

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

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

FOR THE FISCAL YEAR ENDED OCTOBER 31, 1996
OR

TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934 For the transition period from _____ to _____

COMMISSION FILE NUMBER 0-27022

OPTICAL CABLE CORPORATION
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Virginia
(State of incorporation)

5290 Concourse Drive
Roanoke, Virginia 24019
(Address of principal
executive offices)

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

(540) 265-0690
(Telephone Number)

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

None

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

Common Stock, no par value

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. (1) Yes X No (2) Yes X No

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

The aggregate market value of shares of common stock held by non-affiliates at December 31, 1996 was \$30,721,284.

As of January 15, 1997, 38,675,416 shares of the Registrant's Common Stock were outstanding.

DOCUMENT INCORPORATED BY REFERENCE
PORTIONS OF THE REGISTRANT'S NOTICE OF 1997 ANNUAL MEETING AND PROXY STATEMENT

PART I

ITEM 1. BUSINESS

GENERAL

The Company manufactures and markets a broad range of fiber optic cables for "high bandwidth" transmission of data, video and audio communications over

moderate distances of up to approximately 10 miles. The Company's cables can be used both indoors and outdoors, are easy and economical to install, and provide a high degree of reliability. The Company believes that its products are widely accepted for use in fiber optic local area networks ("LANs") and are increasingly accepted in other communications applications. The Company's products directly address the needs of the moderate distance market by utilizing a tight-buffered coating that protects the optical fiber and a cable design that achieves superior mechanical and environmental performance.

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

INDUSTRY BACKGROUND AND MARKETS

APPLICATION OF FIBER OPTIC COMMUNICATIONS TECHNOLOGY

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

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

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

THE LONG DISTANCE TELEPHONE MARKET

In the 1970s private industry began to develop optical fiber systems for long distance commercial applications, particularly the U.S. telephone networks. For this application, the expense of electro-optical components posed a lower cost barrier because relatively few terminal components were required for long distance transmissions. For the long distance telephone market, "single mode" optical fiber was developed. To protect this early generation of fiber without adversely affecting its optical performance, fiber optic cable producers chose a high density (i.e., high fiber count) "loose tube" cable construction. This cable design was developed to put minimal stress on the optical fibers, which

initially were particularly fragile, and to put many optical fibers in a small, relatively inexpensive cable. When such cables proved vulnerable to water penetration, manufacturers added a water-blocking but flammable gel, making them unsuitable for indoor use.

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

THE MODERATE DISTANCE MARKET

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

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

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

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

THE COMPANY'S SOLUTION

Fiber optic cables used for moderate distance applications may be subjected to many different stress environments. Cables installed inside buildings may be routed through cable trays, floor ducts, conduits and walls and may encounter sharp corners or edges. They may be pulled without lubricant, resulting in higher pull tensions, and stressed to the breaking point if care is not used. In the outdoor and underground environments, cables are often subjected to moisture, ultra-violet radiation and long pulling distances through conduits

with a variety of bends and corners, resulting in high pulling tensions. These conditions can be aggravated if installers are not adequately trained in the installation of fiber optic cable. The Company's founders recognized that, for many applications, the stresses on the cables during installation are similar to those in the military tactical environment, for which the Company's technology was initially developed. The Company applied this technology to commercial products serving a market that could not be adequately served by gel-filled, loose tube cable manufactured for the long distance telephone market.

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

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

THE COMPANY'S STRATEGY

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

FOCUS ON THE MODERATE DISTANCE MARKET

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

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

DEVELOP HIGH PERFORMANCE PRODUCTS AND OFFER A BROAD PRODUCT LINE

The Company believes that serving both the premium performance and the price competitive parts of the moderate distance market best utilizes its development and manufacturing capabilities. The Company's Ultra-Fox(TM) product line provides optical fiber products that are competitively priced, with features that the Company believes are superior to its competitors' offerings. The

Ultra-Fox(TM) plus product line shares many of the materials and features with the Company's military tactical cable products and is marketed to customers who want the most reliable installations for their critical communication or control processes. Since January 1994, the Company's quality management system has been certified to the internationally recognized ISO 9001 quality standard.

LEVERAGE EXISTING TECHNOLOGIES AND KNOWLEDGE

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

CAPITALIZE ON PROPRIETARY, FLEXIBLE MANUFACTURING PROCESSES

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

OFFER COST EFFECTIVE SOLUTIONS TO ITS CUSTOMERS

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

EXPAND DISTRIBUTION AND MARKETING PRESENCE

The Company intends to increase its sales and marketing activities both domestically and internationally. The Company distributes its products through independent distributors to supplement the Company's existing distribution channels and to provide the Company with access to a greater number of potential customers in the United States. Despite limited resources dedicated to international sales and marketing, revenues from international sales were approximately 25%, 24% and 25% in fiscal 1994, 1995 and 1996, respectively. The Company intends to hire more sales personnel to manage and expand its international distribution network. However, there can be no assurance that the Company will have the financial resources required to increase its sales and marketing activities domestically or internationally, or to hire additional sales personnel.

PRODUCTS AND TECHNOLOGY

PRODUCTS

The Company manufactures and markets a broad range of fiber optic cables that provide a high bandwidth transmission for data, video and audio communications over moderate distances. The Com

pany's products are derived from technology originally developed for military applications requiring very rugged, flexible and compact fiber optic cables. The Company's method of applying a tight-buffered coating on each optical fiber before it is encased minimizes microbending, the primary cause of signal loss in optical fibers.

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

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PRODUCT TYPE	FEATURES/DESCRIPTION	APPLICATIONS
	<ul style="list-style-type: none"> o SIMPLEX (ONE OPTICAL FIBER) AND DUPLEX (TWO OPTICAL FIBERS) CABLES o TIGHT-BUFFERED COATING ON EACH OPTICAL FIBER o ARAMID YARN STRENGTH MEMBERS 	<ul style="list-style-type: none"> o SHORT "PATCH CORD" CABLES o LINKS BETWEEN ELECTRONIC EQUIPMENT AND MAIN FIBER OPTIC CABLE o ROUTING CONNECTIONS IN PATCHING
A-Series Simplex and Duplex "Assembly" Cables.....	<ul style="list-style-type: none"> o thermoplastic outer jacket o flame retardant o 2 to 156 optical fibers o tight-buffered coating on each optical fiber o elastomeric jacket encases each optical fiber and surrounding aramid yarn strength members (similar to an A-Series simplex cable) o Core-Locked(TM) outer jacket o rugged o flame retardant 	<ul style="list-style-type: none"> systems o indoor use o direct termination with connectors on each optical fiber o short and moderate distance links between buildings or within a building, where multiple termination points are needed o installations where ease of termination and termination cost are important factors o indoor and outdoor use
B-Series "Breakout" Cables	<ul style="list-style-type: none"> o moisture and fungus resistant o 2 to 156 optical fibers o tight-buffered coating on each optical fiber o Core-Locked(TM) outer jacket encases the optical fibers and aramid yarn strength members o smaller, lighter and less expensive than the B-Series cable o high strength to weight ratio o compact size o rugged 	<ul style="list-style-type: none"> o longer distance runs where size and cable cost are more significant o can be armored for additional protection in buried and overhead installations o indoor and outdoor use
D-Series "Distribution" Cables.....	<ul style="list-style-type: none"> o flame retardant o moisture and fungus resistant o up to 864 optical fibers in various subgroup sizes o high fiber count systems o multi-fiber subcables, each similar to subgroups needed to facilitate a D-Series cable organization of large numbers of optical o Core-Locked(TM) outer jacket fibers surrounds subcables o subcables routed to different o high density "micro" construction locations o rugged o installations requiring several 	<ul style="list-style-type: none"> o indoor and outdoor use
G-Series "Subgrouping" Cables.....	<ul style="list-style-type: none"> o flame retardant o moisture and fungus resistant 	<ul style="list-style-type: none"> different optical fiber types o indoor and outdoor use

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

B-Series "Breakout" Cables. The B-Series cables consist of a number of subcables, each consisting of a single optical fiber and aramid yarn strength members similar to an A-Series simplex cable. These subcables are tight-bound in a pressure-extruded, high performance Core-Locked(TM) PVC outer jacket to form

the finished multi-fiber cable. Like the A-Series cables, the subcables are intended to be terminated directly with connectors. This direct termination feature makes this cable type particularly suited for shorter distance installations, where there are many terminations and termination costs are more significant. The materials and construction of the cable permit its use both indoors and outdoors. These features make the cable cost effective for use in campus and industrial complex installations, between and within buildings.

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

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

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

PRODUCT DEVELOPMENT

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

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

MAJOR MARKET APPLICATIONS

The most common application of the Company's products is in LANs, where optical fiber is widely used as the "backbone" or "trunk," connecting groups of

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

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

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

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

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

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

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

SALES, MARKETING AND CUSTOMER SERVICE

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

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

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

Furthermore, the Company believes that it has a reputation for product excellence based on its success with large projects for end users such as Chrysler Corporation, 3M, Virginia Polytechnic Institute and State University, Bankers Trust and Salomon Brothers Inc, and for integrators such as Ameritech Information Systems and US WEST. The Company had no single customer that accounted for more than 5% of its net sales in either fiscal 1994, 1995 or 1996. However, in fiscal 1995 and 1996, 10% and 12%, respectively, of net sales was attributable to one major domestic distributor. Most of the Company's revenue in each quarter results from orders received in that quarter. Accordingly, the Company does not believe that its backlog at any particular point in time is indicative of future sales. The Company believes that its customer base is diverse, crossing over many markets and regions worldwide and believes that it is important to maintain that diversity to avoid dependence on any particular segment of the economy or area of the world.

MANUFACTURING AND SUPPLIERS

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

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

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

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

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

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

PROPRIETARY RIGHTS

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

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

COMPETITION

The market for fiber optic cable, including the moderate distance market in which the Company's products are concentrated, is highly competitive. Siecorm Corp. (a joint venture of Siemens AG and Coming) and AT&T are the leading manufacturers of fiber optic cable for both the long distance telephone market and the moderate distance market. Although both manufacture gel-filled, loose tube cables, a significant portion of AT&T and Siecorm Corp.'s fiber optic cable sales are tight-buffered fiber optic cable products in the moderate distance market. Also, Coming and AT&T are principal suppliers of optical fiber worldwide. The Company's competitors, including Siecorm Corp. and AT&T, are more established, having a large business base in the long distance telephone, gel-filled, loose tube cable market. Those companies can benefit from greater market recognition and have greater financial, research and development, production and marketing resources than the Company.

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

The Company believes that it competes successfully against its competitors on the basis of breadth of product features, quality, ability to meet delivery schedules, technical support and service, breadth of distribution channels and price. Maintaining such competitive advantages will require continued investment by the Company in product development, sales and marketing. There can be no assurance that the Company will have sufficient resources to make such investments or that the Company will be able to make the technological advances necessary to maintain its competitive position. An increase in competition could have a material adverse effect on the Company's business and operating results because of price reductions and loss of market share. Competition could increase if new companies enter the market or if existing competitors expand their product lines.

EMPLOYEES

As of October 31, 1996, the Company employed a total of 134 persons, including 44 in sales, marketing and customer service, 11 in engineering, product development and quality control, 66 in manufacturing, and 13 in finance and administration. None of the Company's employees is represented by a labor union. The Company has experienced no work stoppage and believes its employee relations are excellent. The Company has a monthly bonus plan for all employees along with an end of year profit sharing plan.

ITEM 2. PROPERTIES

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

ITEM 3. LEGAL PROCEEDINGS

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

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

None

PART II

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

The Company's Common Stock has traded on the Nasdaq National Market under the symbol OCCF since April 2, 1996. The following table sets forth for the fiscal periods indicated the high and low sales prices of the Common Stock, as reported on the Nasdaq National Market.

FISCAL YEAR ENDED OCTOBER 31, 1996	HIGH	LOW
		2
Second Quarter (April 2 to April 30, 1996)* .	4 5/8	3/8
		4
Third Quarter (May 1 to July 31, 1996)*	34	1/4
Fourth Quarter (August 1 to October 31, 1996)	20	1/4

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

As of December 31, 1996, there were an estimated 6,050 holders of record of the Common Stock.

Prior to terminating its status as an S corporation on March 31, 1996, the Company made cash distributions to its sole shareholder primarily to pay income tax liabilities arising from the Company's status as an S corporation. The Company has not otherwise paid or declared any cash dividends on its common stock and does not anticipate paying any cash dividends on its common stock in the near future.

ITEM 6. SELECTED FINANCIAL DATA

OPTICAL CABLE CORPORATION
SELECTED FINANCIAL DATA

	YEARS ENDED OCTOBER 31,				
	1996	1995	1994	1993	1992
(IN THOUSANDS, EXCEPT PER SHARE DATA)					
Statement of Income Data:					
Net sales.....	\$45,152	\$36,360	\$26,217	\$24,980	\$19,774
Cost of goods sold.....	24,907	20,121	14,138	13,036	10,342
Gross profit.....	20,245	16,239	12,079	11,944	9,432
Total operating expenses.....	8,416	7,660	7,967	7,724	6,526
Income from operations.....	11,829	8,579	4,112	4,220	2,906
Other income (expense), net.....	198	(379)	(614)	(870)	(1,100)
Income before income tax expense and extraordinary item.....	12,027	8,200	3,498	3,350	1,806
Income tax expense (1).....	2,806	--	--	--	--
Income before extraordinary item.....	9,221	8,200	3,498	3,350	1,806
Extraordinary item.....	--	--	(149)	--	--
Net income.....	\$ 9,221	\$ 8,200	\$ 3,349	\$ 3,350	\$ 1,806
Pro forma Income Data (1):					
Net income before pro forma income tax provision, as reported.....	\$ 9,221				
Pro forma income tax provision.....	1,747				
Pro forma net income.....	\$ 7,474				
Pro forma net income per share.....	\$ 0.19				
Pro forma weighted average shares outstanding.....	39,361				
Balance Sheet Data:					
Working capital.....	\$14,377	\$ 9,076	\$10,140	\$ 6,322	\$ 6,153
Total assets.....	31,127	18,819	19,056	16,465	14,964
Long-term debt, less current maturities....	--	--	8,000	2,000	5,280
Total stockholders' equity.....	23,572	14,952	7,832	7,161	4,682

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

GENERAL

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

RESULTS OF OPERATIONS

INCOME BEFORE INCOME TAX EXPENSE

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

Income before income tax expense increased 134.4 percent to \$8.2 million for fiscal 1995 from \$3.5 million in fiscal 1994. This increase was primarily due to increased sales volume and reductions in royalties, amortization of intangibles and interest expense. These positive factors were offset by a reduction in gross profit margin and an increase in selling, general and administrative expenses.

NET INCOME

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

Net income increased 144.8 percent to \$8.2 million for fiscal 1995 from \$3.3 million for fiscal 1994. This increase was a result of a \$4.7 million increase in income before income tax expense and extraordinary item and a \$149,000 extraordinary loss in fiscal 1994 due to an early repayment premium associated with certain senior subordinated notes.

NET SALES

Net sales consists of gross sales of products, less discounts, refunds and returns. Net sales increased 24.2 percent to \$45.2 million in fiscal 1996 from \$36.4 million for fiscal 1995. This increase was attributable to the Company's continued effort to reach a broader customer base throughout the United States and internationally with increased advertising, trade show attendance and direct sales presence in more states. This effort resulted in greater sales in all market segments and product types. Additionally, net sales were favorably impacted by increases in both large and small orders. Sales from orders less than \$50,000 increased 18.5 percent to \$36.5 million in fiscal 1996 from \$30.8 million in fiscal 1995, and sales from orders \$50,000 or more increased 55.4 percent to \$8.7 million from \$5.6 million.

Net sales increased 38.7 percent to \$36.4 million in fiscal 1995 from \$26.2 million for fiscal 1994. This increase was attributable to the Company's continued effort to reach a broader customer base throughout the United States and internationally with increased advertising, trade show attendance, and direct sales presence in more states. This effort resulted in greater sales in all market segments and product types. Additionally, net sales were favorably impacted by increases in both large and small orders. Sales from orders less than \$50,000 increased 44.6 percent to \$30.8 million in fiscal 1995 from \$21.3 million in fiscal 1994, and sales from orders \$50,000 or more increased 14.3 percent to \$5.6 million from \$4.9 million.

The Company's base business is projected to grow rapidly with increasing market share potential. Many new markets are expected to emerge as fiber optic sensors

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

GROSS PROFIT MARGIN

Cost of goods sold consists of the cost of materials, compensation costs and overhead related to the Company's manufacturing operations. The Company's gross profit margin (gross profit as a percentage of net sales) increased slightly to 44.8 percent in fiscal 1996 from 44.7 percent in fiscal 1995. The Company's gross profit margin decreased to 44.7 percent in fiscal 1995 from 46.1 percent in fiscal 1994. This decrease was due to the Company's providing additional discounts and incentives to its distributors, which had the effect of decreasing prices and margins.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses consist of the compensation costs (including sales commissions) for sales and marketing personnel, travel expenses, customer support expenses, trade show expenses, advertising, the compensation cost for administration, finance and general management personnel, as well as legal and accounting fees. Selling, general and administrative expenses as a percentage of net sales were 18.6 percent in fiscal 1996 compared to 21.1 percent in fiscal 1995. This lower percentage was primarily the result of the fact that net sales for fiscal 1996 increased 24.2 percent from fiscal 1995.

Selling, general and administrative expenses as a percentage of net sales were 21.1 percent in fiscal 1995. Selling, general and administrative expenses in fiscal 1994 as a percentage of net sales were 22.1 percent. This lower percentage was primarily the result of the fact that net sales for fiscal 1995 increased 38.7 percent from fiscal 1994.

ROYALTIES

On November 1, 1989, the Company entered into a Royalty Agreement pursuant to which the Company was required to pay the previously sole stockholder an annual royalty equal to 4.5 percent of the Company's net sales. The Royalty Agreement was terminated October 31, 1994. (See note 7 to financial statements).

AMORTIZATION OF INTANGIBLES

Amortization of intangibles consists of amortization of amounts paid for a noncompete agreement and a technologies license agreement in connection with the Company's purchase in 1989 of all the shares held by a former stockholder, and deferred financing costs associated with borrowing funds to finance the costs of that purchase. By June 1994, these intangibles had been fully amortized.

INTEREST EXPENSE

The \$369,000 reduction in interest expense in fiscal 1996 compared to fiscal 1995 is due to the Company generating adequate amounts of cash from operations to meet its cash needs thereby requiring limited use of its revolving line of credit during fiscal 1996. The \$230,000 reduction in interest expense in fiscal 1995 compared to fiscal 1994 is due to a decrease of \$9.4 million in outstanding indebtedness in 1995.

INCOME TAXES

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

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

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

FINANCIAL CONDITION

Total assets at October 31, 1996 were \$31.1 million, an increase of \$12.3 million, or 65.4 percent over October 31, 1995. This increase was primarily due to an increase of \$3.2 million in trade accounts receivable, net, resulting from the increased sales volume during fiscal 1996, an increase of \$4.2 million in inventory due to anticipated increases in sales volume and prices of raw materials in fiscal 1997, an increase of \$3.5 million in property and equipment, net, and an increase in cash and cash equivalents of \$1.1 million resulting from the initial public offering of the Company's common stock.

Total stockholders' equity at October 31, 1996 increased \$8.6 million from October 31, 1995 as a result of the initial public offering and net income for the year ended October 31, 1996, less cash distributions totaling \$6.2 million to the Company's previously sole stockholder.

LIQUIDITY AND CAPITAL RESOURCES

The Company has financed its cash requirements through cash flows from operations along with short-term borrowings. On March 1, 1996, the Company and its bank executed a loan commitment letter renewing its \$5 million revolving line of credit arrangement for another year under substantially similar terms; however, the line of credit as renewed does not contain the restrictive financial covenants contained in the previous agreement.

The Company's primary capital needs have been to (i) fund working capital requirements, (ii) repay indebtedness, (iii) purchase property and equipment for expansion and (iv) fund distributions to its previously sole stockholder primarily to satisfy his tax liabilities resulting from S Corporation status. The Company's primary sources of financing have been cash from operations, bank borrowings and the initial public offering of the Company's common stock. The Company believes that its cash flow from operations, available lines of credit and the remaining portion of the net proceeds from the public offering that the Company intends to use for general corporate purposes will be adequate to fund its operations for at least the next twelve months. The Company is not aware of any trends, commitments or events that will result in or that are reasonably likely to result in a material increase or decrease in liquidity thereafter. As of the date hereof, the Company has no additional material sources of financing.

Cash flows from operations were approximately \$4.1 million, \$11.3 million and \$4.3 million in fiscal 1996, 1995 and 1994, respectively. For fiscal 1996, cash flows from operations were primarily provided by operating income, offset by an increase in trade accounts receivable of \$3.4 million, an increase in inventory of \$4.2 million and income taxes paid of \$2.7 million. Cash flows from operations in fiscal 1995 were primarily provided by operating income and a decrease in inventory of \$2.8 million. In 1995, the Company reduced its inventory of optical fiber because it had additional access to ready supplies. Cash flows from operations in fiscal 1994 were primarily provided by operating income and decreases in inventory and amortization of intangibles.

Net cash used in investing activities was primarily for expenditures related to facilities and equipment and was \$3.1 million, \$387,000 and \$4.2 million in fiscal 1996, 1995 and 1994, respectively. In July 1996, the Company entered into a contract for the expansion of its headquarters facilities totaling \$3.2 million. Construction is expected to be completed by the end of January 1997. Total remaining commitments under the construction contract and related equipment purchases as of October 31, 1996 approximated \$1.7 million. There are no other material commitments for capital expenditures as of October 31, 1996.

Net cash provided by (used in) financing activities was \$193,000, \$(10.5) million and \$(114,000) in fiscal 1996, 1995 and 1994, respectively. The net cash provided by financing activities in fiscal 1996 consisted of an increase in debt outstanding under the line of credit of \$794,000 and net proceeds from the issuance of common stock of \$5.5 million, offset by \$6.2 million in cash distributions to the Company's previously sole stockholder. The net cash used in financing activities in fiscal 1995 consisted of a decrease in debt outstanding under the line of credit of \$5.9 million, payments on long-term debt of \$3.5 million and cash distributions to the Company's previously sole stockholder of \$1.1 million. The net cash used in financing activities in fiscal 1994 consisted of an increase in debt outstanding under the line of credit of \$4.3 million, proceeds of \$3.5 million from a real estate loan related to the Company's purchase of its previously leased manufacturing facility in 1994, offset by payments of \$5.3 million from the repayment of certain senior subordinated notes and \$2.7 million in cash distributions to the Company's previously sole stockholder.

NEW ACCOUNTING STANDARDS

In March 1995, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards No. 121, Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to be Disposed of ("SFAS No. 121"). SFAS No. 121 requires companies to review long-lived assets and certain identifiable intangibles to be held, used or disposed of, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company is required to adopt this statement in fiscal 1997. The Company believes the adoption of this statement will not have a significant effect on its financial statements.

In October 1995, the FASB issued Statement of Financial Accounting Standards No. 123, Accounting for Stock-based Compensation ("SFAS No. 123"), which is effective for transactions entered into in fiscal years beginning after December 15, 1995. The Company plans to retain the intrinsic value method of APB Opinion No. 25, Accounting for Stock Issued to Employees, for recognizing stock-based compensation in the financial statements. Management believes the adoption of SFAS No. 123 will not have a material impact on the Company's financial position or results of operations; however, the Company is still evaluating the new disclosure requirements under SFAS No. 123.

COMMON STOCK AND DIVIDEND DATA

The common stock of Optical Cable Corporation is traded over the counter on the NASDAQ National Market under the symbol OCCF.

At December 31, 1996, there were approximately 6,050 stockholders of record. No cash dividends have been declared or paid since the completion of the initial public offering in April 1996. While there are no restrictions on the payment of dividends, the Company does not anticipate the payment of dividends for the foreseeable future.

FISCAL YEAR ENDED	RANGE OF BID PRICES	
OCTOBER 31, 1996	-----	
-----	HIGH	LOW
	-----	-----
First Quarter ...	N/A	N/A
Second Quarter ..	\$ 4.63	\$2.38
Third Quarter ...	\$34.00	\$4.25
Fourth Quarter ..	\$20.00	\$8.25

ITEM 8. FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

FINANCIAL STATEMENTS:

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Statements of Income for the Years ended October 31, 1996, 1995 and 1994	22
Statements of Stockholders' Equity for the Years ended October 31, 1996, 1995 and 1994.....	23
Statements of Cash Flows for the Years ended October 31, 1996, 1995 and 1994....	24
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FINANCIAL STATEMENT SCHEDULES:

Financial statement schedules have been omitted since they are either not required, not applicable, or the information is otherwise included herein.

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, 1996 and 1995, and the related statements of income, stockholders' equity, and cash flows for each of the years in the three-year period ended October 31, 1996. These financial statements are the responsibility of the Company' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Optical Cable Corporation as of October 31, 1996 and 1995, and the results of its operations and its cash flows for each of the years in the three-year period ended October 31, 1996, in conformity with generally accepted accounting principles.

/s/ KPMG Peat Marwick LLP

Roanoke, Virginia
December 13, 1996

OPTICAL CABLE CORPORATION
BALANCE SHEETS
OCTOBER 31, 1996 AND 1995

	OCTOBER 31,	
	1996	1995
Assets		
Current assets:		
Cash and cash equivalents.....	\$ 1,677,739	\$ 535,235
Trade accounts receivable, net of allowance for doubtful accounts of \$300,000 in 1996 and \$200,000 in 1995.....	9,368,476	6,186,888
Other receivables.....	354,041	98,297
Due from employees.....	1,475	3,225
Inventories.....	10,261,437	6,033,042
Prepaid expenses.....	64,863	86,553
Deferred income taxes.....	155,304	--
 Total current assets.....	 21,883,335	 12,943,240
Other assets.....	67,996	201,237
Property and equipment, net.....	9,175,871	5,674,232
 Total assets.....	 \$31,127,202	 \$18,818,709
Liabilities and Stockholders' Equity		
Current liabilities:		
Notes payable.....	\$ 1,103,000	\$ 309,000
 Accounts payable and accrued expenses.....	 5,488,765	 2,726,727
Accrued compensation and payroll taxes.....	676,725	831,197
Income taxes payable.....	237,926	--
 Total current liabilities.....	 7,506,416	 3,866,924
Deferred income taxes.....	49,227	--
 Total liabilities.....	 7,555,643	 3,866,924
Stockholders' equity:		
Preferred stock, no par value, authorized 1,000,000 shares; none issued and outstanding.....	--	--
Common stock, voting; no par value, authorized 50,000,000 shares; issued and outstanding 38,675,416 shares in 1996 and 36,000,000 shares in 1995.....	18,594,116	596
Additional paid-in capital.....	--	767,849
Retained earnings.....	4,977,443	14,183,340
 Total stockholders' equity.....	 23,571,559	 14,951,785
Commitments and contingencies		
 Total liabilities and stockholders' equity.....	 \$31,127,202	 \$18,818,709

See accompanying notes to financial statements.

OPTICAL CABLE CORPORATION
STATEMENTS OF INCOME
YEARS ENDED OCTOBER 31, 1996, 1995 AND 1994

YEARS ENDED OCTOBER 31,		
1996	1995	1994

Net sales.....	\$45,152,299	\$36,359,953	\$26,216,583
Cost of goods sold.....	24,907,373	20,121,355	14,138,060
Gross profit.....	20,244,926	16,238,598	12,078,523
Operating expenses:			
Selling, general and administrative expenses....	8,415,798	7,660,100	5,797,634
Royalties.....	--	--	1,177,399
Amortization of intangibles.....	--	--	991,470
Total operating expenses.....	8,415,798	7,660,100	7,966,503
Income from operations.....	11,829,128	8,578,498	4,112,020
Other income (expense):			
Interest income.....	94,888	175	1,217
Interest expense.....	(9,595)	(378,205)	(607,882)
Other, net.....	112,988	(377)	(7,170)
Other income (expense), net.....	198,281	(378,407)	(613,835)
Income before income tax expense and extraordinary item.....	12,027,409	8,200,091	3,498,185
Income tax expense.....	2,806,849	--	--
Income before extraordinary item.....	9,220,560	8,200,091	3,498,185
Extraordinary item - loss on extinguishment of debt.....	--	--	148,968
Net income.....	\$ 9,220,560	\$ 8,200,091	\$ 3,349,217
Pro forma income data (unaudited):			
Net income before pro forma income tax provision, as reported.....	\$ 9,220,560		
Pro forma income tax provision.....	1,746,513		
Pro forma net income.....	\$ 7,474,047		
Pro forma net income per share.....	\$ 0.19		
Pro forma weighted average shares outstanding...	39,360,659		

See accompanying notes to financial statements.

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OPTICAL CABLE CORPORATION
STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED OCTOBER 31, 1996, 1995 AND 1994

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	TOTAL STOCKHOLDERS' EQUITY
	SHARES	AMOUNT			
Balances at October 31, 1993.....	36,000,000	\$ 596	\$ 767,849	\$ 6,392,754	\$ 7,161,199
Cash distributions to previously sole stockholder ..	--	--	--	(2,678,722)	(2,678,722)
Net income.....	--	--	--	3,349,217	3,349,217
Balances at October 31, 1994.....	36,000,000	596	767,849	7,063,249	7,831,694
Cash distributions to previously sole stockholder ..	--	--	--	(1,080,000)	(1,080,000)
Net income.....	--	--	--	8,200,091	8,200,091
Balances at October 31, 1995.....	36,000,000	596	767,849	14,183,340	14,951,785
Net income - five months ended March 31, 1996	--	--	--	4,243,117	4,243,117
Issuance of common stock for cash (\$2.50 per share, less issuance costs of \$1,139,326).....	2,675,416	5,549,214	--	--	5,549,214
Cash distributions to previously sole stockholder ..	--	--	--	(6,150,000)	(6,150,000)
Recapitalization.....	--	13,044,306	(767,849)	(12,276,457)	--
Net income - seven months ended October 31, 1996 ...	--	--	--	4,977,443	4,977,443
Balances at October 31, 1996.....	38,675,416	\$18,594,116	\$ --	\$ 4,977,443	\$23,571,559

See accompanying notes to financial statements.

OPTICAL CABLE CORPORATION
STATEMENTS OF CASH FLOWS
YEARS ENDED OCTOBER 31, 1996, 1995 AND 1994

	YEARS ENDED OCTOBER 31,		
	1996	1995	1994
Cash flows from operating activities:			
Net income.....	\$ 9,220,560	\$ 8,200,091	\$ 3,349,217
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization.....	533,445	404,469	308,778
Amortization of intangibles.....	--	--	991,470
Bad debt expense.....	266,366	87,652	137,485
Deferred income taxes.....	(106,077)	--	--
Loss on sale of property and equipment.....	--	381	11,469
(Increase) decrease in:			
Trade accounts receivable.....	(3,447,954)	(1,921,238)	(234,645)
Other receivables.....	(255,744)	(45,514)	(52,783)
Due from employees.....	1,750	(2,800)	5,963
Inventories.....	(4,228,395)	2,813,002	372,430
Prepaid expenses.....	21,690	(80,721)	73,929
Other assets.....	116,237	(201,237)	--
Increase (decrease) in:			
Accrued interest payable	--	(8,458)	(285,875)
Accounts payable and accrued expenses.....	1,881,379	1,603,409	(292,167)
Accrued compensation and payroll taxes.....	(154,472)	450,928	(65,885)
Income taxes payable.....	237,926	--	--
Net cash provided by operating activities.....	4,086,711	11,299,964	4,319,386
Cash flows from investing activities:			
Purchase of property and equipment.....	(3,137,421)	(387,231)	(4,168,198)
Proceeds from sale of property and equipment ...	--	20	3,499
Net cash used in investing activities.....	(3,137,421)	(387,211)	(4,164,699)
Cash flows from financing activities:			
Net borrowings (payments) on notes payable.....	794,000	(5,903,238)	4,344,762
Proceeds from long-term debt.....	--	--	3,500,000
Payments on long-term debt.....	--	(3,500,000)	(5,280,000)
Proceeds from issuance of common stock, net of issuance costs.....	5,549,214	--	--
Cash distributions to previously sole stockholder.....	(6,150,000)	(1,080,000)	(2,678,722)
Net cash provided by (used in) financing activities.....	193,214	(10,483,238)	(113,960)
Net increase in cash and cash equivalents	1,142,504	429,515	40,727
Cash and cash equivalents at beginning of year ...	535,235	105,720	64,993
Cash and cash equivalents at end of year	\$ 1,677,739	\$ 535,235	\$ 105,720
Supplemental Disclosure of Cash Flow Information:			
Cash payments for interest.....	\$ 9,595	\$ 386,663	\$ 893,757
Income taxes paid.....	\$ 2,675,000	\$ --	\$ --
Noncash investing activities - capital expenditures			
accrued in accounts payable.....	\$ 880,659	\$ --	\$ --

See accompanying notes to financial statements.

OPTICAL CABLE CORPORATION

Notes to Financial Statements

YEARS ENDED OCTOBER 31, 1996, 1995 AND 1994

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

(A) DESCRIPTION OF BUSINESS

Optical Cable Corporation (the Company) manufactures and markets a broad range of fiber optic cables for high bandwidth transmission of data, video and audio communications over moderate distances. The Company's fiber optic cables are sold nationwide and in over 60 foreign countries (also see note 9).

(B) CASH EQUIVALENTS

Cash equivalents of \$1,397,510 at October 31, 1996 consist of money market mutual funds. Cash equivalents of \$265,000 at October 31, 1995 consist of collateralized overnight repurchase agreements. For purposes of the statements of cash flows, the Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

(C) INVENTORIES

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

(D) PROPERTY AND EQUIPMENT

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

(E) REVENUE RECOGNITION

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

(F) INCOME TAXES

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

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

Effective March 31, 1996, income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred

liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(G) AMORTIZATION OF INTANGIBLES

Amortization of intangibles includes the amortization of a noncompete agreement and technology license agreement with a former stockholder which were perfected as part of a leveraged settlement agreement signed on June 22, 1989. The costs of these two agreements were determined based on historical data pertaining to royalties, salaries and bonuses paid to the former stockholder. These costs were amortized over the lives of the agreements (five years) using the straight-line method.

Amortization of intangibles also includes the amortization of deferred financing costs incurred in connection with the financing of the leveraged settlement agreement. These costs were amortized over the life of the outstanding long-term debt using the straight-line method.

(H) STOCK-BASED EMPLOYEE COMPENSATION

The Company sponsors a stock incentive plan for selected key management employees. The Company accounts for this stock-based employee compensation plan in accordance with APB Opinion No. 25.

(I) PRO FORMA NET INCOME PER SHARE

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

(J) USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

(2) ALLOWANCE FOR DOUBTFUL ACCOUNTS RECEIVABLE

A summary of changes in the allowance for doubtful accounts receivable for the years ended October 31, 1996, 1995 and 1994 follows:

	YEARS ENDED OCTOBER 31,		
	1996	1995	1994
Balance at beginning of year.....	\$ 200,000	\$ 250,000	\$ 350,000
Bad debt expense.....	266,366	87,652	137,485
Losses charged to allowance.....	(166,366)	(137,652)	(237,485)
Balance at end of year	\$ 300,000	\$ 200,000	\$ 250,000

(3) INVENTORIES

INVENTORIES AT OCTOBER 31, 1996 AND 1995 CONSIST OF THE FOLLOWING:

	OCTOBER 31,	
	1996	1995
Finished goods.....	\$ 2,465,659	\$2,331,995
Work in process.....	3,104,339	1,594,193
Raw materials.....	4,645,843	2,067,949
Production supplies	45,596	38,905
	-----	-----
	\$10,261,437	\$6,033,042
	=====	=====

(4) PROPERTY AND EQUIPMENT

Property and equipment at October 31, 1996 and 1995 consist of the following:

	OCTOBER 31,	
	1996	1995
Land.....	\$ 2,745,327	\$ 1,362,595
Building and improvements.....	3,401,997	3,401,997
Machinery and equipment.....	3,982,889	2,969,263
Furniture and fixtures.....	428,742	403,631
Construction in progress	1,596,611	--
	-----	-----
Total property and equipment, at cost.....	12,155,566	8,137,486
Less accumulated amortization and depreciation	(2,979,695)	(2,463,254)
	-----	-----
Property and equipment, net.....	\$ 9,175,871	\$ 5,674,232
	=====	=====

In July 1996, the Company entered into a contract for the expansion of its headquarters facilities totaling \$3.2 million. Construction is expected to be completed by the end of January 1997. Total remaining commitments under the construction contract and related equipment purchases as of October 31, 1996 approximated \$1.7 million.

(5) NOTES PAYABLE

The Company has a revolving line of credit arrangement with a bank that expires February 28, 1997. The arrangement permits the Company to borrow a maximum amount of \$5,000,000. The line of credit is limited to 80 percent of eligible accounts receivable and 50 percent of raw materials and finished goods inventories. The line of credit bears interest at 1.50 percent above the monthly LIBOR rate not to exceed the lender's prime rate less 1.0 percent (6.94 percent as of October 31, 1996) payable daily and is collateralized by all of the Company's accounts receivable, contract rights, inventories, property and equipment, and general intangibles. The outstanding balance on the line of credit was \$1,103,000 and \$309,000 at October 31, 1996 and 1995, respectively. While the line of credit does 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.

The Company was previously obligated under senior subordinated notes payable which were subject to an early repayment premium. On June 1, 1994, the Company repaid the remaining \$2,000,000 annual installment originally due June 1, 1995 and recognized an extraordinary loss of \$148,968 for the early repayment premium.

(6) LEASES

In August 1994, the Company entered into a four-year operating lease for computerized mailing and shipping equipment with an unrelated party. Rent expense under this lease amounted to \$25,030, \$25,030 and \$5,729 for the years ended October 31, 1996, 1995 and 1994, respectively. Future minimum rental payments required under the lease are as follows:

YEARS ENDING OCTOBER 31,

1997.....	\$25,030
1998.....	18,772

	\$43,802
	=====

On May 1, 1990, the Company entered into a ten-year operating lease of its manufacturing facility. The lessor was a partnership in which the Company's previously sole stockholder was the limited partner. On October 20, 1994, the Company exercised its option under the lease agreement to purchase the leased premises at fair market value, based on an independent appraisal. The purchase price paid to the partnership for the leased premises was approximately \$4,000,000. Rent expense under this lease amounted to \$428,263 for the year ended October 31, 1994.

(7) RELATED PARTY AGREEMENTS

Through October 31, 1994, Optical Cable Corporation had a royalty agreement with its previously sole stockholder in which the stockholder granted the Company the exclusive license to use certain cable manufacturing techniques and equipment designs without restriction. Royalty payments were equal to 4.5 percent of net sales. Royalties under this agreement amounted to \$1,177,399 for the year ended October 31, 1994.

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

Effective November 2, 1994, the Company entered into a services agreement to pay sales commissions of 4 percent of net foreign sales to OCC-VI, Inc., a foreign sales corporation. All of the outstanding shares of common stock of OCC-VI, Inc. are beneficially owned by the Company's previously sole stockholder. For the year ended October 31, 1995, the Company recorded commissions expense of \$343,290 (of which \$261,382 is included in accrued compensation and payroll taxes at October 31, 1995) related to the services agreement. As of September 28, 1995, the Company terminated this services agreement.

(8) EMPLOYEE BENEFITS

The Company's independently administered self-insurance program provides health

insurance coverage for employees and their dependents on a cost-reimbursement basis. Under the program, the Company is obligated for claims payments. A stop loss insurance contract executed with an insurance carrier covers claims in excess of \$30,000 per covered individual and \$510,935 in the aggregate per year. During the years ended October 31, 1996, 1995 and 1994, total claims expense of \$876,481, \$545,543 and \$477,423, respectively, was incurred, which represents claims processed and an estimate for claims incurred but not reported.

Effective January 1, 1994, the Company adopted a 401(k) retirement savings plan. To become eligible for the plan, an employee must complete six months of service and be at least 21 years of age. The plan allows participants to contribute through salary reduction up to 6 percent of their annual compensation on a pretax basis. Company matching contributions are two dollars for every one dollar contributed by an employee up to 4 percent of the employees' annual compensation. The Company made matching contributions to the plan of \$233,072, \$205,011 and \$157,216 for the years ended October 31, 1996, 1995 and 1994, 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 selected key management employees to increase their personal financial interest in the Company, thereby stimulating the efforts of these employees and strengthening their desire to remain with the Company through the use of stock incentives. The Company has reserved 4,000,000 shares of common stock for issuance pursuant to incentive awards under the Plan. Under the Plan, stock options may be granted at not less than fair market value on the date of grant.

The aggregate number of shares under option pursuant to the Plan is as follows:

	NUMBER OF SHARES	OPTION PRICE PER SHARE
	-----	-----
Options outstanding at October 31, 1995.....	--	--
Granted.....	460,000	\$2.50
Forfeited	(18,000)	\$2.50

Options outstanding at October 31, 1996	442,000	\$2.50
	=====	
Options exercisable at October 31, 1996.....	--	
	=====	
Available for grant at October 31, 1996.....	3,558,000	
	=====	

The options vest 25 percent after two years, 50 percent after three years, 75 percent after four years and 100 percent after five years.

(9) BUSINESS AND CREDIT CONCENTRATIONS

The Company provides credit, in the normal course of business, to various commercial enterprises, governmental entities and not-for-profit organizations. Concentration of credit risk with respect to trade receivables is limited due to the Company's large number of customers. The Company also manages exposure to credit risk through credit approvals, credit limits and monitoring procedures. Management believes that credit risks at October 31, 1996 and 1995 have been adequately provided for in the financial statements.

For the years ended October 31, 1996, 1995 and 1994, 75 percent, 76 percent and 75 percent, respectively, of net sales were from customers located in the United States, while 25 percent, 24 percent and 25 percent, respectively, were from international customers. No foreign geographic area accounted for more than 10 percent of net sales for the years ended October 31, 1996, 1995 and 1994. As of

October 31, 1996 and 1995, there were no significant amounts receivable from any one customer other than those described below.

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

For the year ended October 31, 1995, 10 percent of net sales were attributable to one major domestic distributor. The related trade accounts receivable for this distributor at October 31, 1995 totaled approximately \$841,000. No single customer or other distributor accounted for more than 5 percent of net sales for the year ended October 31, 1995. As of October 31, 1995, no single customer or other distributor had an outstanding balance payable to the Company in excess of 5 percent of total stockholder's equity.

For the year ended October 31, 1994, no single customer accounted for more than 5 percent of net sales.

(10) INCOME TAXES

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

Income tax expense for the year ended October 31, 1996 consists of:

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

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

"Expected" tax expense	\$ 4,209,593
Increase (reduction) in income tax expense resulting from:	
S Corporation taxable income for the five months ended March	
31, 1996	(1,485,091)
Net deferred income tax asset balance at March 31, 1996	(114,045)
Foreign Sales Corporation benefit	(98,473)
State income taxes, net of federal benefits	215,967
Other differences, net	78,898

Reported income tax expense	\$ 2,806,849
	=====

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

Deferred tax assets:	
Accounts receivable, due to allowance for doubtful accounts.....	\$ 113,775
Inventories, due to additional costs inventoried for tax purposes pursuant to the Tax Reform Act of 1986.....	91,781
Self-insured health care costs, due to accrual for financial reporting purposes	43,780

Total gross deferred tax assets.....	249,336
Less valuation allowance.....	--

Net deferred tax assets.....	249,336
Deferred tax liabilities:	
Plant and equipment, due to differences in depreciation and capital gain recognition.....	(49,227)
Other receivables, due to accrual for financial reporting purposes	(94,032)

Total gross deferred tax liabilities.....	(143,259)
Net deferred tax asset, including current net tax asset of \$155,304 and noncurrent net tax liability of \$49,227.....	\$ 106,077
	=====

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

(11) RECAPITALIZATION AND INITIAL PUBLIC OFFERING

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

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

At October 31, 1995, included in noncurrent other assets are deferred costs related to the public offering in the amount of \$201,237. These deferred costs were charged against the gross proceeds of the public offering.

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

(12) STOCK DIVIDENDS

On May 14, 1996, the Board of Directors declared a 2-for-1 stock split effected in the form of a one hundred percent (100%) stock dividend paid on May 31, 1996

to stockholders of record at the close of business on May 15, 1996. On June 5, 1996, the Board of Directors declared a 2-for-1 stock split effected in the form of a one hundred percent (100%) stock dividend paid on June 21, 1996 to stockholders of record at the close of business on June 6, 1996. All share and per share data have been adjusted to reflect these stock dividends.

(13) FAIR VALUE OF FINANCIAL INSTRUMENTS

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

(14) NEW ACCOUNTING STANDARDS

In March 1995, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards No. 121, Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to Be Disposed of ("SFAS No. 121"). SFAS No. 121 requires companies to review long-lived assets and certain identifiable intangibles to be held, used or disposed of, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company is required to adopt this statement in fiscal 1997. The Company believes the adoption of this statement will not have a significant effect on its financial statements.

In October 1995, the FASB issued Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation ("SFAS No. 123"), which is effective for transactions entered into in fiscal years beginning after December 15, 1995. The Company plans to retain the intrinsic value method of APB Opinion No. 25, Accounting for Stock Issued to Employees, for recognizing stock-based compensation in the financial statements. Management believes the adoption of SFAS No. 123 will not have a material impact on the Company's financial position or results of operations; however, the Company is still evaluating the new disclosure requirements under SFAS No. 123.

(15) QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following is a summary of the unaudited quarterly results of operations for the years ended October 31, 1996 and 1995:

YEAR ENDED OCTOBER 31, 1996	QUARTER ENDED			
	JANUARY 31	APRIL 30	JULY 31	OCTOBER 31
Net sales.....	\$10,342,472	\$10,183,960	\$10,862,064	\$13,763,803
Gross profit.....	4,707,021	4,096,839	4,953,023	6,488,043
Income before income taxes ...	2,774,994	2,252,228	2,983,232	4,016,955
Net income.....	2,774,994	2,068,288	1,858,823	2,518,455
Pro forma net income.....	1,709,397	1,387,372	1,858,823	2,518,455
Pro forma net income per share.....	0.04	0.04	0.05	0.06

YEAR ENDED OCTOBER 31, 1995	QUARTER ENDED			
	JANUARY 31	APRIL 30	JULY 31	OCTOBER 31
Net sales.....	\$8,132,636	\$9,500,186	\$8,697,155	\$10,029,976

Gross profit.....	3,481,233	3,975,250	3,976,376	4,805,739
Income before income taxes .	1,435,750	2,028,848	1,877,586	2,857,907
Net income.....	1,435,750	2,028,848	1,877,586	2,857,907

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

None.

PART III

The information called for by Items 10--13 is incorporated by reference from the Optical Cable Corporation Notice of 1997 Annual Meeting and Proxy Statement -- to be filed pursuant to Regulation 14A not later than 120 days after the close of the fiscal year.

- Item 10. Directors and Executive Officers of the Registrant
- Item 11. Executive Compensation
- Item 12. Security Ownership of Certain Beneficial Owners and Management
- Item 13. Certain Relationships and Related Transactions

PART IV

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

(a) 1. Index of Financial Statements

Information with respect to this Item is contained in the Company's financial statements indicated in the Index on Page 19 of this Annual Report on Form 10-K.

2. Index of Financial Statement Schedules

None.

3. Exhibits

The exhibits listed on the accompanying index of exhibits are filed as part of this Annual Report on Form 10-K.

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the last quarter of the period for which this Annual Report is filed.

(c) Index of Exhibits

EXHIBIT NUMBER	DESCRIPTION
*3.1.....	Amended and Restated Articles of Incorporated of Optical Cable Corporation
*3.2.....	Bylaws of Optical Cable Corporation, as amended
*4.1.....	Form of certificate representing Common Stock

ACCOUNTANTS' CONSENT

The Board of Directors
Optical Cable Corporation:

We consent to incorporation by reference in the registration statement (No. 33-09433) on Form S-8 of Optical Cable Corporation of our report dated December 13, 1996, relating to the balance sheets of Optical Cable Corporation as of October 31, 1996 and 1995, and the related statements of income, stockholders' equity, and cash flows for each of the years in the three-year period ended October 31, 1996, which report appears in the October 31, 1996, annual report on Form 10-K of Optical Cable Corporation.

/s/ KPMG Peat Marwick LLP

Roanoke, Virginia
January 29, 1997

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM FINANCIAL STATEMENTS FOR THE YEAR ENDED OCTOBER 31, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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