



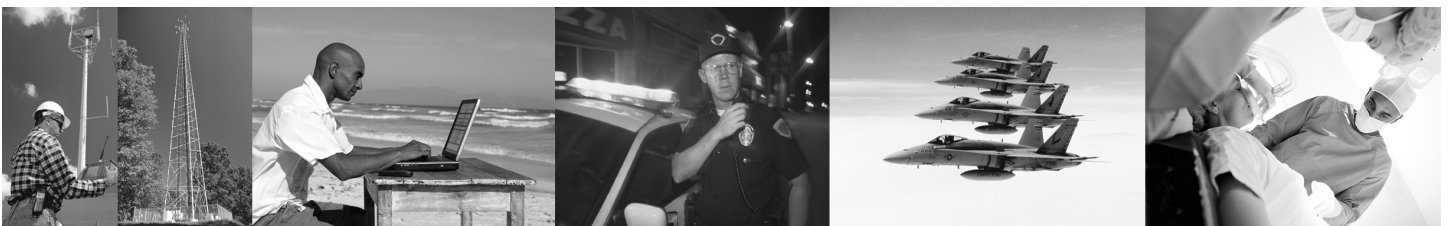
Fiscal 2006 Annual Report



rfneulink



WORSWICK
Industries



President Letter to Shareholders

April 27, 2007

Fellow Shareholders:

The fiscal year ended October 31, 2006, was a record year. We delivered our thirteenth consecutive year of profitability and increasing revenue in an industry that has undergone tremendous changes during the past decade.

For the fourth quarter of FY 2006, sales increased 20% to a record \$4,123,000, compared to sales of \$3,429,000 in the same period last year. Net income for the fourth quarter was also a record \$473,000, or \$0.13 per diluted share, compared to a loss of \$119,000 or \$0.04 per diluted share, in the same period last year. That loss in the fourth quarter last year, FY 2005, included a one-time expense of \$551,000 related to the purchase and retirement, by RF Industries, of my options to acquire 100,000 shares of common stock. This expense reduced fourth quarter of FY 2005 after-tax income by approximately \$0.08 per diluted share.

For the fiscal year ended October 31, 2006 sales increased 15% to a record \$15,188,000 compared to sales of \$13,151,000 in fiscal 2005. Net income was \$1,541,000 or \$0.42 per diluted share, compared to \$445,000, or \$0.12 per diluted share, for fiscal 2005. RFI's record net income benefited from higher sales, selective increases in product prices, tight cost controls and targeted reductions in corporate overhead expenses. These efforts improved our fiscal 2006 gross margin to 48% of sales, compared to 45% of sales in fiscal 2005.

Let me provide some brief examples to demonstrate how each of our divisions are contributing to RFI's success.

RF Connector and Cable Assembly Division

The Connector and Cable Assembly Division, our largest business segment, consists of two operations: RF Connector, which distributes connectors; and Cable and Assembly, which manufactures a variety of cable assemblies.

The Connector group offers a wide variety of RoHS (**R**estriction of **H**azardous **S**ubstances or simply "lead-free") compliant, competitively priced coaxial connectors and adapters. These types of connectors have helped RFI to expand its North American and European business into markets where RoHS compliance is required. The Connector group has also increased its selection of pre-packaged RF Connector "kits", which are used by field repair, test engineers and lab technicians for Radio Frequency applications. Connectors, kits and adapters are sold world-wide through RF Industries' extensive distribution network and directly to OEM, government and military customers. Target markets include, but are not limited to, WiFi, WLAN and microwave applications.

The Cable Assembly Division provides value-added services, which serves to strengthen our product offerings and broadens our target markets. The Cable Assembly group provides over 100,000 different product offerings, manufactures RoHS compliant cable assemblies and produces cable assemblies, incorporating flexible or to semi-rigid cables in various configurations. Cable Assembly uses coaxial connectors from RF Connectors, enabling Cable Assembly to provide competitive prices for its end products. Cable Assembly has recently installed new, state-of-the-art manufacturing equipment to minimize its labor expenses. We believe that this combination of Company-sourced connectors and reduced labor expenses will enable RF Cable Assembly, one of our fastest growing operations, to become even more competitive and expand its market in the coming years.

RF Neulink Division

RF Neulink has increased its product line of telemetry and data radio modems with the recent addition of the NL-5000, a high-performance, lower-cost radio modem similar to Neulink's flagship NL-6000 wireless data modem. This wireless transceiver is designed to target water management, SCADA Telemetry, and public utility markets. We believe that this product's applications for cost-effective wireless transmission of seismic, metering and flow valve data will position Neulink for increasing sales in the current fiscal year.

Bioconnect Division

Bioconnect has added 'Neuroleads' to its already broad range of FDA compliant cables. These leads are designed for non-invasive cutaneous neurological assessment with active Electromyography (EMG), Electroencephalograph (EEG), and Evoked Potential monitoring and recording equipment. The addition of his new product line will help Bioconnect to continue its double-digit sales growth and remain the fastest growing division at RF Industries.

Aviel Electronics Division

Aviel engineers and manufactures innovative interconnect solutions for various radio frequency connectors and adapters, with interfaces conforming to Military and Industrial specifications. Aviel's in-house manufacturing capabilities supply USA made production quantities to both small and large customers. All of Aviel's products conform to specialty metals regulations and EU directive 20052/95/EC (RoHS). Aviel's ability to provide personalized support, respond with short lead times and supply custom engineered connectors, adapters, cable assemblies and other components enables our customers keep their project deadlines on schedule.

Worswick Electronics Division

Worswick Industries has been a leader in the production and supply of custom, standard computer cables and custom wiring harnesses for the retail, wholesale and OEM markets for the past 21 years. We are pleased to announce Worswick's new eCommerce website: www.OddCables.com. Worswick will use the Internet to expand its sales of hundreds of Audio Video cables, Adapters, keyboard & mouse extensions, Serial, Parallel, Network, Coaxial, S-Video, VGA, DVI, SCSI, USB, KVM auto-switch boxes and "Fire wire" components to national and global customers. The site has been designed not only to sell these products, but provide consumer education in order to reduce the level of product returns.


Worswick's 2007 goals are to increase sales to the governmental and military markets. Contractors serving these markets, that constantly purchase large quantities of quality cable assemblies, coax adapters and hand tools, have shown substantial interest in Worswick's higher-end product lines. We are confident that Worswick's unique position in the connector market will be an asset for RF Industries in the coming years.

Looking Ahead

Our focus on cash generation has delivered proven results during the past few years, and we will continue to make this one of our highest priorities. With over \$6,800,000 in liquid and short-term near-liquid resources, working capital of \$12,810,000, no long-term debt, and stockholder's equity of \$13,464,000, or a \$4.14 per share book value, we have the resources to pursue any number of growth opportunities. Because of our cash position, in March 2007 we declared our first cash dividend. In addition to our recently announced quarterly dividend, we are evaluating additional investments to enhance productivity, develop new products and make strategic acquisitions.

We remain focused and committed to the task at hand, and will continue to place special emphasis on achieving sustainable long term growth in our markets. We are proud of our progress, and are energized to deliver even more for our shareholders, customers and employees. Thank you for the trust you have placed in us.

Sincerely,



Howard F. Hill
President/ CEO

Abridged and Edited Copy of Annual Report
(Form 10-KSB)

Annual Report Under Section 13 or 15(d) of
The Securities Exchange Act of 1934

For the fiscal year ended October 31, 2006

Commission File Number 0-13301

RF INDUSTRIES, LTD.

7610 Miramar Road, Bldg. 6000, San Diego, California 92126-4202
(Address of principal executive offices) (Zip Code)

(858) 549-6340 FAX (858) 549-6345

The Company's revenues for the year ended October 31, 2006 were \$15,187,893.

The approximate aggregate market value of the voting stock held by non-affiliates of the registrant as of January 3, 2007 based on the closing price of \$7.33 for the Common Stock of the Company was \$23,841,653. As of January 3, 2007, the registrant had 3,252,613 outstanding shares of common stock, \$.01 par value.

Forward-Looking Statements:

Certain statements in this abridged Annual Report on Form 10-KSB, and other oral and written statements made by the Company from time to time are "forward looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, including those that discuss strategies, goals, outlook or other non-historical matters, or projected revenues, income, returns or other financial measures. In some cases forward-looking statements can be identified by terminology such as "may," "will," "should," "except," "plan," "anticipate," "believe," "estimate," "predict," "potential" or "continue," the negative of such terms or other comparable terminology. These forward-looking statements are subject to numerous risks and uncertainties that may cause actual results to differ materially from those contained in such statements. Among the most important of these risks and uncertainties are the ability of the Company to continue to source its raw materials and products from its suppliers and manufacturers, and the market demand for its products, which market demand is dependent to a large part on the state of the telecommunications industry.

Important factors which may cause actual results to differ materially from the forward looking statements are described in the Section entitled "Risk Factors" contained in the Form 10-KSB on file with the Securities and Exchange Commission, and other risks identified from time to time in the Company's filings with the Securities and Exchange Commission, press releases and other communications. The Company assumes no obligation to update these forward-looking statements to reflect actual results or changes in factors or assumptions affecting such forward-looking statements.

PART I

ITEM 1. BUSINESS

General:

RF Industries, Ltd. (hereinafter the “Company”) is a provider of interconnect products and systems for radio frequency (RF) communications products and wireless digital transmission systems. For internal operational purposes, and for marketing purposes, the Company currently classifies its operations into the following five related divisions: (i) The Connector and Cable Assembly Division designs, manufactures and distributes coaxial connectors and cable assemblies that are integrated with coaxial connectors; (ii) the Aviel Electronics Division designs, manufactures and distributes custom RF connectors primarily for aerospace and military customers, (iii) Worswick Division distributes and sells coaxial and other connectors and cable assemblies primarily for local multi-media and communications customers; (iv) the Bioconnect Division manufactures and distributes cabling and interconnect products to the medical monitoring market; and (v) the Neulink Division is engaged in the design, manufacture and sales of RF data links and wireless modems for receiving and transmitting control signals for remote operation and monitoring of equipment, personnel and monitoring services.

The Company’s principal executive office is located at 7610 Miramar Road, Building #6000, San Diego, California. The Company was incorporated in the State of Nevada on November 1, 1979, completed its initial public offering in March 1984 under the name Celltronics, Inc. and changed its name to RF Industries, Ltd. in November 1990. Unless the context requires otherwise, references to the “Company” in this report include RF Industries, Ltd. and its divisions.

The Company maintains an Internet website at <http://www.rfindustries.com>. The Company’s annual reports on Form 10-KSB, quarterly reports on Form 10-QSB, current reports on Form 8-K and amendments to such reports filed or furnished pursuant to section 13(a) or 15(d) of the Securities and Exchange Act of 1934, as amended, and other information related to the Company, are available, free of charge, on our website as soon as we electronically file those documents with, or otherwise furnish them to, the Securities and Exchange Commission. The Company’s Internet website and the information contained therein, or connected thereto, is not and is not intended to be incorporated into this Annual Report on Form 10-KSB.

Operating Divisions

Connector and Cable Division - The Connector and Cable Division is engaged in the design, manufacture and distribution of coaxial connector solutions for companies that design, build, operate, maintain and use wireless voice, data, messaging, and location tracking systems. Coaxial connector products consist primarily of connectors which, when attached to a coaxial cable, facilitate the transmission of analog and digital signals in various frequencies. Although most of the connectors are designed to fit standard products, the Company also sells custom connectors specifically designed and manufactured to suit its customers’ requirements such as the Wi-Fi and broadband wireless markets. The Company’s RF connectors are used in thousands of different devices, products and types of equipment. While the models and types of devices, products and equipment may change from year to year, the demand for the types of connectors used in such products and offered by the Company does not fluctuate with the changes in the end product incorporating the connectors. In addition, since the Company’s standard connectors can be used in a number of different products and devices, the discontinuation of one product does not make the Company’s connectors obsolete. Accordingly, most connectors carried by the Company can be marketed for a number of years and are only gradually phased out. Furthermore, because the Company’s connector products are not dependent on any line of products or any market segment, the Company’s overall sales of connectors do not fluctuate materially when there are changes to any product line or market segment. Sales of the Company’s connector products are more dependent upon the overall economy and on the Company’s ability to market its products. However, the Company’s sales of connectors and cable assemblies have increased in the past four years as the overall market demand for wireless products that use the Company’s connectors has increased. The Company believes that the continuing growth in new wireless products as well as its increased sales in the military/aerospace markets will result in an overall increase in the demand for the radio frequency connectors and cable assemblies that the Company distributes.

Third party foreign manufacturers located in Asia manufacture the Company's RF connectors for the Company. The Company has been designing, producing and selling coaxial connectors since 1987 and the Connector and Cable Division therefore represents the Company's oldest and most established division. The Connector and Cable Division has during all of the recent fiscal years, generated the majority of the Company's revenues.

Cable assembly products consist of various types of coaxial cables that are attached to connectors (usually the Company's connectors) for use in a variety of communications applications. Cable assemblies are manufactured at the Company's California facilities and are sold through distributors or directly to major OEM (Original Equipment Manufacturer) accounts. Cable assemblies consist of both standard cable assemblies and assemblies that are custom manufactured for the Company's clients. The Company offers a line of cable assemblies with over 100,000 cable products. The Company launched its cable assembly operations in 2000, and cable assembly products constituted the second largest generator of revenues for the Company during the fiscal year ended October 31, 2006.

Aviel Electronics Division - The Company acquired the business and all of the assets of Aviel Electronics in August 2004. Aviel has a 49 year history of serving the microwave transmission industries, and is an approved vendor to leading aerospace, electronics, OEM's and government agencies in the United States and abroad. Aviel complements the Company's Connector and Cable Division's capabilities by providing additional custom design capabilities, expanding the Company's products in the military and commercial aerospace markets, and expanding the Company's client base.

Worswick Division - The Company acquired the assets of Worswick Industries, Inc., a privately held 20 year old California company based in San Diego, in September 2005 as another complimentary operation to the Connector and Cable Division. Worswick Industries sells coaxial connector solutions and also manufactures RF cable assemblies for both individuals and companies that design, build, operate, and maintain personal and private multi-media, wireless voice, data and messaging systems.

Bioconnect Division - The Bioconnect Division is engaged in product development, design, manufacture and sale of cables and interconnects for medical monitoring applications, such as disposable ECG cables, infant apnea monitors in hospitals, patient leads, snap leads and connecting wires.

RF Neulink Division - The RF Neulink Division designs and manufactures, through outside contractors, wireless data products commonly known as RF data links and wireless modems since 1984. These radio modems and receivers provide high-speed wireless connections over longer distances where wire connections may not be desirable or feasible. In addition to selling its own radio modem, RF Neulink also distributes antennas, transceivers and related products of other manufacturers. The RF Neulink Division also offers complete turn-key packages for numerous remote data transmission applications.

Product Description :

The Company produces a broad range of interconnect products and assemblies. The products that are offered and sold by the Company's various divisions consist of the following:

Connector and Cable Products:

The Company's Connector and Cable Division designs and distributes coaxial connectors for the numerous products, devices and instruments. Coaxial connectors have applications in commercial, industrial, automotive, scientific and military markets. The types of connectors offered by the RF Connector Division include 2.4mm and 3.5mm, 7-16 DIN, BNC, MCX, MHV, Mini-UHF, MMCX, N, SMA, SMB, TNC, QMA and UHF. These connectors are offered in several configurations for both plugs and jacks. There are hundreds of applications for these connectors, some of which include digital applications, cellular and PCS telephones, Wi-Fi and broadband wireless applications, cellular and PCS infrastructure, GPS (Global Positioning Systems), mobile radio products, aircraft, video surveillance systems, cable assemblies and test equipment. Users of the Company's connectors include telecommunications companies, circuit board manufacturers, OEM, consumer electronics manufacturers,

audio and video product manufacturers and installers, and satellite companies. The Connector Division markets approximately 1,500 types of connectors, which range in price from \$0.40 to \$125.00 per unit.

The Connector and Cable Division also designs and sells a variety of connector tools and hand tools that are assembled into kits used by lab and field technicians, R&D technicians and engineers. The Company also designs and now offers some of its own tools, which differ from those offered elsewhere in the market. These tools are manufactured for the Company by outside contractors. Tool products are carried as an accommodation to the Company's customers and have not materially contributed to the Company's revenues.

The cable assembly component of the Connector and Cable Division markets and manufactures cable assemblies in a variety of sizes and combinations of RF coaxial connectors and coax cabling. Cabling is purchased from a variety of major unaffiliated suppliers and is assembled with the Company's connectors as complete cable assemblies. Coaxial cable assemblies have thousands of applications including local area networks, wide area networks, Internet systems, PCS/cellular systems, TV/dish network systems, test equipment, military/aerospace (mil-standard and COTS (Commercial Off The Shelf)) and entertainment systems. Most cable assemblies are manufactured to the purchaser's specifications.

Aviel Electronics Products:

The Aviel Electronics Division designs, manufactures and sells specialized connectors. Aviel's standard configuration and custom connectors include connectors ranging from subminiature to type "L" to Nan-Hex, SMA, SMB, SMC, TNC, BNC, SC and NL. Aviel also specializes in the design and manufacture of custom and non-standard configurations required for specific applications as well as hard to locate and discontinued connectors for commercial, aerospace, military and other unique applications.

Worswick Products:

Worswick sells coaxial connectors and cable assemblies for numerous multi-media products, devices and instruments in the local San Diego area. Worswick also produces and markets cable assemblies in a variety of sizes and combinations of RF coaxial connectors and coax cabling. Cabling is purchased from a variety of major unaffiliated suppliers and is assembled with the Company's connectors or third party connectors as complete cable assemblies. Coaxial cable assemblies have thousands of applications including local area networks, wide area networks, Internet systems, PCS/cellular systems, TV/dish network systems, test equipment, military/aerospace (mil-standard and COTS (Commercial Off The Shelf)) and entertainment systems. Most cable assemblies are manufactured to the purchaser's specifications.

Bioconnect Products:

Bioconnect designs, manufactures and sells and provides product development services to OEM's for specialized electrical cabling and interconnect products used in the medical monitoring market. These products consist primarily of patient monitoring cables, ECG cables, snap leads, and molded safety leads for neonatal monitoring electrodes. The products, which are used in hospitals, clinics, doctor offices, ambulances and at home are replaced frequently in order to ensure maximum performance.

RF Neulink Products:

The wireless data products available from the RF Neulink Division come in a variety of configurations to satisfy the requirements of certain high-speed wireless connection markets. Transmitter and receiver modules come in a wide range of power output and frequency ranges and are used to convey data or voice from point to point. Additionally, dumb or smart programmable modems are available in a wide range of speeds and frequency/price ranges. Accessory modules have been developed for remotely controlling and monitoring electrical devices.

The products sold by the RF Neulink Division include both its own products and products of other manufacturers that are distributed by the Neulink Division. The products offered by the Neulink Division include:

- NL5000 - (replaced the RF 9600) as a cost effective, high performance telemetry modem
- NL6000 UHF and VHF feature rich, high performance wireless modems
- NL900 and NL2400 Spread Spectrum point to point wireless modems
- Ormnex Control Systems 900mhz Spread-Spectrum wireless modems and I/O modules
- Teledesign high-speed wireless modems in VHF, UHF and 900 MHz frequencies
- BlueWave, Maxrad. and Antenex antennas
- Custom Design and Engineering services

Current applications in use worldwide for Neulink products are various and include seismic and volcanic monitoring, industrial remote censoring/control in oil fields, pipelines and warehousing, lottery remote terminals, various military applications, remote camera control and tracking, perimeter and security system control/monitoring, water and waste management, inventory control, HVAC remote control and monitoring, biomedical hazardous material monitoring, fish farming automation of food dispensing, water aeration and monitoring, remote emergency generator startup and monitoring, police usage for mobile warrant database access

In 2004 fiscal year, the Neulink Division introduced a new radio modem that it developed. The new NL6000 radio modem was repositioned within the marketplace to compete against a more upscale market segment and was designed to meet the FCC's 2004 mandatory requirement to provide narrow-band channels. This product is a high-speed narrow band compliant radio modem that operates on a 12.5 KHz channel at a 12 Kbps data transfer rate. In 2005, Neulink was chosen to develop a different version of the NL6000 for the Stanford Research Institute and the U.S. Marine Corps. The Neulink Division delivered over 300 units of this version of the NL6000 to the U.S. Marine Corps in fiscal year 2006 with follow on orders of between 500 to 3,000 units expected in fiscal 2007.

Foreign Sales :

Direct export sales by the Company to customers in South America, Canada, Mexico, Europe, Australia, the Middle East, and Asia accounted for \$1,447,000 or approximately 10% of Company sales for the fiscal year ended October 31, 2006. The majority of the export sales during these periods were to Israel, Canada and Mexico. The Company is attempting to expand its foreign distribution efforts under its "RFI" logo, and is attempting to obtain additional foreign private label customers.

The Company does not own, or directly operate any manufacturing operations or sales offices in foreign countries.

Distribution, Marketing and Customers:

Sales methods vary greatly between its divisions.

The Connector and Cable Assembly Divisions currently sell their products primarily through warehousing distributors and OEM customers who utilize coaxial connectors and cable assemblies in the manufacture of their products. Since there are many OEMs who are not served by any of the Company's distributors, the Company's goal is to increase the number of OEMs that purchase connectors directly from the Company.

The Aviel Division sells its products to its current customer base with the addition of customers referred through the Connector and Cable Division. The Aviel and Connector divisions sell to similar customer market segments and combine marketing efforts where economically advantageous.

The Worswick Division operates from a single location in San Diego and sells primarily to walk-in or local multi-media (video, voice, gaming, etc.) and communications systems customers. A proactive marketing plan is underway to enhance and expand the current customer base which includes the launch of an e-Commerce web-site in 2007.

The Bioconnect group markets its products to the medical market through major hospital suppliers, dealers and distributors. The Bioconnect Division also sells its products to OEMs who incorporate the leads and cables into their product offerings.

The Neulink Division sells its products directly or through manufacturers representatives, system integrators and OEM's. System integrators and OEMs integrate and/or mate Company's products with their hardware and software to produce turnkey wireless systems. These systems are then either sold or leased to other companies, including utility companies, financial institutions, petrochemical companies, government agencies, and irrigation/water management companies.

Manufacturing:

The Company contracts with outside third parties for the manufacture of all its coaxial connectors, and Neulink products. However, virtually all of RF cable assemblies sold by the Company during the fiscal year ended October 31, 2006 were manufactured by the Company at its facilities in California. The Connector and Cable Division has its manufacturing performed at numerous International Standards Organization (ISO) approved factories with plants in Japan, Korea, the United States and Taiwan. The Company is dependent on a few manufacturers for its coaxial connectors and cable assemblies. Although the Company does not have manufacturing agreements with these manufacturers for its connectors, cable and Neulink products, it does have long-term purchasing relationships with these manufacturers. RF Industries has in-house design engineers who create the engineering drawings for fabrication and assembly of connectors and cable assemblies. Accordingly, the manufacturers are not primarily responsible for design work related to the manufacture of the connectors and cable assemblies. However, the third party manufacturers of the Neulink products are solely responsible for design work related to the manufacture of the Neulink Division's products. Neulink's products are manufactured by numerous manufacturers in the United States, and the Company is not dependent on one or a few manufacturers for its Neulink products.

The Bioconnect Division has designed and manufactured its own products for over 20 years (including as an unaffiliated company before being acquired by the Company in 2000). The manufacturing process for the Bioconnect medical cables includes all aspects of the product, from the design to mold design, mold fabrication, assembly and testing. The Bioconnect product line produces its medical interconnect products in both high volume manufacturing and for custom or low volume uses.

The Aviel Electronics Division manufactures all its connectors at its Las Vegas, Nevada manufacturing facility. The Aviel Electronics Division has designed and manufactured its own products for 49 years (including as an unaffiliated company before being acquired by the Company in August 2005). The manufacturing process for the Aviel connectors includes all aspects of the product from design, tooling, fabrication, assembly and testing. The Aviel Electronics product line produces its connector products for low volume custom manufacturing uses, for the military, aerospace, communications and other unique applications.

The Worswick Division designs and produces low to medium volume connector and cable assemblies for local and niche customers, as well as a few medium and large market customers.

There are certain risks associated with the Company's dependence on third party manufacturers for some of its products, including reduced control over delivery schedules, quality assurance, manufacturing costs, and the potential lack of adequate capacity during periods of excess demand and increases in prices. See "Risk Factors."

Raw Materials:

Connector materials are typically made of commodity metals such as copper and zinc and include small applications of precious materials, including silver and gold. The RF Connector and Cable Division purchases most of its connector products from contract manufacturers located in Asia and the United States. The Company believes that the raw materials used in its products are readily available and that the Company is not currently dependent on any supplier for its raw materials. The Company does not currently have any long-term purchase or supply agreements with its connector or Neulink product suppliers. The RF Connector and Cable assembly division obtains coaxial connectors from RF Connector. The Company believes there are numerous domestic and international suppliers of

coaxial connectors. Nevertheless, should the Company experience a material delay in obtaining raw materials and component parts from its existing suppliers, until alternate arrangements are made, the Company's ability to meet its customer's needs may be adversely affected.

Neulink purchases its electronic products from various U.S. suppliers, and all Neulink wireless modem transceivers are built in the United States. The Company believes electronic components used in these products are readily available from a number of domestic suppliers and from other foreign suppliers.

Aviel connector materials are typically made of commodity metals and include some application of precious materials, including silver and gold. The Aviel Electronic Division purchases almost all of its connector products from vendors in Asia and the United States. The Company believes the connector materials used in the manufacturing of its connector products are readily available from a number of foreign and domestic suppliers.

Worswick connectors and cable are typically acquired from the Connector and Cable Division or purchased from other high quality manufacturers and distributors.

Bioconnect cable assembly materials are typically made of commodity materials such as plastics, rubber, resins and wire. The Company believes materials and components used in these products are readily available from a number of domestic suppliers and from other foreign suppliers.

Personnel:

As of December 31, 2006, the Company employed 87 full-time employees, of whom 24 were in accounting, administration, sales and management, 60 were in manufacturing, distribution and assembly, and 3 were engineers engaged in design, research and development. The Company also occasionally hires part-time employees. The Company believes that it has a good relationship with its employees and, at this time, no employees are represented by a union.

Research and Development:

The Company incurs research and development expenses from time to time when developing new products. The Company did not engage in any research and development activities in fiscal year ended October 31, 2006. During the fiscal year ended October 31, 2005, the Company only spent \$45,000 on research and development. Since the completion of the development of the Neulink Division's NL6000 radio modem in fiscal 2004, the Company has only engaged in a minimal amount of research and development activities intended to produce new products not marketed by others and can be marketed to the wire-less connectivity industry in general.

In addition to research and development activities, the Company also invested over \$1,000,000 during the past two fiscal years on engineering. Engineering activities consist of the design and development of new products for specific customers, the design and engineering of new products and the redesign of existing products to keep up with changes in the industry and products offered by the Company's competitors. Engineering work often is carried out in collaboration with the Company's customers.

The increase in business in the military/aerospace sector has encouraged the Company to develop an ISO 9000-like tracking system to improve its competitive edge, and is exploring future ISO certification.

Patents, Trademarks and Licenses:

The Company does not own any patents on any of its products, nor has it registered any product trademarks. Because of the Company carries thousands of separate types of connectors and other products, most of which are available to the Company's customers from other sources, the Company does not believe that its business or competitive position is dependent on patent protection.

Warranties and Terms:

The Company warrants its products to be free from defects in material and workmanship for varying warranty periods, depending upon the product. Products are generally warranted to the dealer for one year, with the dealer responsible for any additional warranty it may make. Certain Neulink products are sold directly to end-users and are warranted to those purchasers. The RF Connector products are warranted for the useful life of the connectors. Although the Company has not experienced any significant warranty claims to date, there can be no assurance that it will not be subjected to such claims in the future.

The Company usually sells to customers on 30-day terms pursuant to invoices and does not generally grant extended payment terms. Sales to most foreign customers are made on cash terms at time of shipment. Customers may delay, cancel, reduce, or return products after shipment subject to a restocking charge.

Competition:

Management estimates that the Connector and Cable Divisions has over 50 competitors in the approximately \$1.9 billion annual RF connector market. Management believes no one competitor has over 15% of the total market, while the three leaders hold no more than 35% of the total market. Many of the competitors of the RF Connector and Cable Division have significantly greater financial resources and broader product lines. RF Connector competes on the basis of product quality, product availability, price, service, delivery time and value-added support to its distributors and OEM customers. Since the Company's strategy is to provide a broad selection of products in the areas in which it competes and to have a ready supply of those products available at all times, the Company normally has a significant amount of inventory of its connector products. The Bioconnect group competes with numerous other companies in all areas of its operations, including the manufacture of OEM custom products and medical cable products. Most of the competitors of Bioconnect are larger and have significantly greater financial resources than Bioconnect.

There are numerous small privately held manufacturers and marketers of connectors, but Aviel Electronics has specialized in microwave and radio frequency (RF) custom connectors which lowers the number of its direct competitors. Because Aviel Electronics is an approved vendor of leading aerospace, electronics, OEM and government agencies in the United States and abroad, competition is limited to those manufacturers who have been approved.

Major competitors for Neulink include Microwave Data Systems and Data Radio. Although a number of larger firms could enter Neulink's markets with similar products, Neulink's strategy is focused on serving and providing specific hardware and software combinations with the goal of maintaining a strong position in selected "niche" wireless applications. While the Neulink Division's competitors offer products that are substantially similar to Neulink's radio modems, the Neulink Division tries to enhance its competitive position by offering additional service before, during, and after the sale.

Government Regulations:

The Company's products are designed to meet all known existing or proposed governmental regulations. Management believes that the Company currently meets existing standards for approvals by government regulatory agencies for its principal products. Because the products designed and sold by the Aviel Electronics Division are used in commercial and military aerospace products, its products are regulated by various government agencies in the United States and abroad.

Neulink products are subject to the regulations of the Federal Communications Commission (FCC) in the United States, the Department of Communications (D.O.C.) in Canada, and the future E.C.C. Radio Regulation Division in Europe. The Company's present equipment is "type-accepted" for use in the United States and Canada. Neulink offers products that comply with current FCC, Industry Canada, and some European Union regulations. The system integrator, or end user, is responsible for compliance with applicable government regulations.

Bioconnect's products are subject to the regulations of the U.S. Food and Drug Administration.

ITEM 2. DESCRIPTION OF PROPERTIES:

The Company leases its corporate headquarters building at 7610 Miramar Road, Building 6000, San Diego, California. The building consists of approximately 11,000 square feet which houses its corporate administration, sales and marketing, and engineering plus production and warehousing for the Company's Connector and Cable Assembly and Bioconnect Divisions. The lease for this facility expires on May 31, 2010. In addition, the Company also leases the following facilities:

- (i) The cable assembly facilities of the Connector and Cable Division operates in a separate 3,180 square foot facility that is located adjacent to the Company's corporate headquarters. The lease for this space expires on May 31, 2010.
- (ii) The Neulink Division operates from a separate building that is located near the Company's corporate headquarters at 7606 Miramar Road, Building 7200. RF Neulink's building consists of approximately 2,500 square feet of administrative and manufacturing space and houses the production and sales staff of the Neulink Division. The lease for this space expires on May 31, 2010.
- (iii) The Aviel Electronics Division currently leases approximately 3,000 square feet of a facility located at 5530 S. Valley View Blvd., Suite 103, Las Vegas, Nevada. The lease for the Las Vegas offices expire January 30, 2007. The Company and the landlord are considering entering into a new lease. The landlord has informed the Company that it can continue to occupy the space on a month-to-month basis at the current monthly lease rate.
- (iv) The Worswick Division currently leases an approximately 6,000 square foot facility located at 7352 Convoy Court, San Diego, California. The lease expired January 27, 2007. However, the Company is engaged in discussions with the landlord regarding a new lease. The Company currently continues to occupy the facility on a month-to-month basis at the same monthly rate as in effect on January 27, 2007.

The aggregate monthly rental for all the Company's facilities currently is approximately \$23,200 per month, plus utilities, maintenance and insurance as of October 31, 2006.

The Company currently believes that its facilities are sufficient to meet its foreseeable needs. However, should the Company require additional space, the Company believes that suitable additional space is available near the Company's current facilities. In addition, the Company believes that it will be able to renew its existing leases upon the expiration of the current leases or, if desirable or necessary, locate alternate facilities on substantially similar terms.

ITEM 3. LEGAL PROCEEDINGS:

From time to time, the Company is involved in legal proceedings that are related to its business operations. The Company is not currently a party to any legal proceedings that could have a material adverse effect upon its financial position or results of operations.

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

None.

PART II

ITEM 5. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES.

The Company's Common Stock is listed and trades on the NASDAQ Capital Market under the symbol "RFIL."

For the periods indicated, the following tables sets forth the high and low sales prices per share of Common Stock. These prices represent inter-dealer quotations without retail mark-up, markdown or commission and may not necessarily represent actual transactions.

<u>Quarter</u>		<u>High</u>		<u>Low</u>	
<u>Fiscal 2006</u>					
November 1, 2005 - January 31, 2006	\$	5.67	\$	4.55	
February 1, 2006 - April 30, 2006		6.81		4.72	
May 1, 2006 - July 31, 2006		6.45		5.49	
August 1, 2006 - October 31, 2006		8.64		5.12	
<u>Fiscal 2005</u>					
November 1, 2004 - January 31, 2005	\$	13.02	\$	6.30	
February 1, 2005 - April 30, 2005		9.09		5.25	
May 1, 2005 - July 31, 2005		6.35		5.04	
August 1, 2005 - October 31, 2005		6.15		4.70	

As of October 31, 2006 there were 610 holders of the Company's Common Stock according to the records of the Company's transfer agent, Continental Stock Transfer & Trust Company, New York, New York, not including holders who hold their stock in "street name".

The Company has not paid any dividends to date. Although the Company does not presently intend to pay cash dividends on its Common Stock in the foreseeable future, depending on the Company's financial condition and its financial needs, the Board of Directors may consider issuing dividends in the future.

There were no sales of equity securities by the Company that were not registered under the Securities Act during fiscal 2006.

The Company did not repurchase any of its shares during the fourth quarter of the fiscal year covered by this report.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our financial statements have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make significant estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosure of contingent assets and liabilities. We evaluate our estimates, including those related to bad debts, inventories and contingencies on an ongoing basis. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. One of the accounting policies that involve significant judgments and estimates concerns our inventory valuation. Inventories are valued at the weighted average cost

value. Certain items in the inventory may be considered obsolete or excess and, as such, we may establish an allowance to reduce the carrying value of these items to their net realizable value. Based on estimates, assumptions and judgments made from the information available at the time, we determine the amounts of these allowances. Because inventories have, during the past few years, represented over one-third of our total assets, any reduction in the value of our inventories would require us to take write-offs that would affect our net worth and future earnings. Another accounting policy that involves significant judgments and estimates is our accounts receivable allowance valuation. The Company routinely assesses the financial strength of its customers and maintains an allowance for doubtful accounts that management believes will adequately provide for credit losses.

RECENTLY ISSUED ACCOUNTING STANDARDS

In December 2004, the FASB issued SFAS No. 123 (R), *Accounting for Stock-Based Compensation*. SFAS 123 (R) establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. SFAS 123 (R) focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS 123 (R) requires that the fair value of such equity instruments be recognized as expense in the historical financial statements as services are performed. Prior to SFAS 123 (R), only certain pro forma disclosures of fair value were required. SFAS 123 (R) shall be effective for all of the Company's interim and annual reporting periods commencing on November 1, 2006. Since the Company has, to date, only made the pro forma disclosures of options grants and has not recognized any expenses in connection with its option grants, the implementation of SFAS 123 (R) is expected to have a material impact on the financial statements of the Company during the fiscal year 2007 and thereafter.

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 applies to all tax positions related to income taxes subject to SFAS No. 109, *Accounting for Income Taxes* (SFAS 109). Under FIN 48, a company would recognize the benefit from a tax position only if it is more-likely-than-not that the position would be sustained upon audit based solely on the technical merits of the tax position. FIN 48 clarifies how a company would measure the income tax benefits from the tax position that are recognized, provides guidance as to the timing of the derecognition of previously recognized tax benefits and describes the methods for classifying and disclosing the liabilities within the financial statements for any unrecognized tax benefits. FIN 48 also addresses when a company should record interest and penalties related to tax positions and how the interest and penalties may be classified within the income statement and presented in the balance sheet. FIN 48 is effective for fiscal years beginning after December 15, 2006. For the Company, FIN 48 will be effective for our 2008 fiscal year. Differences between the amounts recognized in the statement of operations prior to and after the adoption of FIN 48 would be accounted for as a cumulative effect adjustment to the beginning balance of retained earnings. The Company is currently evaluating FIN 48 and its possible impacts on the Company's financial statements. Upon adoption, there is a possibility that the cumulative effect would result in a charge or benefit to the beginning balance of retained earnings, increases or decreases in future effective tax rates, and/or increases in future effective tax rate volatility.

In September 2006, the SEC staff issued SAB No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB 108). In SAB 108, the SEC staff established an approach that requires quantification of financial statement misstatements based on the effects of the misstatements on each of the company's financial statements and the related financial statement disclosures. SAB 108 permits public companies to initially apply its provisions either by (i) restating prior financial statements or (ii) recording the cumulative effect as adjustments to the carrying values of assets and liabilities with an offsetting adjustment recorded to the opening balance of retained earnings. The Company is required to adopt SAB 108 by the end of fiscal 2007 and will early adopt during the first quarter of fiscal 2007. The Company has not completed its analysis but does not expect adoption to have a significant impact on the Company's results of operations or financial condition.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the United States of America, and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact SFAS 157 will have on its financial statements.

OVERVIEW

The Company markets connectors and cables to numerous industries for use in thousands of products, primarily for the wireless market. The largest business unit consists of the Connector and Cable Assembly Division, the Aviel Electronics Division, and the Worswick Industries Division that delivers RF cables and connectors. The Bioconnect Division operates in the medical connector product market, while the Neulink Division operates in the high-speed wireless data connection market. During fiscal year 2006 ended October 31, 2006 the RF cable and connector products represented 88% of the Company's sales, while the medical connectors and wire-less data connection represented 7% and 5%, respectively, of the Company's total sales.

Historically, over 90% of the Company's revenues are generated from the sale of RF connector products and connector cable assemblies. Sales of connectors are expected to continue be the largest portion of revenues in the future since the Company acquired Aviel Electronics in August 2004 and Worswick Industries in September 2005, both of which also sell connectors and cable assemblies. Accordingly, the Company revenues are heavily dependent upon sales of RF connectors and cable assemblies. However, because the Company sells thousands of connector products for uses in thousands of end products, sales are relatively stable and not dependent upon any one industry sector or any single product. As a result, the Company's revenues and expenses are typically not subject to major fluctuations. During the fiscal year ended October 31, 2006, net sales did, however, increase by 16% over the net sales in the prior year due to the continued rebound in the telecommunications and wireless industries, which resulted in increased sales to those industries, and because of additional revenues generated from the acquisitions of Aviel and Worswick (its first full year with the Company).

As a result of increased net sales and continued management of normal operating expenses, the Company generated net income for the 13th consecutive year.

The Company generated cash from operations of \$2,182,000 and \$280,000 from financing activities, and as a result, the amount of cash and cash equivalents, and investments in available-for-sale securities held by the Company as of October 31, 2006 increased to \$6,866,000 from \$4,507,000 in the prior year. Since the Company has no debt other than normal accounts payable and accrued expenses it will continue to have sufficient cash to fund all of its anticipated financing and liquidity needs for the foreseeable future.

Financial Condition:

The following table presents the key measures of financial condition as of October 31, 2006 and 2005:

	2006		2005	
	Amount	% Total Assets	Amount	% Total Assets
Cash and cash equivalents and Investments available for sale	\$ 6,865,524	44.8%	\$ 4,507,219	37.5%
Current assets	14,573,641	95.1%	11,120,406	92.5%
Current liabilities	1,764,418	11.5%	712,735	5.9%
Working capital	12,809,223	83.6%	10,407,671	86.6%
Property and equipment - net	376,146	2.5%	465,735	3.9%
Total assets	15,319,035	100.0%	12,025,139	100.0%
Stockholders' equity	13,463,999	87.9%	11,206,404	93.2%

Liquidity and Capital Resources:

Management believes that its existing current assets and the amount of cash it anticipates it will generate from current operations will be sufficient to fund the anticipated liquidity and capital resource needs of the Company for the fiscal year ending October 31, 2007. The Company does not, however, currently have any commercial banking arrangements providing for loans, credit facilities or similar matters should the Company need to obtain additional

capital. Management believes that its existing assets and the cash it expects to generate from operations will be sufficient during the current fiscal year are based on the following:

- As of October 31, 2006, the amount of cash and cash equivalents and short-term investments available-for-sale was equal to \$6,865,524 in the aggregate. Accordingly, the Company believes that it has sufficient cash available to operate its current business and fund its currently anticipated capital expenditure for the upcoming year.
- As of October 31, 2006, the Company had approximately \$14,574,000 in current assets, and only \$1,764,000 in current liabilities.

Management believes that based on the Company's financial condition at October 31, 2006, the absence of outstanding bank debt, and its recent operating results there are sufficient capital resources to fund its operations and future acquisitions for at least the next twelve months. Should the Company need to obtain additional funds for its unexpected acquisitions of assets or other expansion activities, based on its balance sheet and its history of profitability, the Company believes that it would be able to obtain bank loans to finance these expenditures. However, there can be no assurance any bank loan would be obtainable, or if obtained, would be on favorable terms or conditions.

The Company is not a party to off-balance sheet arrangements and does not engage in trading activities involving non-exchange traded contracts. In addition, the Company has no financial guarantees, debt or lease agreements or other arrangements that could trigger a requirement for an early payment or that could change the value of the Company's assets.

The Company's liquidity was negatively impacted during fiscal 2006 by a \$1,128,000 purchase of inventory in the fourth quarter. Inventories as of October 31, 2006 were \$5,250,000, a \$1,070,000 increase from October 31, 2005. The foregoing \$1,128,000 purchase represents an estimated two-year supply of the connectors purchased. The Company made the large purchase as a hedge against anticipated increases in copper prices, which would significantly raise the future price of these connectors. As part of its business strategy, and because of its offshore manufacturing arrangements, the Company normally maintains a high level of inventory. As described elsewhere in this Annual Report, one of the Company's competitive advantages and strategies is to maintain customer satisfaction by having sufficient inventory on hand to fulfill most customer orders on short notice. Accordingly, the Company maintains a significant amount of inventory, which increases or decreases to reflect the Company's sales and lead times for products. Because sales have been increasing, the Company has increased its inventory levels to be able to meet anticipated demand. The Company continuously monitors its inventory levels and product costs, and because of continued increases in sales or raw material costs, may continue increasing its inventory levels.

Net cash provided by operating activities for the year ended October 31, 2006 was \$2,182,000 despite the inventory increase of \$1,070,000 primarily due to the increase of \$1,096,012 in net income and increases in unpaid income tax payable of \$1,025,995, \$288,000 in income tax benefit from non-qualified stock options exercised, and non-cash depreciation and amortization of \$271,000. In fiscal year ended October 31 2005, net cash provided by operating activities was \$171,000 due to net income of \$445,000 plus \$222,000 of non-cash depreciation and amortization expenses and increases of \$337,000 in inventories and \$375,000 in trade accounts receivable and certain other factors.

During fiscal 2006, net cash used in investing activities was \$2,357,000 of which \$2,247,000 was used for the purchase of treasury bills and other available-for-sale securities. The balance represents amounts invested in the acquisition of \$142,000 in additional capital equipment for the Bioconnect and the Connector and Cable Assembly divisions and for upgrading the Company IT systems. In fiscal 2005, net cash used in investing activities was \$334,000 consisting primarily of the acquisition of the Worswick Industries Division in September 2005 for \$225,000 and the purchase of \$118,000 of additional capital equipment.

Financing activities increased the Company's net cash by \$280,000 in the current fiscal year due to the receipt of funds from the exercise of stock options by the Company's employees. In fiscal 2005, financing activities increased the Company's net cash by \$173,000 as a result of the exercise of stock options by the Company's employees.

Results of Operations:

The following summarizes the key components of the results of operations for the fiscal years ended October 31, 2006 and October 31, 2005:

	<u>2006</u>		<u>2005</u>	
	<u>Amount</u>	<u>% of Net Sales</u>	<u>Amount</u>	<u>% of Net Sales</u>
Net sales	\$ 15,187,893	100%	\$ 13,151,576	100%
Cost of sales	7,932,097	52%	7,202,863	55%
Gross profit	7,255,796	48%	5,948,713	45%
Engineering expenses	516,498	4%	553,542	4%
Selling and general expenses	4,311,515	28%	4,653,240	35%
Operating income	2,427,783	16%	741,931	6%
Other income	335,604	2%	96,729	1%
Income before income taxes	2,763,387	18%	838,660	6%
Income taxes	1,222,715	8%	394,000	3%
Net income	1,540,672	10%	444,660	3%

Net sales of the Company increased by \$2,036,000 or 16%, for the fiscal year ended October 31, 2006 compared to the fiscal year ended October 31, 2005 (“fiscal 2005”) due to increases in all five of the Company’s divisions. The increase in fiscal 2006 is attributable to an increase in sales of \$1,511,000 for RF connector and cable assembly products as the market demand for connectors and cables increased, particularly for wireless applications. The increase in demand in the Company’s RF connector and cable assembly products represents a \$1,013,000 increase in the Connector and Cable Assembly Division, increased sales for the Aviel Division of \$37,000 and increased sales for the Worswick Industries Division of \$461,000. The increase in the Worswick Division represents 12 months of sales during fiscal 2006 acquired in September 2005 and in fiscal 2005 included only 2 months of sales. To complement the increase in revenues at the Company’s three RF cable and connector divisions, Bioconnect had an increase of \$433,000 in revenues due to the release of product purchases from its primary customer that were on hold at the end of fiscal 2005 and other new orders in fiscal 2006. Finally, revenues from the Neulink Division also increased by \$92,000 as a result of the release of its new wireless modem.

The Company’s gross profit increased \$1,307,000 or by 22% to \$7,256,000 in 2006 from \$5,948,000 in 2005 due to the increase in net sales and improved gross margins. As a percent of net sales, gross profit increased to 48% in fiscal 2006 from 45% of sales in fiscal 2005. The increase in the gross profit percentage is primarily due to increased sales by the Connector and Cable assembly division and by the Bioconnect division fiscal 2005. The increased in sales by Bioconnect improved labor efficiencies to lower its per unit costs and its cost of goods sold by 25%. Gross Margins for the Connector and Cable Divisions remained at 48% despite increased costs such as the increases of in-bound freight (fuel costs increases) and the cost of copper raw materials.

Engineering expenses, which include research and development expenses, decreased by \$37,000 from \$554,000 in fiscal 2005 to \$516,000 in fiscal 2006. However, because of the 16% increase in net sales, as a percent of net sales, engineering expenses decreased from 4.2% in fiscal 2005 to 3.4% in fiscal 2006. Engineering expenses, which consist of expenses incurred in the design, re-design or development of products for specific customers, remained substantially unchanged in fiscal 2006 from fiscal 2005. However, the Company did not incur any research and development expenses in fiscal 2006, compared to \$45,000 of research and development expenses incurred in fiscal 2005.

Selling and general expenses decreased by \$342,000 or by 7%, from \$4,653,000 in fiscal 2005 to \$4,312,000 in fiscal 2006 despite the 16% increase in revenues. In fiscal 2005, the Company incurred a one-time expense of \$551,000 resulting from the repurchase and cancellation of stock options. No such costs were incurred in fiscal 2006. In addition, the Company also no longer incurred the expenses related to implementing the controls and procedures mandated under Section 404 of the Sarbanes-Oxley Act of 2002. The foregoing decreases in selling and general expenses were offset by slightly higher associated costs of additional audit and legal expenses resulting from

Sarbanes-Oxley Act compliance. Selling and general expenses also increased by \$194,000 as a result of the full year's marketing and general and administrative expenses for the Worswick Industries division that was acquired in September 2005. Advertising and promotional costs also increased from \$135,000 in fiscal 2005 to \$196,000 in fiscal 2006 as the Company increased its marketing efforts of certain of its products. Selling, general and administrative expenses are expected to increase during the next fiscal year because the Company will have to recognize expenses related to stock option grants made after November 1, 2006 as a result of FASB 123 (R) that became effective for the Company commencing in the first quarter of fiscal year 2007.

As a result of the \$379,000 decrease of engineering, selling and general administrative expenses and the increase of \$1,307,000 in gross profit, operating income increased 246% or by \$1,686,000 from \$742,000 in fiscal 2005 to \$2,428,000 in fiscal 2006.

Net income before taxes in fiscal 2006 increased 229% or by \$1,925,000 to \$2,763,000 compared to net income before taxes of \$839,000 in fiscal 2005. The increase in net income before taxes is due to higher operating income and by an increase in interest income of 246% or by \$239,000 in fiscal 2006 to \$336,000 from \$97,000 in fiscal 2005.

Net income after tax for the fiscal year ended October 31, 2006 increased 246% or by \$1,096,000 to \$1,541,000 compared to \$445,000 in fiscal year ended October 31, 2005.

ITEM 7. FINANCIAL STATEMENTS

The following Financial Statements of the Company with related Notes and Report of Independent Registered Public Accounting Firm are attached hereto as pages F-1 to F-17 and filed as part of this Annual Report:

- Report of J.H. Cohn LLP, Independent Registered Public Accounting Firm
- Balance Sheets as of October 31, 2006 and 2005
- Statements of Income for the years ended October 31, 2006 and 2005
- Statements of Stockholders' Equity for the years ended October 31, 2006 and 2005
- Statements of Cash Flows for the years ended October 31, 2006 and 2005
- Notes to Financial Statements

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Report of Independent Registered Public Accounting Firm

To the Stockholders
RF Industries, Ltd.

We have audited the accompanying balance sheets of RF Industries, Ltd. as of October 31, 2006 and 2005, and the related statements of income, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of RF Industries, Ltd. as of October 31, 2006 and 2005, and its results of operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

J. H. Cohn LLP

San Diego, California
January 4, 2007

RF INDUSTRIES, LTD.
BALANCE SHEETS
OCTOBER 31, 2006 AND 2005

<u>ASSETS</u>	2006	2005
Current assets:		
Cash and cash equivalents	\$ 4,612,935	\$ 4,507,219
Investments in available-for-sale securities	2,252,589	
Trade accounts receivable, net of allowance for doubtful accounts of \$45,653 and \$14,898	2,053,402	1,890,700
Notes receivable		2,500
Inventories	5,250,484	4,180,500
Income tax refund receivable		306,131
Other current assets	208,156	97,356
Deferred tax assets	196,075	136,000
Total current assets	14,573,641	11,120,406
Equipment and furnishings:		
Equipment and tooling	1,662,822	1,543,120
Furniture and office equipment	386,137	364,063
	2,048,959	1,907,183
Less accumulated depreciation	1,672,813	1,441,448
Total	376,146	465,735
Goodwill	200,848	200,848
Amortizable intangible asset	73,333	113,333
Notes receivable from related parties		29,750
Note receivable from stockholder	66,980	66,980
Other assets	28,087	28,087
	200,848	200,848
	73,333	113,333
	66,980	66,980
	28,087	28,087
Totals	\$ 15,319,035	\$ 12,025,139
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Current liabilities:		
Accounts payable	\$ 441,203	\$ 334,749
Accrued expenses	603,351	377,986
Income taxes payable	719,864	
Total current liabilities	1,764,418	712,735
Deferred tax liabilities	90,618	106,000
Total liabilities	1,855,036	818,735
Commitments and contingencies		
Stockholders' equity:		
Common stock - authorized 10,000,000 shares at \$.01 par value; 3,252,613 and 3,082,521 shares issued and outstanding	32,526	30,825
Additional paid-in capital	4,582,897	3,872,983
Retained earnings	8,843,268	7,302,596
Accumulated other comprehensive income - net unrealized gain on available-for-sale securities	5,308	
Total stockholders' equity	13,463,999	11,206,404
Totals	\$ 15,319,035	\$ 12,025,139

See Notes to Financial Statements.

RF INDUSTRIES, LTD.

**STATEMENTS OF INCOME
YEARS ENDED OCTOBER 31, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
Net sales	\$ 15,187,893	\$ 13,151,576
Cost of sales	<u>7,932,097</u>	<u>7,202,863</u>
Gross profit	<u>7,255,796</u>	<u>5,948,713</u>
Operating expenses:		
Engineering	516,498	553,542
Selling and general	<u>4,311,515</u>	4,653,240
Totals	<u>4,828,013</u>	<u>5,206,782</u>
Operating income	2,427,783	741,931
Other income - interest	<u>335,604</u>	<u>96,729</u>
Income before income taxes	2,763,387	838,660
Provision for income taxes	<u>1,222,715</u>	<u>394,000</u>
Net income	<u>\$ 1,540,672</u>	<u>\$ 444,660</u>
Earnings per share:		
Basic	<u>\$.48</u>	<u>\$.15</u>
Diluted	<u>\$.42</u>	<u>\$.12</u>

See Notes to Financial Statements.

RF INDUSTRIES, LTD.

**STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED OCTOBER 31, 2006 AND 2005**

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Shares	Amount				
Balance, November 1, 2004	2,996,937	\$ 29,970	\$ 3,566,760	\$ 6,857,936	\$ -	\$ 10,454,666
Net income				444,660		444,660
Tax benefit on non-qualified stock options			122,000			122,000
Exercise of stock options	83,372	833	171,745			172,578
Stock issued for acquisition	<u>2,212</u>	<u>22</u>	<u>12,478</u>			<u>12,500</u>
Balance, October 31, 2005	3,082,521	30,825	3,872,983	7,302,596	-	11,206,404
Comprehensive income:						
Net income				1,540,672		1,540,672
Unrealized gain on short-term investments					5,308	<u>5,308</u>
Total comprehensive income						<u>1,545,980</u>
Stock based compensation expense			143,188			143,188
Tax benefit on non-qualified stock options			288,000			288,000
Exercise of stock options	<u>170,092</u>	<u>1,701</u>	<u>278,726</u>			<u>280,427</u>
Balance, October 31, 2006	<u>\$ 3,252,613</u>	<u>\$ 32,526</u>	<u>\$ 4,582,897</u>	<u>\$ 8,843,268</u>	<u>\$ 5,308</u>	<u>\$ 13,463,999</u>

See Notes to Financial Statements.

RF INDUSTRIES, LTD.

**STATEMENTS OF CASH FLOWS
YEARS ENDED OCTOBER 31, 2006 AND 2005**

	2006	2005
Operating activities:		
Net income	\$ 1,540,672	\$ 444,660
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for bad debts	40,224	
Depreciation and amortization	271,209	222,435
Deferred income taxes	(75,457)	58,000
Stock based compensation expense	143,188	
Income tax benefit on non-qualified stock options	288,000	122,000
Changes in operating assets and liabilities:		
Trade accounts receivable	(202,926)	(374,665)
Inventories	(1,069,984)	(336,562)
Income tax receivable/payable	1,025,995	(106,000)
Other current assets	(110,800)	5,651
Other assets		(13,916)
Accounts payable	106,454	124,793
Accrued expenses	225,365	24,886
Net cash provided by operating activities	2,181,940	171,282
Investing activities:		
Payment for acquisition		(225,000)
Purchases of available-for-sale securities	(5,363,610)	
Sales of available-for-sale securities	3,116,329	
Capital expenditures	(141,620)	(118,463)
Payment of note receivable	2,500	9,500
Payments of note receivable from related party	29,750	
Net cash used in investing activities	(2,356,651)	(333,963)
Financing activities - exercise of stock options	280,427	172,578
Net increase in cash and cash equivalents	105,716	9,897
Cash and cash equivalents at beginning of year	4,507,219	4,497,322
Cash and cash equivalents at end of year	\$ 4,612,935	\$ 4,507,219
Supplemental cash flow information - income taxes paid		\$ 320,000
Noncash investing and financing activities:		
Stock issued for acquisition		\$ 12,500

See Notes to Financial Statements.

RF INDUSTRIES, LTD.

NOTES TO FINANCIAL STATEMENTS

Note 1 - Business activities and summary of significant accounting policies:

Business activities:

The Company's business is comprised of the design, manufacture and/or sale of communications equipment primarily to the radio and other professional communications related industries. The Company currently conducts its operations through five related business divisions (i) RF Connector and Cable Division is engaged in the design, manufacture and distribution of coaxial connectors and cable assemblies used primarily in radio and other professional communications applications; (ii) Aviel Division is engaged in the design, manufacture and sales of radio frequency, microwave and specialized connectors and connector assemblies for aerospace, original electronics manufacturers and military electronics applications; (iii) Worswick Division is engaged in sales of microwave and radio frequency connectors and cable assemblies to end users in multi-media, radio and other communications applications (see Note 11); (iv) BioConnect Division is engaged in the design, manufacture and sales of cable interconnects for medical monitoring applications; and (v) Neulink Division is engaged in the design, manufacture and sales of radio links for receiving and transmitting control signals for remote operation and monitoring of equipment, personnel and monitoring services.

Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results may differ from those estimates.

Cash equivalents:

The Company considers all highly-liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Revenue recognition:

Revenue from product sales is recognized when the product is shipped and collectability is reasonably assured. At times, when the Company manufactures custom connectors and cable assemblies for aerospace or military customers, product acceptance is also a criteria for revenue recognition.

Inventories:

Inventories, consisting of materials, labor and manufacturing overhead, are stated at the lower of cost or market. Cost has been determined using the weighted average cost method.

Equipment and furnishings:

Equipment, tooling and furniture are recorded at cost and depreciated over their estimated useful lives (generally 3 to 7 years) using the straight-line method.

Investments:

The Company follows Statement of Financial Accounting Standards No. 115 ("SFAS 115"), "Accounting for Certain Investments in Debt and Equity Securities" which requires the Company's investments in U.S. Treasury Bills to be classified as "available-for-sale securities" and valued at fair market value at month end. If there is any other than temporary decline in fair value, the cost basis of the individual security will be written down to fair value via a charge to earnings. Net unrealized holding gains on these investments as of October 31, 2006 were \$5,308.

RF INDUSTRIES, LTD.

NOTES TO FINANCIAL STATEMENTS

Note 1 - Business activities and summary of significant accounting policies (continued):

Goodwill:

The Company follows Statement of Financial Accounting Standards No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets", which requires that goodwill and certain intangible assets, including those recorded in past business combinations, no longer be amortized against earnings, but instead be tested for impairment at least annually. There was no impairment of goodwill as a result of impairment tests performed according to SFAS 142 in 2006 and 2005.

Long-lived assets:

The Company assesses potential impairments to its long-lived assets when there is evidence that events or changes in circumstances indicate that the carrying amount of an asset may not be recovered. An impairment loss is recognized when the undiscounted cash flows expected to be generated by an asset (or group of assets) is less than its carrying amount. Any required impairment loss is measured as the amount by which the assets carrying value exceeds its fair value, and is recorded as a reduction in the carrying value of the related asset and a charge to operations.

Amortizable intangible assets:

As of October 31, 2006 and 2005, other intangible assets consist of a covenant not to compete agreement in the amount of \$120,000 which is amortized over a three year life with accumulated amortization of \$46,667 and \$6,667, respectively. Amortization expense is expected to be \$40,000 and \$33,333 in the years ending October 31, 2007 and 2008, respectively.

Advertising:

The Company expenses the cost of advertising and promotions as incurred. Advertising costs charged to operations were \$196,000 and \$135,000 in 2006 and 2005, respectively.

Research and development:

The Company expenses research and development costs as incurred. Research and development costs charged to operations and included in engineering were approximately \$0 and \$45,000 in 2006 and 2005, respectively.

Income taxes:

The Company accounts for income taxes pursuant to the asset and liability method which requires deferred income tax assets and liabilities to be computed for temporary differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in future periods based on enacted laws and rates applicable to the periods in which the temporary differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. The income tax provision is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

RF INDUSTRIES, LTD.
NOTES TO FINANCIAL STATEMENTS

Note 1 - Business activities and summary of significant accounting policies (continued):

Stock options:

The Company continues to measure compensation cost related to stock options issued to employees using the intrinsic value method of accounting prescribed by Accounting Principles Board Opinion No. 25 ("APB 25"). "Accounting for Stock Issued to Employees," which only requires charges to compensation expense for the excess, if any, of the fair market value of the underlying stock at the date a stock option is granted (or at an appropriate subsequent measurement date) over the amount an employee must pay to acquire the stock. The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123 ("SFAS 123"), "Accounting for Stock-Based Compensation," as amended by Statement of Financial Accounting Standards No. 148 ("SFAS 148"), "Accounting for Stock-Based Compensation-Transaction Disclosure."

The Company's historical net income and earnings per common share and pro forma net income and earnings per share assuming compensation cost had been determined based on the fair value on the grant date for all awards by the Company consistent with the provisions of SFAS 123 are set forth below:

	<u>2006</u>	<u>2005</u>
Net income:		
As reported	\$ 1,540,672	\$ 444,660
 Add stock compensation expense recognized under APB 25	 143,188	
 Deduct total stock-based employee compensation expense determined under the fair value based method for all awards - net of income taxes	 <u>(528,000)</u>	 <u>(208,000)</u>
 Pro forma	 <u>\$ 1,155,860</u>	 <u>\$ 236,660</u>
 Basic earnings per share:		
As reported	\$.48	\$.15
Pro forma	\$.36	\$.08
 Diluted earnings per share:		
As reported	\$.42	\$.12
Pro forma	\$.31	\$.06

Stock options (concluded):

The fair value of each option granted in 2006 and 2005 was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	<u>2006</u>	<u>2005</u>
Dividend yield	0%	0%
Expected volatility	54% to 57%	56%
Risk-free interest rate	4.42% to 4.95%	4.34%
Expected lives	5 years	4 years
Weighted average fair market value of options granted during the year	<u>\$ 3.54</u>	<u>\$ 2.34</u>

RF INDUSTRIES, LTD.

NOTES TO FINANCIAL STATEMENTS

Note 1 - Business activities and summary of significant accounting policies (continued):

Earnings per share:

Basic earnings per share is calculated by dividing net income applicable to common stockholders by the weighted average number of common shares outstanding during the period. The calculation of diluted earnings per share is similar to that of basic earnings per share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if all potentially dilutive common shares, principally those issuable upon the exercise of stock options, were issued and the treasury stock method had been applied during the period. The greatest number of shares potentially issuable by us upon the exercise of stock options in any period for the year ended October 31, 2006, that were not included in the computation because they were anti-dilutive, totaled 77,929. During the year ended October, 31 2005, all options were considered dilutive and included in the calculation of diluted earnings per share.

The following table summarizes the calculation of basic and diluted earnings per share:

	2006	2005
Numerators:		
Net income (A)	\$ <u>1,540,672</u>	\$ <u>444,660</u>
Denominators:		
Weighted average shares outstanding for basic earnings per share (B)	3,185,920	3,049,215
Add effects of potentially dilutive securities - assumed exercise of stock options	<u>525,615</u>	<u>744,273</u>
Weighted average shares for diluted earnings per share (C)	<u>3,711,535</u>	<u>3,793,488</u>
Basic net earnings per share (A)÷(B)	\$ <u>.48</u>	\$ <u>.15</u>
Diluted net earnings per share (A)÷(C)	\$ <u>.42</u>	\$ <u>.12</u>

New accounting pronouncements:

In December 2004, the FASB issued SFAS No. 123 (R), "Accounting for Stock-Based Compensation." SFAS No. 123 (R) establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. SFAS No. 123 (R) focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS No. 123 (R) requires that the fair value of such equity instruments be recognized as expense in the historical financial statements as services are performed. Prior to SFAS No. 123 (R), only certain pro forma disclosures of fair value were required. SFAS No. 123 (R) shall be effective for all of the Company's interim and annual reporting periods commencing on November 1, 2006 and is expected to have a material impact on the financial statements of the Company during the fiscal year 2007 and thereafter.

RF INDUSTRIES, LTD.

NOTES TO FINANCIAL STATEMENTS

Note 1 - Business activities and summary of significant accounting policies (continued):

New accounting pronouncements (continued):

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 applies to all tax positions related to income taxes subject to SFAS No. 109, *Accounting for Income Taxes* (SFAS 109). Under FIN 48, a company would recognize the benefit from a tax position only if it is more-likely-than-not that the position would be sustained upon audit based solely on the technical merits of the tax position. FIN 48 clarifies how a company would measure the income tax benefits from the tax position that are recognized, provides guidance as to the timing of the derecognition of previously recognized tax benefits and describes the methods for classifying and disclosing the liabilities within the financial statements for any unrecognized tax benefits. FIN 48 also addresses when a company should record interest and penalties related to tax positions and how the interest and penalties may be classified within the income statement and presented in the balance sheet. FIN 48 is effective for fiscal years beginning after December 15, 2006. For the Company, FIN 48 will be effective for our 2008 fiscal year. Differences between the amounts recognized in the statement of operations prior to and after the adoption of FIN 48 would be accounted for as a cumulative effect adjustment to the beginning balance of retained earnings. The Company is currently evaluating FIN 48 and its possible impacts on the Company's financial statements. Upon adoption, there is a possibility that the cumulative effect would result in a charge or benefit to the beginning balance of retained earnings, increases or decreases in future effective tax rates, and/or increases in future effective tax rate volatility.

In September 2006, the SEC staff issued SAB No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB 108). In SAB 108, the SEC staff established an approach that requires quantification of financial statement misstatements based on the effects of the misstatements on each of the company's financial statements and the related financial statement disclosures. SAB 108 permits public companies to initially apply its provisions either by (i) restating prior financial statements or (ii) recording the cumulative effect as adjustments to the carrying values of assets and liabilities with an offsetting adjustment recorded to the opening balance of retained earnings. The Company is required to adopt SAB 108 by the end of fiscal 2007 and will early adopt during the first quarter of fiscal 2007. The Company has not completed its analysis but does not expect adoption to have a significant impact on the Company's results of operations or financial position.

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the United States of America, and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact SFAS 157 will have on its financial statements.

RF INDUSTRIES, LTD.

NOTES TO FINANCIAL STATEMENTS

Note 2 - Concentration of credit risk and sales to major customers:

The Company maintains its cash balances with several financial institutions. As of October 31, 2006, the balance exceeded the Federal Deposit Insurance Corporation limitation for coverage of \$100,000 by approximately \$746,000. The Company reduces its exposure to credit risk by maintaining such balances with financial institutions that have high credit ratings.

Accounts receivable are financial instruments that also expose the Company to concentration of credit risk. Such exposure is limited by the large number of customers comprising the Company's customer base and their dispersion across different geographic areas. In addition, the Company routinely assesses the financial strength of its customers and maintains an allowance for doubtful accounts that management believes will adequately provide for credit losses.

Sales to one customer represented 17% and 15% of total sales, and 12% and 10% of total accounts receivable in 2006 and 2005, respectively. The Company has a standard written distributor agreement with this customer and, therefore, this customer does not have any minimum purchase obligations and could stop buying the Company's products at any time. A reduction, delay or cancellation of orders from this customer or the loss of this customer could significantly reduce the Company's revenues and profits.

Note 3 - Inventories and major vendors:

Inventories consist of the following as of October 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Raw materials and supplies	\$ 1,038,857	\$ 845,313
Work in process	20,024	63,242
Finished goods	4,259,125	3,318,293
Less inventory reserve	<u>(67,522)</u>	<u>(46,348)</u>
Totals	<u>\$ 5,250,484</u>	<u>\$ 4,180,500</u>

Purchases of connector products from two major vendors represented 46% and 12% of the total inventory purchases in 2006 and 35% and 24% in 2005, respectively. The increase is due primarily to a one-time purchase of a two year supply of certain connectors. The Company has arrangements with these vendors to purchase product based on purchase orders periodically issued by the Company.

RF INDUSTRIES, LTD.

NOTES TO FINANCIAL STATEMENTS

Note 4 - Commitments:

The Company leases its facilities in San Diego, California and Las Vegas, Nevada under non-cancelable operating leases. The Company amended its San Diego lease in June 2005, adding additional square feet. The amended lease expires in May 2010 and requires minimum annual rental payments that are subject to fixed annual increases. The minimum annual rentals under this lease are being charged to expense on a straight-line basis over the lease term. Deferred rents were \$59,000 as of October 31, 2006 and \$55,000 at October 31, 2005. The San Diego lease also requires the payment of the Company's pro rata share of the real estate taxes and insurance, maintenance and other operating expenses related to the facilities. The Las Vegas lease is on a one year lease expiring in January 2007. After expiration, the lease will operate on a month-to-month basis while terms for a long-term lease are renegotiated. The Company also leases certain automobiles under operating leases which expire at various dates through December 2008.

Rent expense under all operating leases totaled approximately \$399,000 and \$276,000 in 2006 and 2005, respectively.

Minimum lease payments under these operating leases in each of the years subsequent to October 31, 2006 are as follows:

Year Ending October 31,	Amount
2007	\$ 272,000
2008	232,000
2009	223,000
2010	132,000
Total	\$ 859,000

The Company has an employment agreement with the President and Chief Executive Officer for a term of up to three consecutive one year periods commencing on June 20, 2005 (the "Commencement Date"), and ending on June 20, 2008, which expires at the end of each Employment Year of June 19 and may be extended for an additional Employment Year on the anniversary dates thereafter. The aggregate amount of compensation to be provided over the remaining term of the agreement amounted to \$287,292 at October 31, 2006.

Note 5 - Geographical information:

The Company attributes sales to geographic areas based on the location of the customers. The following table presents the sales of the Company by geographic area for the years ended October 31, 2006 and 2005:

	2006	2005
United States	\$ 13,740,623	\$ 11,818,019
Foreign countries	1,447,270	1,333,557
Totals	\$ 15,187,893	\$ 13,151,576

RF INDUSTRIES, LTD.

NOTES TO FINANCIAL STATEMENTS

Note 6 - Income taxes:

The provision for income taxes consists of the following:

	2006	2005
Current:		
Federal	\$ 1,032,000	\$ 256,000
State	<u>266,172</u>	<u>80,000</u>
	<u>1,298,172</u>	<u>336,000</u>
Deferred:		
Federal	(65,000)	56,000
State	<u>(10,457)</u>	<u>2,000</u>
	<u>(75,457)</u>	<u>58,000</u>
Totals	<u>\$ 1,222,715</u>	<u>\$ 394,000</u>

Income tax at the Federal statutory rate is reconciled to the Company's actual net provision for income taxes as follows:

	2006		2005	
	Amount	% of Pretax Income	Amount	% of Pretax Income
Income tax at Federal statutory rate	\$ 940,000	34.0%	\$ 285,000	34.0%
State tax provision, net of Federal tax benefit	169,000	6.1	52,000	6.2
Nondeductible differences	43,000	1.6	8,000	0.9
Change in valuation allowance	(34,000)	(1.2)	3,000	0.4
Expiration of capital loss carryforwards	34,000	1.2	-	0.0
Other	<u>70,715</u>	<u>2.5</u>	<u>46,000</u>	<u>5.5</u>
Provision for income taxes	<u>\$ 1,222,715</u>	<u>44.2%</u>	<u>\$ 394,000</u>	<u>47.0%</u>

RF INDUSTRIES, LTD.

NOTES TO FINANCIAL STATEMENTS

Note 6 - Income taxes (concluded):

The Company's total deferred tax assets and deferred tax liabilities at October 31, 2006 and 2005 are as follows:

	2006	2005
<u>Assets:</u>		
Allowance for doubtful accounts	\$ 18,000	\$ 6,000
Inventory obsolescence	27,000	18,000
Accrued vacation	61,000	59,000
State income taxes	66,000	30,000
Capital loss carryforwards	3,000	37,000
Other	24,075	23,000
Totals	199,075	173,000
 <u>Liabilities:</u>		
Depreciation	(90,618)	(106,000)
Less valuation allowance	(3,000)	(37,000)
Net deferred tax assets	\$ 105,457	\$ 30,000

A valuation allowance has been established for the capital loss carry-forward, due to the Company no longer investing in assets to offset these losses in the foreseeable future.

Note 7 - Stock options:

Incentive and Non-Qualified Stock Option Plans:

The Board of Directors approved an Incentive Stock Option Plan (the "1990 Incentive Plan") during fiscal 1990 that provides for grants of options to employees to purchase up to 500,000 shares of common stock of the Company. Under its terms, the 1990 Incentive Plan terminated in 2000, and no additional options can be granted under that option plan. However, options previously granted under the 1990 Incentive Plan remain outstanding and continue in effect until they either expire or are forfeited or are exercised. As of October 31, 2006, a total of 313 options were still outstanding under the 1990 Incentive Plan, all of which are currently exercisable.

The Board of Directors also approved a Non-Qualified Stock Option Plan (the "1990 Non-Qualified Plan") during fiscal 1990 that provides for grants of options to purchase up to 200,000 shares of common stock to officers, directors and other recipients selected by the Board of Directors. Under its terms, the 1990 Non-Qualified Plan terminated in 2000, and no additional options can be granted under that option plan. However, options previously granted under the 1990 Non-Qualified Plan remain outstanding and continue in effect until they either expire, are forfeited or are exercised. As of October 31, 2006, a total of 6,000 options were still outstanding under the 1990 Non-Qualified Plan, all of which are currently exercisable.

RF INDUSTRIES, LTD.

NOTES TO FINANCIAL STATEMENTS

Note 7 - Stock options (continued):

Incentive and Non-Qualified Stock Option Plans (concluded):

In May 2000, the Board of Directors adopted the Company's 2000 Stock Option Plan (the "2000 Option Plan"). Under the 2000 Option Plan, the Company may grant options to purchase shares of common stock to officers, directors, key employees and others providing services to the Company. The number of shares of common stock that the Company is authorized to issue under options granted under the 2000 Option Plan initially was 300,000, which number automatically increases on January 1 of each year by the lesser of (i) 4% of the total number of shares of common stock then outstanding or (ii) 10,000 shares. In May 2003, the Board of Directors and Shareholders approved an increase to the 2000 Option Plan of 100,000 options. In June 2006, the Shareholders approved an increase to the 2000 Option Plan of 250,000 options. Accordingly, as of October 31, 2006, the authorized number of shares of common stock that could be issued under the 2000 Option Plan was 710,000, of which 402,938 are still outstanding and 43,250 options were still available to be granted. Under the 2000 Option Plan, the Company is authorized to grant both incentive stock options and non-qualified stock options with a one year vesting provision. Incentive stock options are granted at an exercise price no less than the fair value of the common stock on the date of grant, while non-qualified options are granted at no less than 85% of the fair value of the common stock on the date of grant.

Additional required disclosures related to stock option plans:

Additional information regarding all of the Company's outstanding stock options at October 31, 2006 and 2005 and changes in outstanding stock options in 2006 and 2005 follows:

	2006		2005	
	Shares or Price Per Share	Weighted Average Exercise Price	Shares or Price Per Share	Weighted Average Exercise Price
** Options outstanding at beginning of year	906,097	\$ 1.99	1,035,714	\$ 1.63
Options granted	272,508	6.02	60,705	5.34
Options exercised	(170,092)	1.65	(83,372)	2.07
* Options purchased for cash			(100,000)	.10
Options forfeited	(34,391)	5.38	(6,950)	4.65
** Options outstanding at end of year	974,122	3.05	906,097	1.99
Option price range at end of year	\$.10 - \$7.50		\$.10 - \$6.38	

* This transaction consisted of the Company repurchase of 100,000 options from the Company's Chief Executive Officer for \$551,000.

** Included in the options outstanding are 564,871 in 2006 and 690,963 in 2005 previously granted to six officers and/or key employees of the Company under employment agreements entered into by the Company with each of these officers and employees.

RF INDUSTRIES, LTD.

NOTES TO FINANCIAL STATEMENTS

Note 7 - Incentive and Non-Qualified Stock Option Plans (concluded):

The following table summarizes information about stock options outstanding at October 31, 2006, all of which are at fixed-prices:

Range of Exercise Price	Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life of Options Outstanding	Number of Options Exercisable	Weighted Average Exercise Price of Options Exercisable
\$.10	298,871	\$.10	1yr. after termination	298,871	\$.10
\$1.33 - \$ 2.50	147,693	2.12	5yrs.	67,693	2.12
\$2.66 - \$3.95	187,535	3.03	7yrs.	87,535	3.18
\$4.94 - \$7.50	340,023	6.07	8yrs.	206,265	5.25
	<u>974,122</u>	<u>3.05</u>		<u>660,364</u>	<u>2.32</u>

Note 8 - Retirement plan:

The Company sponsors a deferred savings and profit sharing plan under Section 401(k) of the Internal Revenue Code. Substantially all of its employees may participate in and make voluntary contributions to this defined contribution plan after they meet certain eligibility requirements. The Board of Directors of the Company can authorize additional discretionary contributions by the Company. The Company did not make contributions to the plan in 2006 or 2005.

Note 9 - Related party transactions:

The note receivable from stockholder of \$66,980 at October 31, 2006 and 2005 is due from the President of the Company, bears interest at 6%, payable annually, and has no specific due date. The note is collateralized by the properties owned by the President.

The notes receivable from related parties was zero at October 31, 2006 and \$29,750 at October 31, 2005, were due from an employee of the Company, bore interest at 6% and were due when shares of the Company's common stock were sold by the employee. The notes are collateralized by properties owned by the employee. The related party notes were repaid with accrued interest on December 23, 2005.

A director of the Company is an employee of the Company's public relations firm. For the fiscal years ended October 31, 2006 and 2005, the Company paid the firm \$39,870 and \$39,360, respectively, for services rendered.

Note 10- Legal proceedings:

From time to time, the Company is involved in legal proceedings that are related to its business operations. The Company is not currently a party to any legal proceedings that could have a material adverse effect upon its financial position or results of operations.

Note 11- Business acquisition:

On September 1, 2005, the Company purchased the business and substantially all of the assets of Worswick Industries, Inc., a California based manufacturer and seller of microwave and radio frequency connectors. Worswick Industries Inc. has been conducting business under the name "Worswick Industries". The purchase price of the assets was \$237,500, of which \$200,000 was paid in cash at the closing and \$12,500 in 2,212 shares of the Company's common stock, and \$25,000 was deposited into an escrow account for one year as security for the seller's representations, warranties and covenants. The purpose of the acquisition was to increase the Company's production capacity. In addition it will complement the Company's coaxial connector business with local governmental, communications and aerospace customers. Goodwill recorded upon the purchase acquisition is fully deductible for tax purposes.

Note 11- Business acquisition (concluded):

The acquisition has been accounted for as a purchase and, accordingly, the net assets acquired were recorded at estimated fair values on the date of acquisition. A summary of the allocation of the cost of the acquisition to the net assets acquired as of September 1, 2005 follows:

Inventory	\$	55,000
Non-compete agreement		120,000
Goodwill		62,500
Total assets acquired	\$	<u>237,500</u>
Purchase price	\$	<u>237,500</u>

Assuming the acquisition had taken place on the first day of the year ended October 31, 2005, unaudited net sales would have been approximately \$13,401,000 while unaudited net income and earnings per share information would not have been materially different than the amounts shown on the accompanying statement of income for the year ended October 31, 2005.

NOTES

Board of Directors

Linde Kester
Chairman

John R. Ehret
Director

Marvin H. Fink
Director

Howard F. Hill
Director, President and CEO

Robert Jacobs
Director

William L. Reynolds
Director

Corporate Officers

Howard F. Hill
President and CEO

James S. Doss
Acting CFO and
Corporate Secretary

Executive Staff

Manny Gutsche
VP Sales and Marketing
RF Industries

Robert Macias
VP Product Assurance
RF Industries;
President/General Manager
Aviel Electronics division

Richard "Joe" LaFay
President/General Manager
RF Connectors Division

Conrad Neri
President/General Manager
RF Cable Assemblies Division

George R. Marks
President/General Manager
Bioconnect/RF Neulink Divisions

Jesse Fuller
President/General Manager
Worswick Industries Division

Service Providers**Independent Auditors**

J.H. Cohn LLP
5415 Oberlin Drive
San Diego, CA 92121
(858) 535-2000

Securities Counsel

Troy and Gould
1801 Century Park E., 16th Floor
Los Angeles, CA 90067-2367
(310) 553-4441

Transfer Agent and Registrar

Continental Stock & Transfer Co.
17 Battery Place South, 8th Floor
New York, NY 10004
(212) 509-4000

Common Stock
Nasdaq Small Cap Market
Symbol: RFIL

Annual Meeting
June 1, 2007
1:30 p.m., PST
Corporate Office
7610 Miramar Road
San Diego, CA 92126
(858) 549-6340

Annual reports, 10Ks, 10Qs and news releases are available by contacting Howard Hill at (858) 549-6340 or (800) 233-1728 or e-mail: rfi@rfindustries.com. Website: www.rfindustries.com

RF INDUSTRIES

7610 MIRAMAR ROAD

SAN DIEGO, CA 92126-4202

(858) 549-6340 OR (800) 233-1728

FAX: (858) 549-6345

EMAIL: rfi@rfindustries.com

WEB: www.rfindustries.com

