--	189,638	=====
Diluted net loss per share	\$ (6,729,199)	56,346,017	\$ (0.12)
	=====	=====	=====
Fiscal Year Ended October 31, 2000	Net Income (Numerator)	Shares (Denominator)	Per Share Amount
-----	-----	-----	-----
Basic net income per share	\$ 8,255,058	56,306,679	\$ 0.15
Effect of dilutive stock options	--	451,503	=====
Diluted net income per share	\$ 8,255,058	56,758,182	\$ 0.15
	=====	=====	=====
Fiscal Year Ended October 31, 1999	Net Income (Numerator)	Shares (Denominator)	Per Share Amount
-----	-----	-----	-----

Basic net income per share	\$ 8,304,640	56,503,964	\$ 0.15
Effect of dilutive stock options	--	360,933	
Diluted net income per share	\$ 8,304,640	56,864,897	\$ 0.15

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Notes to Financial Statements (Continued)  
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Stock options that could potentially dilute net income (loss) per share in the future that were not included in the computation of diluted net income (loss) per share (because to do so would have been antidilutive for the periods presented) totaled 480,000 for the year ended October 31, 2001. No such antidilutive stock options existed with respect to diluted net income per share calculation for the years ended October 31, 2000 and 1999.

(12) Stockholders' Equity

The Company's Board of Directors has authorized the repurchase of up to \$25 million of the Company's common stock in the open market or in privately negotiated transactions. Through October 31, 2001, the Company has repurchased 3,234,343 shares of its common stock for \$24,145,368 in such transactions since the inception of the Company's share repurchase program in October 1997.

Effective September 20, 2001, the Company ceased the repurchase of shares of its common stock under the share repurchase program.

On November 2, 2001, the Board of Directors of the Company adopted a new Shareholder Rights Plan (the "Rights Plan") and declared a dividend of one preferred share purchase right (a "Right") on each outstanding share of common stock. Under the terms of the Rights Plan, if a person or group acquires 15% (or other applicable percentage, as provided in the Rights Plan) or more of the outstanding common stock, each Right will entitle its holder (other than such person or members of such group) to purchase, at the Right's then current exercise price, a number of shares of common stock having a market value of twice such price. In addition, if the Company is acquired in a merger or other business transaction after a person or group has acquired such percentage of the outstanding common stock, each Right will entitle its holder (other than such person or members of such group) to purchase, at the Right's then current exercise price, a number of the acquiring company's common shares having a market value of twice such price.

Upon the occurrence of certain events, each Right will entitle its holder to buy one one-thousandth of a Series A preferred share ("Preferred Share"), at an exercise price of \$25, subject to adjustment. Each Preferred Share will entitle its holder to 1,000 votes and will have an aggregate dividend rate of 1,000 times the amount, if any, paid to holders of common stock. The Rights will expire on November 2, 2011, unless the date is extended or unless the Rights are earlier redeemed or exchanged at the option of the board of directors for \$.0001 per Right. Generally, each share of common stock issued after November 5, 2001 will have one Right attached. The adoption of the Rights Plan has no impact on the financial position or results of operations of the Company.

The Company has reserved 100,000 of its authorized preferred stock for issuance upon exercise of the rights.

(13) Contingencies

On September 27, 2000, the Equal Employment Opportunity Commission ("EEOC") filed a lawsuit under Title VII of the Civil Rights Act against the Company in the United States District Court for the Western District of Virginia. The lawsuit alleged a pattern or practice of discrimination on the bases of gender and race. The lawsuit sought injunctive and other relief and damages in an unspecified amount. On December 13, 2001, the parties reached an

agreement as to the amount of a settlement (subject to final documentation and judicial review and approval), that affords both individual and class relief, without any admission of liability. Pursuant to this agreement, the Company will pay \$500,000 upon entry of a consent decree by the court, \$175,000 on the first anniversary and \$175,000 on the second anniversary of the consent decree, to satisfy any gender and race class claims; \$75,000 to one individual specifically named in the complaint; and at least \$75,000 for the Company's planned diversity, recruitment and human resource management programs over the term of the consent decree.

As a result, the Company recorded a charge in the fourth quarter of fiscal year 2001 in the amount of \$901,553 representing \$575,000 (current portion) payable upon entry of a consent decree by the court, as well as \$326,553 (noncurrent portion) representing the present value of two equal payments in the amount of \$175,000 payable on the first and second anniversaries of the entry of a consent decree by the court. The \$75,000 to be used for the Company's planned diversity, recruitment and human resource management programs will be expensed as incurred.

The Company, the Company's former Chairman, President and Chief Executive Officer, and various John Does (officers and/or directors of the Company during the class period) were named as defendants in three class action lawsuits filed in the United States District Court for the Western District of Virginia (the "Suits"). The first class action lawsuit was filed on November 26, 2001, by Charles S. Farrell, Jr., on behalf of himself and others similarly situated. The second class action lawsuit was filed on December 14, 2001, by Lerner Group, on behalf of itself and others

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similarly situated. The third class action lawsuit was filed on December 27, 2001, by Richard Simone, on behalf of himself and others similarly situated. In each of the substantially similar suits, the plaintiffs purport to represent purchasers of the Company's common stock during the period ranging from July 31, 2000, through October 8, 2001 (the class period), and allege that the Company violated federal securities laws and made fraudulent and/or negligent misrepresentations and/or omissions. The plaintiffs in each of the Suits seek compensatory and exemplary damages in an unspecified amount, as well as reasonable costs and expenses incurred in the cause of action, including attorneys' fees and expert fees.

Management intends to vigorously defend the Suits. The Company may, however, incur substantial costs in defending itself against the Suits, regardless of their merit or outcome. At this early stage in the Suits, management cannot make a reasonable estimate of the monetary amount of their resolution or estimate a range of reasonably possible losses, if any. If the Company is unsuccessful, it could be subject to damages that may be substantial and could have a material adverse effect on the Company's financial position, results of operations or liquidity.

The Company was named as a defendant in two lawsuits filed in the United States District Court for the Southern District of New York seeking to compel the Company to authorize the transfer agent to transfer unregistered, restricted stock on the Company's stock ledger. The first suit was filed on October 22, 2001, by Bear, Stearns & Co. Inc. and Bear, Stearns Securities Corporation (collectively, "Bear Stearns"). The second suit was filed on October 26, 2001, by UBS PaineWebber Inc. ("PaineWebber"). In each case the plaintiffs sought injunctive relief with respect to shares of unregistered, restricted common stock of the Company sold in the course of liquidating brokerage accounts or repossessed shares of the former Chairman, President and Chief Executive Officer to cover personal margin loans to him. Each of the lawsuits contains a claim for damages caused by the alleged wrongful refusal by the Company to authorize the transfers in connection with the liquidations. On October 31, 2001, the Court in the Bear Stearns case entered an order directing the Company to authorize the stock transfers sought by Bear Stearns and imposing certain conditions on Bear Stearns in connection with such transfers. In early November, the Company reached agreement with PaineWebber pursuant to which

the Company would authorize stock transfers in connection with the liquidation of unregistered, restricted stock of the Company held by PaineWebber upon the foreclosure of a brokerage account of the former officer. Neither of the cases has been dismissed; however, the Company believes that they will be resolved without any material liability on the part of the Company.

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

(14) New Accounting Standards

In June 1998, the FASB issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. In June 1999, the FASB issued SFAS No. 137, Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133. SFAS No. 137 defers the

OPTICAL CABLE CORPORATION  
Notes to Financial Statements (Continued)  
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effective date of SFAS No. 133 to apply to all fiscal quarters of all fiscal years beginning after June 15, 2000. In June 2000, the FASB issued SFAS No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of FASB Statement No. 133. SFAS No. 138 amends SFAS No. 133 for a limited number of issues that have caused application difficulties. The adoption of SFAS No. 133, as amended, as of November 1, 2000, did not have any effect on the financial position, results of operations or liquidity of the Company.

The Company has also adopted Staff Accounting Bulletin ("SAB") No. 101, Revenue Recognition in Financial Statements, issued by the SEC staff. Given the nature of the Company's business, the adoption of SAB 101 did not have any effect on the financial position, results of operations or liquidity of the Company.

(15) Quarterly Results of Operations (Unaudited)

The following is a summary of the unaudited quarterly results of operations for the years ended October 31, 2001 and 2000:

Fiscal Year Ended October 31, 2001	Quarter Ended			
	January 31	April 30	July 31	October 31
Net sales	\$ 16,996,200	\$ 17,376,605	\$ 14,085,959	\$ 11,946,673
Gross profit	7,878,269	7,828,473	6,105,949	2,609,027
Other expense, net	(4,126,783)	(5,236,430)	(616,057)	(1,743,477)
Income (loss) before income taxes	(176,328)	(1,154,263)	1,667,039	(4,768,181)
Net income (loss)	(114,613)	(3,657,928)	874,943	(3,831,601)
Basic and diluted net income (loss) per share	--	(0.06)	0.02	(0.07)

Fiscal Year Ended October 31, 2000	Quarter Ended			
	January 31	April 30	July 31	October 31
Net sales	\$ 11,346,235	\$13,028,310	\$16,650,975	\$17,193,474
Gross profit	5,205,115	5,909,092	7,652,197	8,574,902
Other income (expense), net	532,545	1,386,149	(403,252)	(1,098,836)
Income before income taxes	3,138,397	4,163,017	3,702,629	1,729,671

Net income	2,033,120	2,697,442	2,400,129	1,124,367
Basic and diluted net income per share	0.04	0.05	0.04	0.02

(16) Significant Fourth Quarter Adjustments

During the fourth quarter of fiscal year 2001, the Company recorded the following significant fourth quarter adjustments, which aggregate to approximately \$5.4 million: a \$901,553 charge for an anticipated settlement with the EEOC for alleged prior discriminatory practices, a \$410,602 charge to

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OPTICAL CABLE CORPORATION  
Notes to Financial Statements (Continued)  
Years Ended October 31, 2001, 2000 and 1999

write off deferred costs related to the aborted securities offering previously anticipated during fiscal year 2001, a charge of approximately \$1.2 million to write down slow-moving and damaged inventory to net realizable value, a \$508,225 charge to increase bad debt expense, a \$1,662,657 charge to record realized losses from the disposition of trading securities, and an increase in the valuation allowance for deferred tax assets of approximately \$687,000.

In addition, during the fourth quarter of fiscal year 2001, the Company recorded an inventory adjustment to increase cost of goods sold by approximately \$1.5 million caused by book to physical variances resulting from year-end physical inventory counts and by the disposal of certain impaired finished goods inventory during the fourth quarter.

During the fourth quarter of fiscal year 2000, the Company recorded a significant fourth quarter adjustment to increase the allowance for doubtful accounts by approximately \$1,772,000 for estimated uncollectible accounts receivable from a major distributor that filed for liquidation under bankruptcy laws in January 2001. In addition, the Company recorded a \$1,042,266 charge to record realized and unrealized losses on trading securities.

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Item 9. Changes in and Disagreements with Accountants or Accounting and  
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Financial Disclosure  
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Not Applicable

PART III

Item 10. Directors and Executive Officers of the Registrant.  
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For information with respect to the Directors of the registrant, see "Election of Directors" in the Proxy Statement for the 2002 Annual Meeting of Shareholders of the Company, which information is incorporated herein by reference. For information with respect to the executive officers and significant employees of the registrant, see "Executive Officers and Other Significant Employees" in the Proxy Statement for the 2002 Annual Meeting of Shareholders of the Company, which information is incorporated herein by reference. The information with respect to compliance with Section 16(a) of the Securities Exchange Act of 1934, which is set forth under the caption "Compliance with Section 16(a) of the Securities Exchange Act of 1934" in the Proxy Statement for the 2002 Annual Meeting of Shareholders of the Company, is incorporated herein by reference.

Item 11. Executive Compensation.  
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The information set forth under the captions "Executive Compensation," "Compensation Committee Report on Executive Compensation," "Compensation Committee Interlocks and Insider Participation" and "Performance Graph" in the Proxy Statement for the 2002 Annual Meeting of Shareholders of the Company is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management.  
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The information pertaining to shareholders beneficially owning more than five percent of the Company's common stock and the security ownership of management, which is set forth under the caption "Beneficial Ownership of Common Stock" in the Proxy Statement for the 2002 Annual Meeting of Shareholders of the Company, is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions.  
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The information with respect to certain transactions with management of the Company, which is set forth under the caption "Certain Relationships and Transactions with Management" in the Proxy Statement for the 2002 Annual Meeting of Shareholders of the Company, is incorporated herein by reference.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K.  
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- (a) List of documents filed as part of this report:
1. Financial statements: The Company's financial statements and related information are included under Item 8 of this Form 10-K.
  2. Financial statement schedules:  
  
All schedules are omitted, as the required information is inapplicable or the information is presented in the financial statements or related notes thereto.
  3. Exhibits to this Form 10-K pursuant to Item 601 of Regulation S-K are as follows:

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Exhibit No. -----	Description -----
3.1	Articles of Amendment filed November 5, 2001 to the Amended and Restated Articles of Incorporation, as amended through November 5, 2001 (incorporated by reference to Exhibit 1 to the Company's Form 8-A filed with the Commission on November 5, 2001).
3.2	Bylaws of Optical Cable Corporation, as amended (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 Neil D. Wilkin, Jr. effective September 1, 2001.
- 10.4\* Employment Agreement by and between Optical Cable Corporation and Ken Harber, effective November 21, 2001, and amendment thereto.
- 10.5.\* Employment Agreement by and between Optical Cable Corporation and Luke Huybrechts, effective November 21, 2001, and amendment thereto.
- 10.6 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).
- 10.7 Loan Agreement dated March 10, 1999 by and between Optical Cable Corporation and First Union National Bank and modification thereto dated December 15, 1999, and amendments thereto dated October 3, 2001 and October 30, 2001.
- 10.8 Security Agreement, dated April 25, 1997, by and between Optical Cable Corporation and First Union National Bank of Virginia and Security Agreement, dated March 13, 1996 by and between Optical Cable Corporation and First Union National Bank of Virginia.
- 10.9 Promissory Note dated March 10, 1999 issued by Optical Cable Corporation to First Union National Bank in the amount of \$5,000,000 and the Promissory Note dated March 10, 1999 issued by Optical Cable Corporation to First Union National Bank in the amount of \$10,000,000 (filed as Exhibit 10.8 to the Registrant's Quarterly Report on form 10-Q for the fiscal quarter ended January 31, 1999 (file number 0-27022), and incorporated herein by reference).

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- 10.11\* 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).
- 10.12\* Optical Cable Corporation 1996 Stock Incentive Plan (incorporated by reference to Exhibit 28.1 to the Registrant's Registration Statement on Form S-8 No. 333-09733).
- 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.

\* Management contract or compensatory plan or agreement.

(b) Reports on Form 8-K

There was one report on Form 8-K filed by the Company during the fourth quarter of fiscal year 2001.

Form 8-K dated October 2, 2001, reporting under Item 1.

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- 10.5            Employment Agreement by and between Optical Cable Corporation and Luke Huybrechts, effective November 21, 2001, and amendment thereto.
- 10.7            Loan Agreement dated March 10, 1999 by and between Optical Cable Corporation and First Union National Bank and modification thereto dated December 15, 1999, and amendments thereto dated October 3, 2001 and October 30, 2001.
- 10.8            Security Agreement, dated April 25, 1997, by and between Optical Cable Corporation and First Union National Bank of Virginia and Security Agreement, dated March 13, 1996 by and between Optical Cable Corporation and First Union National Bank of Virginia.
- 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.

[LETTERHEAD OF OPTICAL CABLE CORPORATION]

OPTICAL CABLE CORPORATION  
EMPLOYMENT AGREEMENT

This agreement made effective September 1, 2001 by and between Optical Cable Corporation, having a place of business at 5290 Concourse Drive, Roanoke, Virginia (hereinafter referred to as "OCC"), and Neil D. Wilkin, Jr., (hereinafter referred to as "Wilkin").

WHEREAS, OCC desires to employ Wilkin and Wilkin 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 Wilkin and Wilkin accepts employment upon the following terms and conditions:

1. **EMPLOYMENT AND DUTIES:** Wilkin is employed as Senior VP and Chief Financial Officer of OCC. Wilkin hereby agrees to abide by the terms and conditions of this Agreement. Wilkin shall report directly to the President and CEO. The authority, duties and responsibilities of Wilkin shall include those duties as may be assigned to Wilkin by the President and CEO from time to time. While employed hereunder, Wilkin shall devote reasonable time and attention during normal business hours to the affairs of OCC and use his best efforts to perform faithfully and efficiently his duties and responsibilities.

2. **TERM AND RENEWAL:** The term of this Agreement shall begin on September 1, 2001 and shall terminate on August 31, 2003. At end of the initial term (and each renewal term, if any), this Agreement will automatically renew for an additional 2-year term unless one of the parties provides the other party with written notice indicating the intention not to renew this Agreement at least 6 months prior to the end of such term.

3. **COMPENSATION:** For all services rendered by Wilkin, OCC shall pay Wilkin \$120,000 annual salary, payable in equal monthly installments on the first business day of each month during which Wilkin is employed, commencing on October 1, 2001.

Plus, a monthly bonus equal to .0009 of the monthly sales which are adjusted for point of sale and payable on the 15/th/ of the following month.

Plus, a lump sum year end bonus equal to the sum of the twelve fiscal year monthly bonuses, payable on or around January 15/th/ of the following year.

4. **STOCK OPTIONS:** The terms and conditions of stock options granted to Wilkin are governed by the documents evidencing such options and are not intended to be addressed in this Agreement.

5. **TERMINATION:** This Agreement shall terminate automatically upon the earliest of any of the following events and no act, failure to act (except as otherwise provided in this Agreement), oral statement or representation of OCC or any of its directors, officers, agents or employees, whether contained in any employee handbook or otherwise, will be deemed a waiver by OCC of its rights hereunder unless expressly stated to the contrary:

- a. expiration of the term (including renewals, if any);
- b. OCC's termination of Wilkin without Cause (as defined below), provided that OCC has given Wilkin 30-days prior written notice;
- c. resignation by Wilkin other than for Good Reason (as defined below), provided that Wilkin has given OCC 30-days prior written notice;
- d. death of Wilkin (effective on the last day of the month in which death occurs);
- e. the inability of Wilkin to perform substantially all of his duties hereunder by reason of illness, physical, mental or emotional

disability or other incapacity, which inability shall continue for more than four successive months or six months in the aggregate during any period of 12 consecutive months; provided that OCC has given Wilkin written notice at or before the end of such period Wilkin does not return to work on a full-time basis; or

- f. OCC's termination of Wilkin for Cause, provided that OCC has given Wilkin written notice. For purposes of this Agreement, "Cause" shall mean:
    - i. Wilkin's material breach of this Agreement, which breach is not cured within 30 days of receipt by Wilkin of notice from OCC specifying the breach; or
    - ii. Wilkin's gross negligence in the performance of his material duties hereunder, intentional nonperformance or misperformance of such duties, or refusal to abide by or comply with the directives of the Board, his superior officers, or the OCC's policies and procedures (including nondiscrimination and sexual harassment), which actions continue for a period of at least 30 days after receipt by Wilkin of written notice of the need to cure or cease; or
    - iii. Wilkin's willful dishonesty, fraud, or misconduct with respect to the business or affairs of OCC, that in the reasonable judgment of the Board of Directors materially and adversely affects the operations or reputation of OCC; or
    - iv. Wilkin's conviction of a felony or other crime involving moral turpitude (whether or not in connection with his employment); or
    - v. failure of Wilkin to pass any drug or alcohol test administered in accordance with OCC's substance abuse policies.
  - g. resignation by Wilkin for Good Reason with 30-days prior written notice. For purposes of this Agreement, "Good Reason" shall mean:
    - i. a change in reporting relationships such that Wilkin no longer directly reports to the President and CEO of OCC; or
    - ii. a material diminution in the nature or scope of Wilkin's powers, duties or responsibilities to a level below that which would ordinarily be assigned to an executive officer serving as Senior Vice President and Chief Financial Officer, without Wilkin's prior written consent; or
    - iii. failure by OCC to provide Wilkin with the compensation and benefits in accordance with the terms of this Agreement; or
    - iv. relocation of OCC's principal executive offices to a location outside a thirty (30) mile radius of Roanoke, VA; or
    - v. willful dishonesty, fraud, or misconduct with respect to the business or affairs of OCC by the Board of Directors or Wilkin's superior officers, that in the reasonable judgment of Wilkin materially and adversely affect the operations or reputation of OCC.
6. EFFECT OF TERMINATION: Except as expressly set forth below, OCC shall have no further obligations to Wilkin under this Agreement after the termination of his employment hereunder:
- a. Termination For Cause. If Wilkin is terminated for Cause by OCC, as defined in Section 5(f) above, OCC shall pay to Wilkin his salary and pro rata bonuses earned through the date of termination.
  - b. Resignation by Wilkin without Good Reason. If this Agreement is terminated by the resignation of Wilkin without Good Reason, OCC shall pay to Wilkin his salary and pro rata bonuses earned through the date of termination.
  - c. Termination without Cause, upon Death or Disability, or Resignation for Good Reason. If this Agreement is terminated for any of the reasons stated in Sections 5(b), (d), (e) or (g), OCC shall pay to Wilkin his salary and pro rata bonuses earned through the date of termination, as well as a severance payment equal to six (6) months

salary (including bonuses), less applicable withholdings, payable in the same manner as during Wildin's employment.

7. RELOCATION: Upon accepting employment with OCC, Wilkin will be paid a one-time relocation bonus of \$15,000.00.
8. PATENT RIGHTS: Wilkin'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 with OCC, either individually or jointly with others, which relate to the business conducted by or planned to be conducted by OCC as reasonably determined by OCC, 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, Wilkin 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 of 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.
9. CONFIDENTIALLY; DISCLOSURE OF INFORMATION: Since the work for which Wilkin is employed and upon which he shall be engaged, will include trade secrets and confidential information of OCC or its customers, Wilkin 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 trade secret or confidential information of OCC or its customers. As used in this Agreement, "trade secrets and confidential information" includes any formula, pattern device or compilation of information used in the business of OCC or its customers for which OCC derives independent economic value by

affording OCC 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 certain 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 (nine) 9 shall apply throughout the period of Wilkin's employment with OCC, and thereafter.

10. NON-COMPETE: Wilkin covenants and agrees that during the term of his employment with OCC (as employee, consultant or otherwise) and for the twelve (12) consecutive months immediately following termination of that employment by either party for any reason he will not directly or indirectly own or have an ownership interest in, render services similar to those he is providing hereunder to, or work in the same or similar capacity in which he is employed hereunder for any business which competes with OCC or is engaged in the same or similar business conducted by OCC during the period of Wilkin's employment with OCC; nor will he call on, solicit or deal with any customers or prospective customer of OCC learned about or developed during Wilkin's employment with OCC for twelve (12) consecutive months immediately following termination of that employment by either party for any reason. This Agreement shall apply to Wilkin 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.
11. RETURN OF OCC PROPERTY: Immediately upon the termination of his employment with OCC, Wilkin will turn over to OCC all keys, passwords, computers, notes, memoranda, notebooks, drawings, records, documents, and all computer

program source listings, object files, and executable images or other information or materials 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.

12. BENEFITS: Wilkin shall be entitled to such vacation and benefits of OCC as OCC may from time to time establish for employees of similar positions, responsibilities and seniority; provided that Wilkin will receive at least 3 weeks vacation per year.
13. BINDING ON OTHER PARTIES: This Agreement shall be binding upon and inure to the benefit of Wilkin, his heirs, executors and administrators, and shall be binding upon and inure to the benefit of OCC and its successors and assigns.
14. 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 9 and 10 of the Agreement, damages at law will be inadequate and injunctive relief is appropriate in addition to whatever damages may be recoverable. Wilkin agrees to pay the costs, including attorneys fees incurred by OCC in enforcing the provisions of paragraphs 9 and 10.

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.

15. 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 Wilkin or to its principal office in the case of OCC.
16. SEVERABILITY: 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.
17. ASSIGNMENT: Wilkin may not transfer, pledge, encumber, assign, anticipate, or alienate all or any part of this Agreement.
18. PRIOR AGREEMENT; 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 parties hereto. No waiver by either party of any breach of any term or provision of this Agreement shall be construed as a waiver of any succeeding breach of the same or any other term or provision.

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

/s/ Neil D. Wilkin, Jr  
-----  
Neil D. Wilkin, Jr.

Optical Cable Corporation

By: /s/ Robert Kopstein  
-----  
Robert Kopstein  
President and Chief Executive Officer

OPTICAL CABLE CORPORATION  
EMPLOYMENT AGREEMENT

This agreement made effective November 21, 2001 by and between Optical Cable Corporation, having a place of business at 5290 Concourse Drive, Roanoke, Virginia (hereinafter referred to as "OCC"), and Ken Harber (hereinafter referred to as "Harber").

WHEREAS, OCC desires to employ Harber and Harber 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 Harber and Harber accepts employment upon the following terms and conditions:

1. **EMPLOYMENT AND DUTIES:** Harber is employed as Vice President of Finance of OCC. Harber hereby agrees to abide by the terms and conditions of this Agreement. Harber shall report directly to the Senior Vice President and Chief Financial Officer of OCC. The authority, duties and responsibilities of Harber shall include those duties as may be assigned to Harber by the President from time to time. While employed hereunder, Harber shall devote reasonable time and attention during normal business hours to the affairs of OCC and use his best efforts to perform faithfully and efficiently his duties and responsibilities.
2. **TERM AND RENEWAL:** The term of this Agreement shall begin on November 21, 2001 and shall terminate on the 30th day of November, 2003. At the end of the initial term (and each renewal term, if any), this Agreement will automatically renew for an additional 2-year term unless one of the parties provides the other party with written notice indicating the intention not to renew this Agreement at least 6 months prior to the end of such term.
3. **COMPENSATION:**
  - a. **Salary.** For all services rendered by Harber, OCC shall pay Harber \$107,500 annual salary, payable in equal monthly installments on the first business day of each month during which Harber is employed, commencing on December 1, 2001.
  - b. **Sales bonus.** Harber will be paid a monthly bonus equal to .0009 of the monthly sales which are adjusted for point of sale and payable on the 15th of the following month.
  - c. **Annual bonus.** Harber will be paid a lump sum bonus equal to the sum of the twelve fiscal year monthly bonuses, payable on or around January 15th of the following year.
4. **STOCK OPTIONS:** The terms and conditions of stock options granted to Harber are governed by the documents evidencing such options and are not intended to be addressed in this Agreement.

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5. **TERMINATION:** This Agreement shall terminate automatically upon the earliest -----  
of any of the following events and no act, failure to act (except as otherwise provided in this Agreement), oral statement or representation of OCC or any of its directors, officers, agents or employees, whether contained in any employee handbook or otherwise, will be deemed a waiver by OCC of its rights hereunder unless expressly stated to the contrary:
  - a. expiration of the term (including renewals, if any);
  - b. OCC's termination of Harber without Cause (as defined below), provided that OCC has given Harber thirty (30) days prior written notice; c.
  - c. resignation by Harber other than for Good Reason (as defined below), provided that Harber has given OCC thirty (30) days prior written notice;

- d. death of Harber (effective on the last day of the month in which death occurs);
- e. the inability of Harber to perform substantially all of his duties hereunder by reason of illness, physical, mental or emotional disability or other incapacity, which inability shall continue for more than four successive months or six months in the aggregate during any period of 12 consecutive months, provided that OCC has given Harber written notice at or before the end of such period Harber does not return to work on a full-time basis; or
- f. OCC's termination of Harber for Cause, provided that OCC has given Harber written notice. For purposes of this Agreement, "Cause" shall mean:
  - i. Harber's material breach of this Agreement, which breach is not cured within thirty (30) days of receipt by Harber of notice from OCC specifying the breach; or
  - ii. Harber's gross negligence in the performance of his material duties hereunder, intentional non-performance or misperformance of such duties, or refusal to abide by or comply with the directives of the Board, his superiors, or OCC's policies and procedures (including non-discrimination and sexual harassment), which actions continue for a period of at least thirty (30) days after receipt by Harber of written notice of the need to cure or cease; or
  - iii. Harber's willful dishonesty, fraud, or misconduct with respect to the business or affairs of OCC, that in the reasonable judgment of the Board of Directors materially and adversely affects the operations or reputation of OCC; or
  - iv. Harber's conviction of a felony or other crime involving moral turpitude (whether or not in connection with his employment);

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- v. failure of Harber to pass any drug or alcohol test administered in accordance with OCC's substance abuse policies.
- g. resignation by Harber for Good Reason with thirty (30) days prior written notice. For purposes of this Agreement, "Good Reason" shall mean:
  - i. a change in reporting relationships such that Harber no longer directly reports to the Senior Vice President and Chief Financial Officer or the President of OCC, without Harber's prior written consent; or
  - ii. a material diminution in the nature or scope of Harber's powers, duties or responsibilities to a level below that which would ordinarily be assigned to an employee serving as Vice President of Finance, without Harber's prior written consent; or
  - iii. failure by OCC to provide Harber with the compensation and benefits in accordance with the terms of this Agreement; or
  - iv. relocation of OCC's principal executive offices to a location outside a thirty (30) mile radius of Roanoke, Virginia.

6. EFFECT OF TERMINATION: Except as expressly set forth below, OCC shall have -----  
no further obligations to Harber under this Agreement after the termination of his employment hereunder:

- a. Termination For Cause. If Harber is terminated for Cause by OCC, as -----  
defined in Section 5(f) above, OCC shall pay to Harber his salary and pro rata bonuses earned through the date of termination.
- b. Resignation by Harber Without Good Reason. If this Agreement is

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terminated by the resignation of Harber without Good Reason, OCC shall pay to Harber his salary and pro rata bonuses earned through the date of termination.

c. Termination without Cause, upon Death or Disability, or Resignation

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for Good Reason. If this Agreement is terminated for any of the

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reasons stated in Sections 5(b), (d), (e), or (g), OCC shall pay to Harber his salary and pro rata bonuses earned through the date of termination, as well as a severance payment equal to six (6) months salary (including bonuses), less applicable withholdings, payable in the same manner as during Harber's employment.

7. PATENT RIGHTS: Harber'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 with OCC, either individually or jointly with

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others, which relate to the business conducted by or planned to be conducted by OCC as reasonably determined by OCC, 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, Harber 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 of 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.

8. CONFIDENTIALITY; DISCLOSURE OF INFORMATION: Since the work for which Harber is employed and upon which he shall be engaged, will include trade secrets and confidential information of OCC or its customers, Harber receives 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 trade secret or confidential information of OCC or its customers. As used in this Agreement, "trade secrets" and "confidential information" includes any formula, pattern, device or compilation of information used in the business of OCC or its customers for which OCC derives independent economic value by affording OCC 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 certain 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 eight (8) shall apply throughout the period of Harber's employment with OCC, and thereafter.

9. NON-COMPETE: Harber covenants and agrees that during the term of his employment with OCC (as employee, consultant or otherwise) and for the twelve (12) consecutive months immediately following termination of that employment by either party for any reason, and within the geographic area within which OCC is conducting business at the time of termination of his employment, he will not directly or indirectly participate in the management of, render services similar to those he is providing hereunder to, or work in the

same or similar capacity in which he is employed hereunder for, any business which competes with OCC or is engaged in the same or similar business conducted by OCC during the period of Harber's employment with OCC; nor will he call on, solicit or deal with any customers or prospective customer of OCC learned about or developed during Harber's employment with OCC for the twelve (12) consecutive months immediately following termination of that employment by either party for any reason.

10. RETURN OF OCC PROPERTY: Immediately upon the termination of his employment with OCC, Harber will turn over to OCC all keys, passwords, computers, notes, memoranda, notebooks, drawings, records, documents, and all computer program source listings, object files, and executable images or other information or materials 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.
11. BENEFITS: Harber shall be entitled to such vacation and benefits of OCC as OCC may from time to time establish for employees of similar positions, responsibilities and seniority, provided that Harber will receive at least three (3) weeks of vacation per year.
12. BINDING ON OTHER PARTIES: This Agreement shall be binding upon and inure to the benefit of Harber, his heirs, executors and administrators, and shall be binding upon and inure to the benefit of OCC and its successors and assigns.
13. 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 8 and 9 of the Agreement, damages at law will be inadequate and injunctive relief is appropriate in addition to whatever damages may be recoverable. Harber agrees to pay the costs, including attorneys fees, incurred by OCC in enforcing the provisions of paragraphs 8 and 9.

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.

14. 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 Harber or to its principal office in the case of OCC.
15. SEVERABILITY: 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.

16. ASSIGNMENT: Harber may not transfer, pledge, encumber, assign, anticipate, or alienate all or any part of this Agreement.
17. PRIOR AGREEMENT; 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 parties hereto. No waiver by either party of any breach of any term or provision of this Agreement shall be construed as a waiver of any succeeding breach of the same or any other term or provision.

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

/s/ Ken Harber  
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Ken Harber

Optical Cable Corporation

By: /s/ Randy Frazier  
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Randy Frazier  
Independent Board Member and  
Member of the Compensation Committee

By: /s/ John Holland  
-----  
John Holland  
Independent Board Member and  
Member of the Compensation Committee

AMENDMENT TO  
OPTICAL CABLE EMPLOYMENT AGREEMENT

The foregoing Agreement hereby is amended as follows:

The opening paragraph is amended to reflect the correct effective date of November 1, 2001.

Numbered Paragraph 2 on Page 1 is amended to reflect "The term of this Agreement shall begin on November 1, 2001, and shall terminate on the 31/st/ day of October 2003."

Numbered Paragraph 3.a. is amended to reflect the commencement date of employment under the Agreement as November 1, 2001.

OPTICAL CABLE CORPORATION

Date: -----

By: /s/ Randy Frazier  
-----  
Randy Frazier  
Independent Board Member and  
Member of the Compensation Committee

Date: -----

By: /s/ John Holland  
-----  
John Holland  
Independent Board Member and  
Member of the Compensation Committee

Date: -----

By: /s/ Kenneth W. Harber  
-----  
Kenneth W. Harber

OPTICAL CABLE CORPORATION  
EMPLOYMENT AGREEMENT

This agreement made effective November 21, 2001 by and between Optical Cable Corporation, having a place of business at 5290 Concourse Drive, Roanoke, Virginia (hereinafter referred to as "OCC"), and Luke Huybrechts (hereinafter referred to as "Huybrechts").

WHEREAS, OCC desires to employ Huybrechts and Huybrechts 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 Huybrechts and Huybrechts accepts employment upon the following terms and conditions:

1. **EMPLOYMENT AND DUTIES:** Huybrechts is employed as Senior Vice President of Sales of OCC. Huybrechts hereby agrees to abide by the terms and conditions of this Agreement. Huybrechts shall report directly to the President of OCC. The authority, duties and responsibilities of Huybrechts shall include those duties as may be assigned to Huybrechts by the President from time to time. While employed hereunder, Huybrechts shall devote reasonable time and attention during normal business hours to the affairs of OCC and use his best efforts to perform faithfully and efficiently his duties and responsibilities.
2. **TERM AND RENEWAL:** The term of this Agreement shall begin on November 21, 2001 and shall terminate on the 30th day of November, 2003. At the end of the initial term (and each renewal term, if any), this Agreement will automatically renew for an additional 2-year term unless one of the parties provides the other party with written notice indicating the intention not to renew this Agreement at least 6 months prior to the end of such term.
3. **COMPENSATION:**
  - a. **Salary.** For all services rendered by Huybrechts, OCC shall pay Huybrechts \$113,820 annual salary, payable in equal monthly installments on the first business day of each month during which Huybrechts is employed, commencing on December 1, 2001.
  - b. **Sales bonus.** Huybrechts will be paid a monthly bonus equal to .0009 of the monthly sales which are adjusted for point of sale and payable on the 15/th/ of the following month.
  - c. **Annual bonus.** Huybrechts will be paid a lump sum bonus equal to the sum of the twelve fiscal year monthly bonuses, payable on or around January 15/th/ of the following year.

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4. **STOCK OPTIONS:** The terms and conditions of stock options granted to Huybrechts are governed by the documents evidencing such options and are not intended to be addressed in this Agreement.
5. **TERMINATION:** This Agreement shall terminate automatically upon the earliest -----  
of any of the following events and no act, failure to act (except as otherwise provided in this Agreement), oral statement or representation of OCC or any of its directors, officers, agents or employees, whether contained in any employee handbook or otherwise, will be deemed a waiver by OCC of its rights hereunder unless expressly stated to the contrary:
  - a. expiration of the term (including renewals, if any);
  - b. OCC's termination of Huybrechts without Cause (as defined below), provided that OCC has given Huybrechts thirty (30) days prior written notice;
  - c. resignation by Huybrechts other than for Good Reason (as defined

below), provided that Huybrechts has given OCC thirty (30) days prior written notice;

- d. death of Huybrechts (effective on the last day of the month in which death occurs);
- e. the inability of Huybrechts to perform substantially all of his duties hereunder by reason of illness, physical, mental or emotional disability or other incapacity, which inability shall continue for more than four successive months or six months in the aggregate during any period of 12 consecutive months, provided that OCC has given Huybrechts written notice at or before the end of such period Huybrechts does not return to work on a full-time basis; or
- f. OCC's termination of Huybrechts for Cause, provided that OCC has given Huybrechts written notice. For purposes of this Agreement, "Cause" shall mean:
  - i. Huybrechts's material breach of this Agreement, which breach is not cured within thirty (30) days of receipt by Huybrechts of notice from OCC specifying the breach; or
  - ii. Huybrechts's gross negligence in the performance of his material duties hereunder, intentional non-performance or misperformance of such duties, or refusal to abide by or comply with the directives of the Board, his superiors, or OCC's policies and procedures (including non-discrimination and sexual harassment), which actions continue for a period of at least thirty (30) days after receipt by Huybrechts of written notice of the need to cure or cease; or

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- iii. Huybrechts's willful dishonesty, fraud, or misconduct with respect to the business or affairs of OCC, that in the reasonable judgment of the Board of Directors materially and adversely affects the operations or reputation of OCC; or
  - iv. Huybrechts's conviction of a felony or other crime involving moral turpitude (whether or not in connection with his employment);
  - v. failure of Huybrechts to pass any drug or alcohol test administered in accordance with OCC's substance abuse policies.
- g. resignation by Huybrechts for Good Reason with thirty (30) days prior written notice. For purposes of this Agreement, "Good Reason" shall mean:
- i. a change in reporting relationships such that Huybrechts no longer directly reports to the President of OCC, without Huybrechts's prior written consent; or
  - ii. a material diminution in the nature or scope of Huybrechts's powers, duties or responsibilities to a level below that which would ordinarily be assigned to an employee serving as Senior Vice President of Sales, without Huybrechts's prior written consent; or
  - iii. failure by OCC to provide Huybrechts with the compensation and benefits in accordance with the terms of this Agreement; or
  - iv. relocation of OCC's principal executive offices to a location outside a thirty (30) mile radius of Roanoke, Virginia.
6. EFFECT OF TERMINATION: Except as expressly set forth below, OCC shall have no further obligations to Huybrechts under this Agreement after the termination of his employment hereunder:
- a. Termination For Cause. If Huybrechts is terminated for Cause by OCC, as defined in Section 5(f) above, OCC shall pay to Huybrechts his salary and pro rata bonuses earned through the date of termination.

- b. Resignation by Huybrechts Without Good Reason. If this Agreement is  
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terminated by the resignation of Huybrechts without Good Reason, OCC  
shall pay to Huybrechts his salary and pro rata bonuses earned through  
the date of termination.
- c. Termination without Cause, upon Death or Disability, or Resignation  
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for Good Reason. If this Agreement is terminated for any of the  
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reasons stated in Sections

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5(b), (d), (e), or (g), OCC shall pay to Huybrechts his salary and pro  
rata bonuses earned through the date of termination, as well as a  
severance payment equal to six (6) months salary (including bonuses),  
less applicable withholdings, payable in the same manner as during  
Huybrechts's employment.

7. PATENT RIGHTS: Huybrechts'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 with OCC, either individually or jointly with others, which  
relate to the business conducted by or planned to be conducted by OCC as  
reasonably determined by OCC, 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, Huybrechts 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 of 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.
8. CONFIDENTIALITY; DISCLOSURE OF INFORMATION: Since the work for which  
Huybrechts is employed and upon which he shall be engaged, will include  
trade secrets and confidential information of OCC or its customers,  
Huybrechts receives 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 trade secret or  
confidential information of OCC or its customers. As used in this  
Agreement, "trade secrets" and "confidential information" includes any  
formula, pattern, device or compilation of information used in the business  
of OCC or its customers for which OCC derives independent economic value by  
affording OCC 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 certain 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 eight (8) shall  
apply throughout the period of Huybrechts's employment with OCC, and  
thereafter.

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9. NON-COMPETE: Huybrechts covenants and agrees that during the term of his  
employment with OCC (as employee, consultant or otherwise) and for the

twelve (12) consecutive months immediately following termination of that employment by either party for any reason, and within the geographic area within which OCC is conducting business at the time of termination of his employment, he will not directly or indirectly participate in the management of, render services similar to those he is providing hereunder to, or work in the same or similar capacity in which he is employed hereunder for, any business which competes with OCC or is engaged in the same or similar business conducted by OCC during the period of Huybrechts's employment with OCC; nor will he call on, solicit or deal with any customers or prospective customer of OCC learned about or developed during Huybrechts's employment with OCC for the twelve (12) consecutive months immediately following termination of that employment by either party for any reason.

10. RETURN OF OCC PROPERTY: Immediately upon the termination of his employment with OCC, Huybrechts will turn over to OCC all keys, passwords, computers, notes, memoranda, notebooks, drawings, records, documents, and all computer program source listings, object files, and executable images or other information or materials 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.
11. BENEFITS: Huybrechts shall be entitled to such vacation and benefits of OCC as OCC may from time to time establish for employees of similar positions, responsibilities and seniority, provided that Huybrechts will receive at least three (3) weeks of vacation per year.
12. BINDING ON OTHER PARTIES: This Agreement shall be binding upon and inure to the benefit of Huybrechts, his heirs, executors and administrators, and shall be binding upon and inure to the benefit of OCC and its successors and assigns.
13. 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 8 and 9 of the Agreement, damages at law will be inadequate and injunctive relief is appropriate in addition to whatever damages may be recoverable. Huybrechts agrees to pay the costs, including attorneys fees, incurred by OCC in enforcing the provisions of paragraphs 8 and 9.

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.

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14. 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 Huybrechts or to its principal office in the case of OCC.
15. SEVERABILITY: 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.
16. ASSIGNMENT: Huybrechts may not transfer, pledge, encumber, assign, anticipate, or alienate all or any part of this Agreement.
17. PRIOR AGREEMENT; 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 parties hereto. No waiver by either party of any breach of any term or provision of this Agreement shall be construed as a waiver of any succeeding breach of the same or any other term or provision.

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

/s/ Luke Huybrechts

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Luke Huybrechts

Optical Cable Corporation

By: /s/s Randy Frazier

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Randy Frazier  
Independent Board Member and  
Member of the Compensation Committee

By: /s/ John Holland

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John Holland  
Independent Board Member and  
Member of the Compensation Committee

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AMENDMENT TO  
OPTICAL CABLE EMPLOYMENT AGREEMENT

The foregoing Agreement hereby is amended as follows:

The opening paragraph is amended to reflect the correct effective date of November 1, 2000.

Numbered Paragraph 2 on Page 1 is amended to reflect "The term of this Agreement shall begin on November 1, 2001, and shall terminate on the 31/st/ day of October 2003."

Numbered Paragraph 3.a. is amended to reflect the commencement date of employment under the Agreement as November 1, 2001.

OPTICAL CABLE CORPORATION

Date: -----

By: /s/ Randy Frazier  
-----  
Randy Frazier  
Independent Board Member and  
Member of the Compensation Committee

Date: -----

By: /s/ John Holland  
-----  
John Holland  
Independent Board Member and  
Member of the Compensation Committee

Date: -----

By: /s/ Luke J. Huybrechts  
-----  
Luke J. Huybrechts

LOAN AGREEMENT

FIRST UNION NATIONAL BANK  
201 S. JEFFERSON STREET  
Roanoke, Virginia 24011  
(Hereinafter referred to as the "Bank")

OPTICAL CABLE CORPORATION  
5290 CONCOURSE DRIVE  
ROANOKE, VIRGINIA 24019  
(Individually and collectively, "Borrower")

This Loan Agreement ("Agreement") is entered into this 10th day of March, 1999, by and between Bank and OPTICAL CABLE CORPORATION, a corporation organized under the laws of the State of Virginia.

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

\* Working Capital Line of Credit - in the principal amount of \$10,000,000.00 which is evidenced by the Promissory Note of even date herewith (the "Line of Credit Note"), 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 financing working capital. Bank's obligation to advance or readvance under the Line of Credit Note shall terminate if Borrower is in Default under the Line of Credit Note.

\* Line of Credit/Sweep + - in the principal amount of \$5,000,000.00 which is evidenced by the Promissory Note of even date herewith (the "Line of Credit Note"), 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 financing working capital. Bank's obligation to advance or readvance under the Line of Credit Note shall terminate if Borrower is in Default under the Line of Credit Note.

The Agreement also amends and restates in its entirety that certain Loan Agreement dated April 25, 1997.

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 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

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 statement 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 interest 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: BUSINESS CONTINUITY. Borrower shall conduct its business in substantially the same manner and locations as such business is now and has previously been conducted. MAINTAIN PROPERTIES. Borrower shall maintain, preserve and keep its property in good repair, working order and conditions, making all needed replacements, additions and improvements thereto, to the extent allowed by this Agreement. ACCESS TO BOOKS & RECORDS. Borrower shall 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. Borrower shall 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, workmen's compensation insurance, and business interruption insurance, and upon all Collateral (as defined in the Loan Documents) securing the Obligations, such insurance as specified in the Loan Documents; all acquired in such amounts and from such companies as Bank may reasonably require. NOTICE OF DEFAULT AND OTHER NOTICES. (a) Notice of Default. Borrower shall furnish to Bank immediately upon becoming aware of the existence of

any condition or event which constitutes a Default (as defined in the Loan Documents) or any event which, upon the giving of notice or lapse of time or both, may become a Default, written notice specifying the nature and period of existence thereof and the action which Borrower is taking or proposes to take with respect thereto. (b) Other Notices. Borrower shall 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 owed by Borrower; (iii) any material adverse claim against or affecting Borrower; or any part of its properties; (iv) the commencement of, 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 thirty (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. Borrower shall 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. Payments of Debts. Borrower shall 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. Borrower shall 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. Borrower shall deliver promptly such other information regarding the operation, business affairs, and financial condition of Borrower which Bank may reasonably request. ESTOPPEL CERTIFICATE. Borrower, within fifteen (15) days after request by Bank, will furnish a written statement duly acknowledged of the amount due under the Loan and whether offsets or defenses exist against the Obligations. DEPOSIT RELATIONSHIP. Borrower will maintain its primary depository relationship with Bank. LIFE INSURANCE. Maintain no less than \$2,000,000.00 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: GOVERNMENT INTERVENTION. Borrower shall not 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. Borrower shall not 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. DEFAULT ON OTHER CONTRACTS OR OBLIGATIONS. Borrower shall not default on any material contract with or obligations 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. Borrower shall not 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 30 days of entry. CHANGE OF CONTROL. Borrower shall not make a material change of ownership that effectively changes control of Borrower. GUARANTEES. Borrower shall not guarantee or otherwise become responsible for obligations of any other person or entity. ENCUMBRANCES. Borrower shall not create, assume, or permit to exist any mortgage, security deed, deed of trust, pledge, lien, change 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. RETIRE OR REPURCHASE CAPITAL STOCK. Retire or otherwise acquire its capital stock in an amount greater than \$15,000,000.00. Any such acquisition of capital stock may be paid for from working capital or other sources deemed appropriate by the officers of the corporation.

FINANCIAL REPORTS. Borrower agrees to the following provisions(s) from the date of this Agreement and until final payment in full of the Obligations, unless Bank shall otherwise consent in writing: 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 in reasonable detail, prepared in conformity with generally accepted accounting principles, applied on

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 limitation in scope imposed by Borrower. 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 quarterly unaudited management-prepared 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. Such statements shall be certified as to their correctness by a principal financial officer of Borrower.

CONDITONS 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, on the day and year first written above, has caused this Agreement to be executed under seal.

OPTICAL CABLE CORPORATION

Corporate Seal

By: /s/ Robert Kopstein  
-----  
Robert Kopstein  
President

TAXPAYER IDENTIFICATION NUMBER(S):

OPTICAL CABLE CORPORATION 54-1237042

FIRST UNION NATIONAL BANK

By: /s/ Susan Doyle  
-----  
Susan Doyle  
Senior Vice President

49548

December 15, 1999

Mr. Ken Harber, Vice President  
Optical Cable Corporation  
P. O. Box 11967  
Roanoke, Virginia 24022-1967

Re: Loan Agreement Dated April 25, 1997

Dear Ken:

Per your phone conversation with Susan Doyle, you have advised First Union of your desire to repurchase additional shares of common stock from working capital and other sources deemed appropriate by the officers of the corporation. Whereas the current loan agreement, as amended, limits the purchase to \$15,000,000, you have requested an amendment to the loan agreement to increase this limit to \$20,000,000. Our consent to this increase is hereby granted.

We will follow up this letter with a formal amendment to the loan agreement. Please have Mr. Kopstein sign the acknowledgement line below and

return to First Union. A return envelope is provided for your convenience. Should you have any questions, please feel free to contact me at 563-6667.

Sincerely,

/s/ William C. Moses

William C. Moses  
Vice President

ACKNOWLEDGEMENT OF AMENDMENT:

Optical Cable Corporation

By: /s/ Robert Kopstein                      Date: 12/23/99  
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cc: Susan K. Doyle

October 3, 2001

Mr. Neil Wilkin, Senior Vice President  
Chief Financial Officer  
Optical Cable Corporation  
P. O. Box 11967  
Roanoke, Virginia 24022-1967

Re: Loan Agreement Dated March 10, 1999, \$5,000,000 and \$10,000,000 Promissory Notes Dated March 10, 1999, Security Agreements Dated March 13, 1996 and April 25, 1997 respectively, as renewed and amended (collectively, the "First Union Loan Documents")

Dear Neil:

Thank you for meeting with Brenda Vaughan, Marvin Huffman and me last Tuesday, September 25, 2001. Prior to and during our meeting, we discussed several important business and financial points concerning the financial performance of Optical Cable Corporation ("Optical Cable") and compliance with the First Union Loan Documents.

You asked us to amend or waive two Events of Default that occurred and remain outstanding since filing your 10Q on September 14, 2001 for the period ending July 31, 2001. First, by letter dated December 15, 1999, the limits of repurchase of common stock were raised from \$15,000,000 to \$20,000,00. It has come to our attention the \$20,000,000 limit was exceeded. Second, the Loan Agreement specifies the use of loan proceeds be limited to working capital purposes. Working capital purposes are limited to short term uses in the ordinary course of business of Optical Cable, and do not include purchase of common stock of the Company for the Treasury. These Events of Default remain outstanding.

During our meeting we asked for information that would help us respond to your request to waive the Events of Default. Included in our information request is a financial forecast for the quarter ending October 31, 2001, budget for the first half of fiscal 2002 and year end, if possible, plus a precise final count of the repurchased shares. We have also determined that we need monthly financial statements for August and September as well as for succeeding months on an ongoing basis.

Through the close of business October 1, 2001 the combined balance outstanding on the \$5 million and \$10 million loans is \$7,112,000.00. The balance of the \$5 million Sweep+ line is \$2,612,000.00 after transferring \$4,500,000 to the \$10 million line. The transfer was effective September 5, 2001. Also, during our meeting you indicated the need for minimal additional usage under the lines as the last stock redemption occurred on Friday, September 21, 2001. According to our records there was a wire transfer in the amount of

\$272,800 to First Star Bank on September 26, which appears to be settlement of the September 21, 2001 stock purchase.

Since Events of Default remain outstanding, we are limiting the

availability under Optical Cable's lines to a level consistent with its working capital needs. Effective Thursday, October 4, 2001, the combined, total outstanding under the two lines of credit is limited to \$9,500,000. Notwithstanding the outstanding defaults, First Union National Bank ("FUNB") will permit a one time only use of up to \$500,000 under the lines of credit for purposes other than working capital purposes. This non-working capital advance shall be repaid as soon as possible. We reserve all other rights under and in connection with the First Union Loan Documents including the right to accelerate obligations under the First Union Loan Documents.

In consideration of First Union's agreement to permit continued usage of the line as described above, please execute this letter to confirm that Optical Cable does not have any defenses to the obligations under the First Union Loan Documents, that Optical Cable does not hold any claims against First Union or its officers, directors, employees or affiliates, and that Optical Cable waives any claims it may have against First Union or its officers, directors, employees or affiliates.

Sincerely,

/s/ Susan K. Doyle

Susan K. Doyle  
Senior Vice President

By execution of this letter, Optical Cable Corporation acknowledges and agrees to all terms of the foregoing letter.

Optical Cable Corporation

By: /s/ Kenneth W. Harber

Name: Kenneth W. Harber

Title: VP Finance

Date: 10/4/2001

October 30, 2001

Mr. Kenneth Harber, Vice President, Finance  
Mr. Neil Wilkin, Senior Vice President & CFO  
Optical Cable Corporation  
P. O. Box 11967  
Roanoke, Virginia 24022-1967

Re: Loan Agreement Dated March 10, 1999, a letter modification to the Loan Agreement dated December 15, 1999; letter agreement dated October 3, 2001, \$5,000,000 and \$10,000,000 Promissory Notes Dated March 10, 1999; and Security Agreements Dated March 13, 1996 and April 25, 1997 respectively, all as renewed and amended (collectively, the "First Union Loan Documents")

Dear Ken and Neil:

Reference is made to the First Union Loan Documents cited above between Optical Cable Corporation (the "Borrower") and First Union National Bank (the "Bank"). The First Union Loan Documents and all other documents executed and delivered in connection therewith are collectively referred to herein as the "Loan Documents". All capitalized terms used but not defined herein shall have the meanings assigned in the Loan Documents.

(1) The Loan Agreement dated March 10, 1999 provides:

Borrower shall not "Retire or otherwise acquire its capital stock in an amount greater than \$15,000,000." This limitation was subsequently increased to \$20,000,000 in a letter dated December 15, 1999.

Based on information provided by the Borrower, stock repurchased amounted to \$24,179,403.26 through September 20, 2001, exceeding the \$20,000,000 limitation on August 16, 2001. The Borrower has requested the Bank's waiver of this violation and amendment of the limitation to \$25,000,000. The Bank does hereby waive the Borrower's defaults under this provision, subject to Borrower's execution of and return of this letter confirming its consent to the terms contained herein. The Loan Agreement will be modified to provide that the Retire or Repurchase Capital Stock section in the Negative Covenants paragraph will be deleted in its entirety and replaced with the following:

October 30, 2001  
Page 2

Retire or Repurchase Capital Stock. Borrower shall not retire or otherwise acquire any of its capital stock at any time following September 20, 2001. If Borrower reduces the combined outstanding obligations under both the \$5,000,000 line of credit and the \$10,000,000 line of credit to \$0.00 for a period of 30 consecutive days, then Borrower may spend up to \$820,596.74 to retire or acquire its capital stock.

- (2) The Loan Agreement dated March 10, 1999 also provides the following requirement for each Line of Credit:

"The Loan proceeds are to be used by Borrower solely for financing working capital."

Based on the schedule of purchases provided by the Borrower, stock repurchased during the Borrower's third and fourth quarters of fiscal 2001 (from July 11, 2001 through and including September 20, 2001) amounted to \$7,711,164.62. These purchases were largely financed through borrowings under the \$10,000,000 line of credit and the \$5,000,000 line of credit. Borrower acknowledges that this is not a permitted use of the loan proceeds. The Borrower has requested the Bank's waiver, and the Bank does hereby waive the Borrower's default under this provision, subject to Borrower's execution of and return of this letter.

These waivers are limited to the defaults recited above and shall not be construed to be a waiver of any subsequent default under the referenced provisions, or of any existing or future defaults under any other provision of any Loan Document.

First Union will continue to limit the availability under Optical Cable's lines to a level consistent with its working capital needs. The limitation of the combined availability under the \$10,000,000 line of credit and the \$5,000,000 line of credit to a maximum combined amount of \$9,500,000 will continue for the balance of the term of the lines of credit unless otherwise agreed to by Bank in writing. The purpose of each facility will continue to be Working Capital. Working capital purposes are limited to short term uses in the ordinary course of business of Optical Cable, and do not include purchase of common stock of the Company for the Treasury.

The foregoing modifications will be incorporated in an amended and restated loan agreement which will be executed by Bank and Borrower.

The Borrower, by signature below, represents and warrants that there exist no defaults or event of default under the Loan Documents other than those specifically waived herein, that the Loan Documents are in full force and effect, and that Borrower does not have any defenses to its obligations under the Loan Documents nor any claims against Bank.

October 30, 2001  
Page 3

Please evidence your acceptance of the terms of this waiver by signing and returning to the Bank a copy of this letter bearing original authorized signature of each of the parties indicated.

Sincerely,

Susan K. Doyle  
Senior Vice President

By execution of this letter, Optical Cable Corporation acknowledges and agrees to all terms of the foregoing letter.

Optical Cable Corporation

By: /s/ Kenneth W. Harber  
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Name: Kenneth W. Harber  
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Title: VP Finance  
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Date: 11/13/01  
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[FIRST UNION LOGO]

SECURITY AGREEMENT

April 25, 1997

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

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

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

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

Debtor hereby represents and agrees that:

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

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

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

**WAIVERS.** Debtor waives presentment, demand, protest, notice of dishonor, notice of default, demand for payment, notice of intention to accelerate, and notice of acceleration of maturity. Debtor further agrees not to assert against Bank as a defense (legal or equitable), as a set-off, as a counterclaim, or otherwise, any claims Debtor may have against any seller or lessor that provided personal property or services relating to any part of the Collateral. Debtor waives all

exemptions and homestead rights with regard to the Collateral. Debtor waives any and all rights to notice or to hearing prior to Bank's taking immediate possession or control of any Collateral, and to any bond or security which might be required by applicable law prior to the exercise of any of Bank's remedies against any Collateral.

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

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

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

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

Page 2

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

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

FINANCING STATEMENTS. No financing statement (other than any filed by Bank or disclosed above) covering any of Collateral or proceeds thereof is on file in any public filing office. This Security Agreement, or a copy thereof, or any financing statement executed hereunder may be recorded. On request of Bank,

Debtor will execute one or more financing statements in form satisfactory to Bank and will pay all costs and expenses of filing the same or of filing this Security Agreement in all public filing offices, where filing is deemed by Bank to be desirable. Bank is authorized to file financing statements relating to Collateral without Debtor's signature where authorized by law. Debtor appoints Bank as its attorney-in-fact to execute such documents necessary to accomplish perfection of Bank's security interest. The appointment is coupled with an interest and shall be irrevocable as long as any Obligations remain outstanding. Debtor further agrees to take such other actions as might be requested for the perfection, continuation and assignment, in whole or in part, of the security interests granted herein. If certificates are issued or outstanding as to any of the Collateral, Debtor will cause the security interests of Bank to be properly protected, including perfection of notation thereon.

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

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

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

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

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

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

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

and hold it harmless with respect to any claim or proceeding arising out of any matter related to collection of Collateral.

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

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

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

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

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

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

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

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

goods.

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

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

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

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

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

MISCELLANEOUS. (i) AMENDMENTS AND WAIVERS. No waiver, amendment or modification of any provision of this Security Agreement shall be valid unless in writing and

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

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

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

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

CORPORATE  
SEAL

By: /s/ Robert Kopstein  
-----  
Robert Kopstein, President

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SECURITY AGREEMENT

March 13, 1996

Optical Cable Corporation, a Virginia Corporation  
5290 Concourse Drive  
Roanoke, Virginia 24019

(Individually and collectively "Debtor")

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

To secure payment and performance of the Promissory Note executed by the Debtor dated March 13, 1996, in the original principal amount of \$5,000,000.00, payable to Bank, and any extension, renewal, modification or novation thereof (the "Note"), this Security Agreement and the other Loan Documents, and any other obligation of Debtor to Bank however created, arising or evidenced, whether direct or indirect, absolute or contingent, now existing or hereafter arising or acquired, including swap agreements (as defined in 11 U.S.C. ss.101), future advances, and all costs and expenses incurred by Bank to obtain, preserve, perfect and enforce the security interest granted herein and to maintain, preserve and collect the property subject to the security interest (collectively, "Obligations").

Debtor hereby grants to Bank a continuing security interest in and lien upon the following described property and any additions, accessions, or substitutions thereof and thereto, and all proceeds and products thereof, including cash or non-cash dividends (collectively, "Collateral"):

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

All books, records, files, computer programs, data processing records, computer software, documents and other information, property, or general intangibles, at any time evidencing, describing or pertaining to, and all containers and packages for, the property described above.

All products and proceeds of any of the property described above in any form, and all proceeds of such products including, without limitation, all cash and credit balances, rents, revenues and profits from sale, lease or license of any Collateral, all payments under any indemnity, warranty or guaranty with respect to any of such property, all proceeds of fire or other insurance, including any refunds or unearned premiums in connection with any cancellation, adjustment, or termination of any Insurance policy, all proceeds obtained as a result of any legal action or proceeding with respect to any of such property, and claims by Debtor against third parties for loss or damage to, or destruction of, any of such property.

Debtor hereby represents and agrees that:

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OWNERSHIP. Debtor owns the Collateral or Debtor will purchase and acquire rights in the Collateral within ten days of the date advances are made under the Note. The Collateral is free and clear of all liens, security interests, and claims except those previously reported in writing to Bank. Debtor will keep the Collateral free and clear from all liens, security interests and claims, other than those granted to Bank.

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

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

WAIVERS. Debtor waives presentment, demand, protect, notice of dishonor, notice of default, demand for payment, notice of intention to accelerate, and notice of

acceleration of maturity. Debtor further agrees not to assert against Bank as a defense (legal or equitable), as a set-off, as a personal property or services relating to any part of the Collateral. Debtor waives all exemptions and homestead rights with regard to the Collateral. Debtor waives any and all rights to notice or to hearing prior to Bank's taking Immediate possession or control of any Collateral, and to any bond or security which might be required by applicable law prior to the exercise of any of Bank's remedies against any Collateral.

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

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

COLLATERAL CONDITION AND LAWFUL USE. Debtor represents that Collateral is in good repair and condition and that Debtor shall use reasonable care to prevent Collateral from being damaged or depreciating. Debtor shall immediately notify Bank of any material loss or damage to Collateral. Debtor shall not permit any item of equipment to become a fixture to real estate or an accession to other

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personal property. Debtor represents it is in compliance in all respects with all federal, state and local laws, rules and regulations applicable to its properties, Collateral, operations, business, and finances, including, without limitation, any federal or state laws relating to liquor (including 18 U.S.C. ss.3617, et seq.) or narcotics (including 21 U.S.C. ss. 801, et seq.) and all applicable federal, state and local laws, and regulations intended to protect the environment.

RISK OF LOSS AND INSURANCE. The Debtor shall bear all risk of loss with respect to the Collateral. The injury to or loss of Collateral, either partial or total, shall not release Debtor from payment or other performance hereof. Debtor agrees to obtain and keep in force casualty and hazard insurance on Collateral. Such insurance is to be in form and amounts satisfactory to Bank. All such policies shall provide to Bank a minimum of thirty (30) days written notice of cancellation; and all policies shall be payable to Bank. Debtor shall furnish to Bank such policies, or other evidence of such policies satisfactory to Bank. Bank is authorized, but not obligated, to purchase any or all insurance or "Single interest insurance" protecting such interest as Bank deems appropriate against such risks and for such coverage and for such amounts, including either the loan amount or value of the Collateral at its discretion, all at Debtor's expense. In such event, Debtor agrees to reimburse Bank for the cost of such insurance and Bank may add such cost to the Obligations. Debtor shall bear the risk of loss to the extent of any deficiency in the effective insurance coverage with respect to loss or damage to any of the Collateral. Debtor hereby assigns to Bank the proceeds of all such insurance and directs any insurer to make payments directly to Bank. Debtor hereby appoints Bank its attorney-in-fact, which appointment shall be irrevocable and coupled with an interest for so long as the Obligations are unpaid, to file proof of loss and/or any other forms required to collect from any insurer any amount due from any damage or destruction of such recovery, to grant releases to insurer, to grant subrogation rights to any Insurer, and to endorse any settlement check or draft. Debtor agrees not to exercise any of the foregoing powers granted to Bank without the Bank's prior written consent.

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

FINANCING STATEMENTS. No Financing Statement senior to the Bank's interest (other than any filed by Bank) covering any of Collateral or proceeds thereof is

on file in any public filing office. This Security Agreement or a copy thereof, or any Financing Statement executed hereunder may be recorded. On request of Bank, Debtor will execute one or more Financing Statements in form satisfactory to Bank and will pay all costs and expenses of filing the same or of filing this Security Agreement in all public filing offices, where filing is deemed by Bank to be desirable. Bank is authorized to file Financing Statements relating to Collateral without Debtor's signature where necessary to accomplish perfection of Bank's security interest. The appointment is coupled with an interest and

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shall be irrevocable as long as any Obligations remain outstanding. Debtor further agrees to take such other actions as might be requested for the perfection, continuation and assignment, in whole or in part, of the security interests granted herein.

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

STOCK, DIVIDENDS. If, with respect to any security pledged hereunder, a stock dividend is declared, any stock split made or right to subscribe is issued, all the certificates for the shares representing such stock dividend, stock split or right to subscribe will be immediately delivered, duly endorsed, to the Bank as additional collateral, and any cash or non-cash dividend will be immediately delivered to Bank.

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

ACCOUNT INFORMATION. From time to time, at the Bank's request, Debtor shall provide Bank with schedules describing all accounts and contracts, including customers' addresses, credited or acquired by Debtor and at the Bank's request shall execute and deliver written assignments of contracts and other documents evidencing such accounts and contracts to Bank. Together with each schedule, Debtor shall, if requested by Bank, furnish Bank with copies of Debtor's sales journals, invoices, customer purchase orders or the equivalent, and original shipping or delivery receipts for all goods sold, and Debtor warrants the genuineness thereof.

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

If a Default occurs, no discount, credit, or allowance shall be granted by Debtor to any account or contract debtor and no return of merchandise shall be accepted by Debtor without Bank's consent. Bank may, after Default, settle or adjust disputes and claims directly with account contract debtors for amounts and upon terms that Bank considers advisable, and in such cases, Bank will credit the Obligations with the net amounts received by Bank, after deducting

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all of the expenses incurred by Bank. Debtor agrees to indemnify and defend Bank and hold it harmless with respect to any claim or proceeding arising out of any matter related to collection of the Collateral.

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

FARM PRODUCTS. Debtor agrees to deliver to Bank a written list identifying all points of delivery of, and identifying all potential buyers, commission merchants, and selling agents to or through whom Debtor may sell farm products secured by this Security Agreement.

LIVESTOCK. If the Collateral includes livestock, Debtor grants to Bank a security interest in all increase, progeny and products thereof, all feed owned by Debtor, all water privileges, all equipment used in feeding and handling said livestock, and all rights, title and interest in and to all contracts and leases covering lands for pasture and grazing purposes.

INVENTORY. So long as no Default has occurred, Debtor shall have the right in the regular course of business, to process and sell Debtor's inventory, unless Bank shall hereafter otherwise direct in writing. Upon demand of Bank, Debtor will, upon receipt of all checks, drafts, cash and other remittances, in payment of Collateral sold, deposit the same in a special bank account maintained with Bank, over which Bank also has the power of withdrawal.

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

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

TRANSFER OF COLLATERAL. The Bank may assign its rights in the Collateral or any part thereof, to the assignee, as well as any subsequent holder hereof, who shall thereupon become vested with all the powers and rights herein given to the Bank with respect to the property so transferred and delivered, and the Bank

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shall thereafter be forever relieved and fully discharged from any liability with respect to such property so transferred, but with respect to any property not so transferred the Bank shall retain all rights and powers hereby given.

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

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

CROSS COLLATERALIZATION LIMITATION. As to any other existing or future consumer

purpose loan by Bank to Debtor, within the meaning of the Federal Consumer Credit Protection Act, Bank expressly waives any security interest granted herein in Collateral that Debtor uses as a principal dwelling and household goods.

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

DEFAULT. A default ("Default") under this Security Agreement occurs upon: (a) The failure of timely payment or performance of any of the Obligations or a default under any Loan Document; (b) Any breach of any representation or agreement contained or referred to in this Security Agreement or other Loan Document; and/or (c) Any loss, theft, substantial damage, or destruction of the Collateral not fully covered by insurance, or as to which insurance proceeds are not permitted to Bank within thirty (30) days of the loss; any sale (except the sale of inventory in the ordinary course of business), lease, or encumbrance of any of the Collateral without prior written consent of Bank; or the making of any levy, seizure, or attachment on or of the Collateral which is not removed with ten (10) days.

REMEDIES ON DEFAULT (INCLUDING POWER OF SALE). If a Default occurs, all of the Obligations shall be immediately due and payable, without notice and Bank shall have all the rights and remedies of a secured party under the Uniform Commercial Code. Without limitation thereto, Bank shall have the following rights and remedies: (a) To take immediate possession of the Collateral, without notice or resort to legal process, and for such purpose, to enter upon any premises on which the collateral or any part thereof may be situated and to remove the same therefrom, or, at its option, to render the Collateral unusable or dispose of said Collateral on Debtor's premises, (b) To require Debtor to assemble the Collateral and make it available to Bank at a place to be designated by Bank, (c) To exercise its right of set-off or security interest as to any monies of Debtor deposited with Bank or affiliates of Bank, without notice, (d) To dispose of Collateral, as a unit or in parcels, separately or with any real property interests also securing the Obligations, in any county or place to be selected by Bank, at either private or public sale (at which public sale bank may be the purchaser) with or without having the Collateral physically present at said sale. If the Collateral includes motor vehicles or household appliances, it is agreed that disposition by private sale is commercially reasonable, but private

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sale shall not be deemed to be Bank's exclusive remedy, it being understood that Bank may elect to dispose of the Collateral in any other commercially reasonable manner, (e) Any notice of sale, disposition or other action by Bank required by law and sent to Debtor at Debtor's address shown above, or at such other address of Debtor as may from time to time be shown on the records of Bank, at least five (5) days prior to such action, shall constitute reasonable notice to Debtor. Notice shall be deemed given or sent when mailed postage prepaid to Debtor's address as provided herein, (f) Bank shall be entitled to apply the proceeds of any sale or other disposition of the Collateral, and the payments received by Bank with respect to any of the Collateral, to the Obligations in such order and manner as Bank may determine, (g) Collateral that is subject to rapid declines in value and is customarily sold in recognized markets may be disposed of by Bank in a recognized market for such collateral without providing notice of sale.

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

MISCELLANEOUS. (a) Amendments and Waivers. No waivers, amendments or modifications of any provision of this Security Agreement shall be valid unless in writing and signed by an officer of Bank. No waiver by Bank of any Default shall operate as a waiver of any other Default or of the same Default on a future occasion. Neither the failure of, nor any delay by, Bank in exercising any right, power or privilege granted pursuant to this Security Agreement shall

operate as a waiver thereof, nor shall a single or partial exercise thereof preclude any other or further exercise of any other right, power or privilege. (b) Assignment. All rights of Bank hereunder are freely assignable, in whole or in part, and shall inure to the benefit of and be enforceable by Bank, its successors, assigns and affiliates. Debtor shall not assign its rights and interest hereunder without the prior written consent of Bank, and any attempt by Debtor to assign without Bank's prior written consent is null and void. Any assignment shall not release Debtor from the Obligations. This Security Agreement shall be binding upon the Debtor, and the heirs, personal representatives, successors, and assigns of Debtor. (c) Applicable Law; Conflict Between Documents. This Security Agreement shall be governed by and construed under the law of the state in which the office of Bank as stated above is located without regard to that state's conflict of laws principles. If any terms of this Security Agreement conflict with the terms of any commitment letter or loan proposal, the terms of this Security Agreement shall control. (d) Jurisdiction. Debtor irrevocably agrees to non-exclusive personal jurisdiction in the state in which the office of Bank as stated above is located. (e) Severability. If any provision of this Security Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective but only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Security Agreement. (f) Notices. Any notices to Debtor shall be sufficiently given, if in writing and mailed or delivered to the address of Debtor shown above or such other address as provided hereunder; and to Bank, if in writing and mailed or delivered to Bank's office address shown above or such other address as Bank may specify in writing from time to time. In the event that the Debtor changes Debtor's address at any time prior to the date this Note is paid in full, Debtor agrees to

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promptly give written notice of said change of address by registered or certified mail, return receipt requested, all charges prepaid. (g) Captions. The captions contained herein are inserted for convenience only and shall not affect the meaning or interpretation of this Security Agreement or any provision hereof. The use of the plural shall also mean the singular, and vice versa. (h) Loan Documents. The term "Loan Documents" refers to all documents executed in connection with the Obligations and may include, without limitation, commitment letters, loan agreements, guaranty agreements, other security agreements, letters of credit, instruments, financing statements, mortgages, deeds of trust, deeds to secure debt, and any amendments or supplements (excluding swap agreements as defined in 11 U.S.C. ss. 101). (i) Joint and Several Liability. If more than one person has signed this Security Agreement, such parties are jointly and severally obligated hereunder. (j) Binding Contract. Debtor by execution and Bank by acceptance of this Security Agreement, agree that each party is bound by all terms and provisions of this Security Agreement.

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 Security Agreement and other Loan Documents ("Disputes") between or among parties to this Security Agreement shall be resolved by binding arbitration as provided herein. Institution of a judicial proceeding by a party does not waive the right of that party to demand arbitration hereunder. Disputes may include, without limitation, 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 Security 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. All applicable statutes of limitation shall apply to any Dispute. A judgement 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 Debtor 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 Debtor shall have the right to proceed

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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 or 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.

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

Optical Cable Corporation, a Virginia Corporation

By: /s/ Robert Kopstein  
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Robert Kopstein, President

CORPORATE  
SEAL

Taxpayer Identification Number: 54-1237042

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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 14, 2001, except as to note 13 to the financial statements, which is as of December 27, 2001, relating to the balance sheets of Optical Cable Corporation as of October 31, 2001 and 2000, and the related statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended October 31, 2001, which report appears in the October 31, 2001 Annual Report on Form 10-K of Optical Cable Corporation.

/s/ KPMG LLP

Roanoke, Virginia  
January 29, 2002