INDUSTRIES

Interconnect Solutions for a Connected World™

Annual Report
Fiscal 2018

July 29, 2019

Fellow Shareholders:

Fiscal 2018 was a very eventful year for RF Industries. We made significant progress with the strategic transformation of our business while driving improved financial results that included record annual sales and a return to profitable growth for the fiscal year. While we are coming off the first year of a major multi-year transformation of the Company, we are encouraged to see the early benefits of our long-term strategy begin to be reflected in our improved financial results.

For the fiscal year ended October 31, 2018, our net sales from continuing operations increased by $27.2 million, or 118 percent, compared to the prior fiscal year. Our gross profit as a percentage of sales in fiscal 2018 increased by 3.7 percent to 34.1 percent, and we generated $6 million in income from continuing operations, or $0.63 per diluted share. This is up significantly from $170,000, or $0.02 per diluted share, last fiscal year. We also generated $10.3 million in cash during the year, further strengthening our balance sheet.

We started fiscal 2018 in a new direction by beginning to transform the culture of the company and its four historical divisions into a one-Company operating structure, better defining our addressable market segments and targeting the best way to serve those segments.

As part of our business transformation to more efficiently leverage our capabilities across the entire business, we divested our Comnet division at the end of the fiscal year. This sale was in line with our goal of a unified sales strategy and reflects our ongoing focus on driving profitable growth and investing in our best opportunities. The proceeds from the sale increased our total cash available for inorganic growth and other strategic initiatives.

Our offering of high-quality products, flexibility in design, and fast turnaround time is resonating in the market, and with our focus on streamlining operations and sales execution, we are clearly doing a better job of selling our products. Our biggest wins in fiscal 2018 came in the Wireless Carrier ecosystem, where we are finding growth opportunities for our fiber and coaxial solutions, led by our hybrid- fiber cable products. We believe that the densification of the network due to the 5G build out will drive demand for traditional macro site upgrades, as well as increased demand for both distributed antenna systems and small cell deployments, markets where we have a solid product offering.

We also benefited from the continuation of the 4G spend in 2018, and had some success at leveraging that into the early stages of 5G, which is still in its infancy. If we are positioned correctly, the CapEx spend related to densification in the 5G build should provide us with a nice tailwind in the market, but we are still only scratching the surface of the opportunity in this space.

As we move into fiscal 2019 and continue to execute on new strategies to become better integrated as one Company, we are focused on four main areas.

> The first is to further leverage our distribution channels. We made some significant progress in adding targeted distribution in fiscal 2018, and we expect those relationships and our restructured sales team to provide continued growth. We also are constantly reviewing new market segments and the best channels to address them and we are beginning to see improved results.
>
> The second is our sales strategies related to our OEM markets, which are primarily industrial market segments such as manufacturing, defense and aerospace, oil and gas, transportation, mining, agriculture and others. We have many blue-chip customers in these segments and we see a significant opportunity to evolve our OEM sales structure and processes to further leverage our successes in these markets and drive further penetration.
>
> The third is our operation strategy. Our goal is to further integrate our approach to production to best utilize our facilities to build quality products at the lowest possible cost and with the best use of our labor. This includes optimizing our supply chain and our sourcing efforts.
>
> And the fourth area of focus is on inorganic growth. While we continue to pay a dividend, we believe that the bigger opportunity for us is to invest in our growth through strategic use of our strong balance sheet and cash position. We remain committed to both accelerating our growth organically and by adding growth through acquisitions of companies that give us access to new products, customers and market segments and that share the same growth mindset.

On our fiscal 2018 year-end earnings call, we committed to completing at least one acquisition during fiscal 2019. Halfway into the new fiscal year, we have already completed one acquisition and we maintain a strong balance sheet that provides us with significant resources to pursue additional acquisitions that make sense. We believe this would be an effective use of our cash to further transform the Company. We continue to see some interesting candidates in the marketplace, and there's still a possibility of additional acquisitions this fiscal year.

When we look back on fiscal 2018, we see that the Company experienced a step change in sales, as we more than doubled our net sales in the fiscal year. As these solid results illustrate, our strategy for the long-term is beginning to pay off. While we are pleased with the steady progress we are making, we are still only in the second year of a multi-year remodeling of the company and we have more to do. This is not a time for us to sit back and let the market come to us, but rather focus on acceleration.

Fiscal 2019 is about further transformation of the company. We don't expect to do everything perfectly overnight, but as we focus on further growing sales, leveraging our distribution channels, and maintaining strong margins and profitability, we are cautiously optimistic about the coming fiscal year and look forward to further improvement. We are also very focused on trying to deliver more consistent results over the long-term while still expecting some short-term fluctuations.

I'm very proud of these positive results and the tremendous efforts of everyone at RF Industries behind our improved execution. I also want to thank our customers and our shareholders for believing in us. I've enjoyed the opportunity to meet and speak with many of you in the last two years and I look forward to continuing our policy of open and direct communication with all stakeholders.

Sincerely,

Robert Dawson
President and CEO

Abridged and Edited Copy of Annual Report

Form 10-K

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

For the fiscal year ended October 31, 2018

Commission File Number 0-13301

RF INDUSTRIES, LTD.

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The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold as of the last business day of the registrant's most recently completed second fiscal quarter was approximately $47.1 million.

On December 14, 2018, the Registrant had 9,292,701 outstanding shares of Common Stock, $.01 par value.

Forward-Looking Statements:

Certain statements in this Annual Report on Form 10-K, 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, the market demand for its products, which market demand is dependent to a large part on the state of the telecommunications industry, the effect of future business acquisitions and dispositions, the incurrence of impairment charges, and competition.

Important factors which may cause actual results to differ materially from the forward-looking statements are described in the Section entitled "Risk Factors" in the Form 10-K, and other risks identified from time to time in the Company's filings with the Securities and Exchange Commission. 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. (together with subsidiaries, the "Company") is a national manufacturer and marketer of interconnect products and systems, including coaxial and specialty cables and connectors, fiber optic cables and connectors, and electrical and electronic specialty cables and components. Through its three manufacturing and production facilities, the Company provides a wide selection of interconnect products and solutions primarily to telecommunications carriers and equipment manufacturers, wireless and network infrastructure carriers and manufacturers and to various original equipment manufacturers (OEMs) in several market segments.

The Company operates through two reporting segments: (i) the "RF Connector and Cable Assembly" (RF Connector) segment, and (ii) the "Custom Cabling Manufacturing and Assembly" (Custom Cabling) segment. The RF Connector and Cable Assembly segment primarily designs, manufactures, markets and distributes a broad range of connector and cable products, including coaxial connectors and cable assemblies that are integrated with coaxial connectors, used in telecommunications, information technology, OEM markets and other end markets. The Custom Cabling Manufacturing and Assembly segment designs, manufactures, markets and distributes custom copper and fiber cable assemblies, complex hybrid fiber optic and power solution cables, electromechanical wiring harnesses, and wiring harnesses for a broad range of applications in a diverse set of end markets.

During the past two years covered by this Annual Report, the Company's Custom Cabling Manufacturing and Assembly segment included Comnet Telecom Supply, Inc. ("Comnet Telecom"), a wholly-owned subsidiary whose offices and manufacturing facilities are located in East Brunswick, New Jersey. Comnet Telecom manufactures and distributes telecommunications equipment and cabling infrastructure products used by telecommunications carriers, co-location service companies, and other telecommunication and data center companies. On October 31, 2018, the Company sold Comnet Telecom as part of the Company's on-going one-company goal to better integrate and streamline its operating facilities and divisions and ensure a common sales strategy. Comnet Telecom's net sales for the fiscal year ended October 31, 2018 represented 14% of the Company's consolidated net sales, and its operating margin in fiscal 2018 was 7% below the consolidated operating margin of the remaining divisions of the Company (excluding Comnet Telecom). Except as specifically indicated, the description of the Company and its assets and operations excludes Comnet Telecom. In addition, for financial accounting purposes, Comnet Telecom has been classified as discontinued operations, and Comnet Telecom's results of operations for the fiscal years ended October 31, 2018 and 2017 have been excluded from the continuing operating results of the Company.

Operations

The Company currently conducts its operations through three divisions.

RF Connector and Cable Assembly Segment.

The Company's RF Connector and Cable Assembly segment ("RF Connector segment") consists of the RF Connector and Cable Assembly division ("RF Connector division") that is based at the Company's headquarters in San Diego, California. Although most of the Company's RF connector and cable products are inventoried and distributed from its San Diego facilities, some of these products also are inventoried and distributed from the Company's two other facilities. The RF Connector 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 RF Connector division 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 Connector division typically carries over 1,500 different types of connectors, adapters, tools, and test and measurements kits. This division's RF connectors are used in thousands of different devices, products and types of equipment. Since the RF Connector division's standard connectors can be used in a number of different products and devices, the discontinuation of one product typically 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 single line of products or any market segment, the Company's overall sales of connectors tend to fluctuate less when there are material changes or disruption to a single product line or market segment. Sales of the Company's connector products are, however, dependent upon the infrastructure build-out by large telecommunications firms and on the Company's ability to market its products to these customers.

Cable assembly products manufactured and sold by the RF Connector division 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 manufactured for the RF Connector division are primarily manufactured at the Company's San Diego, California facilities using state-of-the-art automation equipment and are sold through distributors or directly to major OEM 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 product combinations.

The Company designs its connectors at its headquarters in San Diego, California. However, most of the RF connectors are manufactured for the Company by third-party foreign manufacturers located in Asia.

Custom Cabling Manufacturing and Assembly Segment.

The Custom Cabling Manufacturing and Assembly segment ("Custom Cabling segment") currently consists of two wholly-owned subsidiaries located in the Northeastern U.S. Until its sale on October 31, 2018, Comnet Telecom was part of the Custom Cabling segment. The two current East Coast facilities have historically provided similar products and services to their own customers. The Company has initiated a realignment of the operations of these two East Coast operations in order to integrate certain of their manufacturing and marketing functions so as to better address overlapping market opportunities and to more efficiently manufacture, market and ship products to the Company's customers. The Company also has commenced integrating the manufacturing, marketing and distribution functions of the Custom Cabling segment with those of the RF Connector division in San Diego, California. As a result, the San Diego, California, facility maintains an inventory of, and sells and ships certain products previously only offered by the East Coast Custom Cabling segment companies, and the two Custom Cabling segment companies now likewise carry RF Connector products. The two subsidiaries that comprise the current Custom Cabling segment consist of the following:

<u>Cables Unlimited, Inc.</u> Cables Unlimited, Inc. is a custom cable manufacturer located in Yaphank, New York, that RF Industries, Ltd. acquired in 2011. Cables Unlimited is a Corning Cable Systems CAH Connections SM Gold Program member, authorized to manufacture fiber optic products that are backed by Corning Cable Systems' extended warranty. Cables Unlimited designs, develops and manufactures custom connectivity solutions for the industrial, defense, telecommunications and wireless markets. The products sold by Cables Unlimited include custom and standard copper and fiber optic cable assemblies, adapters and electromechanical wiring harnesses for communications, computer, LAN, automotive fiber optic and medical equipment.

<u>Rel-Tech Electronics Division</u> RF Industries, Ltd. acquired Rel-Tech Electronics, Inc. in June 2015. Rel-Tech's offices and manufacturing facilities are located in Milford, Connecticut. Founded in 1986, Rel-Tech is a designer and manufacturer of cable assemblies and wiring harnesses for blue chip industrial, oilfield, instrumentation, medical and military customers. Wire and cable assembly products include custom wire harnesses, ribbon cable, electromechanical and kitted assemblies, and networking and communications cabling.

Product Description

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

Connector and Cable Products

The Company designs, manufactures and markets a broad range of coaxial connectors, coaxial adapters and coaxial cable assemblies for the numerous products with applications in commercial, industrial, automotive, transportation, scientific, aerospace and military markets. Various types of products/connectors include passive DAS related items such as connectors, adapters, splitters, couplers and loads. These connectors are offered in several configurations and cable attachment methods for customer applications. There are numerous applications for these connectors, some of which include digital applications, 2.5G, 3G, 4G, 5G, LTE, Wi-Fi and other broadband wireless 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, OEMs, consumer electronics manufacturers, audio and video product manufacturers and installers, and satellite companies. The Company markets over 1,500 types of connectors, adapters, tools, assembly, test and measurement kits, which range in price from under $1 to over $1,000 per unit. The kits satisfy a variety of applications including, but not limited to, lab operations, site requirements and adapter needs.

The Company also designs and sells a variety of connector tools and hand tools that are assembled into kits used by lab and field technicians, research and development technicians and engineers. 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 Company 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 predominately with the Company's connectors or other brands of connectors as complete cable assemblies. Coaxial cable assemblies have numerous applications including low PIM, Wi-Fi and wireless local area networks, wide area networks, internet systems, cellular systems including 2.5G, 3G, 4G, 5G, LTE, DAS and Small Cell installations, TV/dish network systems, test equipment, military/aerospace (mil-standard and COTS (Commercial Off The Shelf)) and entertainment systems. Cable assemblies are manufactured to customer requirements.

The Company carries thousands of separate types of connectors, most of which are available in standard sizes and configurations and that are also offered by other companies. However, the Company also has some proprietary products, including the CompPro product line and OptiFlex. CompPro is a patented compression technology that offers advantages for a water-tight, ruggedized connection, providing easier installation, and improved system reliability on braided cables. CompPro is used by wireless network operators, installers and distributors in North America and other parts of the world.

Fiber Optic Products

The Company's Cables Unlimited division is a Corning Cable Systems CAH Connections SM Gold Program member that is authorized to manufacture fiber optic products that are backed by Corning Cable Systems' extended warranty. Through its Cables Unlimited division, the Company offers a broad range of interconnect products and systems that have the ability to combine radio frequency and fiber optic interconnect components, with various connectors and power cables through customized solutions for these customers. Cables Unlimited also manufactures OptiFlex, a hybrid fiber optic and DC power cabling solution the Company designed and now manufactures for wireless service providers engaged in upgrading their cell towers. The custom hybrid cable is significantly lighter and possesses greater flexibility than cables previously used for wireless service.

Other Cabling Products

The Company also designs, manufactures and sells cable assemblies and wiring harnesses for blue chip industrial, oilfield, instrumentation, medical and military customers. Wire and cable assembly products include custom wire harnesses, ribbon cable, electromechanical and kitted assemblies, networking and communications cabling. DIN and Mini DIN connector assemblies include power cord, coaxial, Mil-spec and testing.

Foreign Sales

Net sales to foreign customers accounted for $662,000 (or approximately 1%) of the Company's net sales, and $729,000 (or approximately 3%) of the Company's net sales, respectively, for the fiscal years ended October 31, 2018 and 2017. The majority of the export sales during these periods were to Canada and Mexico.

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

Distribution and Marketing

The Company currently sells its products through independent warehousing distributors and through its in-house marketing and sales team. Sales through independent distributors accounted for approximately 70% of the net sales of the Company for the fiscal year ended October 31, 2018. The Company's agreements with most of the distributors are nonexclusive and generally may be terminated by either party upon 30-60 days' written notice. The Company sells certain of its products to large, national telecommunication equipment and solution providers who include the Company's products in their own product offerings.

Manufacturing

The Company contracts with outside third parties for the manufacture of a significant portion of its coaxial connectors. However, virtually all of the RF cable assemblies sold by the Company during the fiscal year ended October 31, 2018 were assembled at the International Organization for Standardization (ISO) approved factory in San Diego, California. The Company procures its raw cable from manufacturers with ISO approved factories in the United States, China and Taiwan. The Company primarily relies on twelve manufacturers for its coaxial connectors, tools and other passive components and several plants for raw cable. Although the Company does not have manufacturing agreements with these manufacturers for its connectors and cable products, the Company does have long-term purchasing relationships with these manufacturers. There are certain risks associated with the Company's dependence on third-party manufacturers for some of its products. See "Risk Factors" below. The Company 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.

The Company manufactures custom cable assemblies, adapters and electromechanical wiring harnesses and other products in its Yaphank, New York manufacturing facility. The Yaphank facility is an ISO approved factory. Cables Unlimited, Inc. the subsidiary that operates the Yaphank facility, is a Corning Cable Systems CAH Connections SM Gold Program member, authorized to manufacture fiber optic products and assemblies that are backed by Corning Cable Systems' extended warranty.

The Milford, Connecticut, facility is an ISO approved manufacturing facility that is primarily used to manufacture cable assemblies, electromechanical assemblies, wiring harnesses and other similar products.

Raw Materials

Connector materials are typically made of commodity metals such as copper, brass and zinc and include small applications of precious materials, including silver and gold. The RF Connector 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 suppliers. The Custom Cabling divisions obtain coaxial connectors from the RF Connector division. The Company believes there are numerous domestic and international suppliers of other coaxial connectors that the Company may need for any of its cabling products.

The Cables Unlimited division and the Rel-Tech Electronics division purchase all of their products from manufacturers located in the United States. Fiber optic cables are available from various manufacturers located throughout the United States; however, Cables Unlimited purchases most of its fiber optic cables from Corning Cables Systems LLC. The Company believes that the raw materials used by Cables Unlimited in its products are readily available and that Cables Unlimited is not currently dependent on any supplier for its raw materials except where Corning Extended Warranty certification is required. Neither Cables Unlimited nor Rel-Tech Electronics currently have any long-term purchase or supply agreements with their connector and cable suppliers.

Employees

As of October 31, 2018, the Company employed 186 full-time employees, of whom 47 were in accounting, administration, sales and management, 132 were in manufacturing, distribution and assembly, and 7 were engineers engaged in design, engineering and research and development. The employees were based at the Company's offices in San Diego, California (68 employees), Yaphank, New York (55 employees), and Milford, Connecticut (63 employees). The Company also occasionally hires part-time employees. The Company believes that it has a good relationship with its employees. The Cables Unlimited division employs five cable installers who are currently represented by a union. Other than the foregoing installers that belong to a union, none of the Company's other employees are unionized.

Patents, Trademarks and Licenses

The Company owns 13 U.S. patents related to CompPro Product Line that it acquired in May 2015. The CompPro Product Line utilizes a patented compression technology that offers revolutionary advantages for a water-tight connection, easier installation, and improved system reliability on braided cables. The CompPro Product Line is used by wireless network operators, installers and distributors in North America and other parts of the world. The Company also owns the "CompPro" registered trademark associated with the compression cable product line.

The Company uses "OptiFlex™" as a trademark for its hybrid cable wireless tower cable solution.

Because the Company carries thousands of separate types of connectors and other products, most of which are available in standard sizes and configurations and are also offered by the Company's competitors, the Company does not believe that its business or competitive position is dependent on patent protection.

Under its agreements with Corning Cables Systems LLC, Cables Unlimited is permitted to advertise that it is a Corning Cables System CAH Connections Gold Program member.

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. 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.

Under its agreements with Corning Cables Systems LLC, Cables Unlimited is authorized to manufacture optic cable assemblies that are backed by Corning Cables Systems' extended warranty (referred to as the "Gold Certified Warranty").

Competition

The Company believes that the worldwide industry for connector products is highly fragmented. The Company and industry analysts estimate North American sales of cable assembly products currently is approximately $33.4 billion. The Company and industry analysts estimate worldwide sales of connector products of approximately $80.4 billion by 2023. Many of the competitors of the RF Connector and Cable Assembly division have significantly greater financial resources and broader product lines. The RF Connector and Cable Assembly division 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 carries a significant amount of inventory of its connector products.

Cables Unlimited competes on the basis of product quality, custom design, service, delivery time and value-added support to its customers. Cables Unlimited is a Corning Cables System CAH Connections Gold Program member, along with 11 other companies permitted to manufacture fiber optic cable assemblies that are backed by Corning Cables Systems' extended warranty. Cables Unlimited believes that being part of a limited number of Corning Cables System CAH Connections Gold Program members provides a competitive advantage in certain fiber optic markets. In addition, Cables Unlimited custom designs a variety of cabling product, including hybrid fiber cable that is utilized by wireless carriers in their roll out of 4G. The carriers are beginning their build-out of 5G which is estimated to be $130 billion in 2024.

Cables Unlimited and Rel-Tech Electronics compete with both smaller, local cable assembly houses as well as large, national manufacturers and distributors of telecommunications equipment and products.

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.

The Company's products are Restriction on Hazardous Substances ("RoHS") compliant.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. DESCRIPTION OF PROPERTY

The Company currently leases its corporate headquarters and RF connector and cable assembly manufacturing facilities at 7610 Miramar Road, San Diego, California. At that location, the Company leases three buildings that house the Company's corporate administration, sales and marketing, and engineering departments. The buildings also are used for production and warehousing by the Company's RF Connector division and, until October 31, 2018, Comnet Telecom division. On June 5, 2017, the Company entered into a fifth amendment to its lease for its facility in San Diego, California. As a result, the Company now leases a total of approximately 21,908 square feet of office, warehouse and manufacturing space at its San Diego location. The term of the lease expires on July 31, 2022, and the rental payments under the lease currently are $22,721 per month. The San Diego lease also requires the payment of the Company's pro rata share of real estate taxes and insurance, maintenance and other operating expenses related to the facilities.

(i) On June 9, 2017, the Cables Unlimited division entered into an amendment to its lease with K & K Unlimited, as landlord, under which Cables Unlimited leases its 12,000 square foot manufacturing facility in Yaphank, New York, to extend the term of the lease to June 30, 2018. Cables Unlimited's monthly rent expense under the amended lease remains at $13,000 per month, plus payments of all utilities, janitorial expenses, routine maintenance costs and costs of insurance for Cables Unlimited's business operations and equipment. The landlord is a company controlled by Darren Clark, the former owner and current President of Cables Unlimited. On June 6, 2018, Cables Unlimited extended its lease with K&K Unlimited for an additional three years to June 30, 2021, with the same terms and conditions.

(ii) On July 25, 2017, the Rel-Tech Electronic division entered into a lease for approximately 13,750 square feet located in Milford, Connecticut. Rel-Tech's current net monthly rent expense under the lease is $8,707 per month for these facilities. The new lease expires in August 2019.

(iii) On November 1, 2018, the Cables Unlimited division entered into a lease agreement with 100 Bellport Avenue, LLC, as landlord, for approximately 7,500 square feet located in Yaphank, New York with a monthly rent expense of $5,625. The lease expires on October 31, 2019.

The aggregate fiscal 2018 monthly rent for all of the Company's facilities currently is approximately $53,000 per month, plus utilities, maintenance and insurance.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. Litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. As of the date of this report, we are not subject to any proceeding that is not in the ordinary course of business or that is material to the financial condition of our business.

ITEM 4. MINE SAFETY DISCLOSURES

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

<u>Stockholder</u>. As of October 31, 2018, there were 282 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."

<u>Repurchase of Securities</u>. The Company did not repurchase any securities during the fiscal year October 31, 2018.

<u>Recent Sales of Unregistered Securities</u>. There were no previously unreported sales of equity securities by the Company that were not registered under the Securities Act during fiscal 2018.

EQUITY COMPENSATION PLAN INFORMATION

The following table provides information as of October 31, 2018 with respect to the shares of Company common stock that may be issued under the Company's existing equity compensation plans.

	A	B	C
Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options	Weighted Average Exercise Price of Outstanding Options ($)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column A)
Equity Compensation Plans Approved by Stockholders (1)	814,200	$ 3.41	1,524,588
Equity Compensation Plans Not Approved by Stockholders (2)	130,000	$ 1.07	–
Total	944,200	$ 3.09	1,524,588

(1) Consists of options granted under the R.F. Industries, Ltd. 2010 Stock Incentive Plan.

(2) Consists of options granted to one key employee of the Company.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable to a "smaller reporting company" as defined in Item 10(f)(1) of SEC Regulation S-K.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The consolidated financial statements and related disclosures have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). The preparation of these consolidated financial statements requires the Company to make significant estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosure of contingent assets and liabilities. The Company evaluates its estimates, including those related to bad debts, inventory reserves and contingencies on an ongoing basis. The Company bases its estimates on historical experience and on various other assumptions that are believed to be appropriate 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.

Revenue Recognition

Four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services rendered; (3) the fee is fixed and determinable; and (4) collectability is reasonably assured. The Company recognizes revenue from product sales after purchase orders are received which contain a fixed price and for shipments with terms of FOB Shipping Point, revenue is recognized upon shipment, for shipments with terms of FOB Destination, revenue is recognized upon delivery and revenue from services is recognized when services are performed, and the recovery of the consideration is considered probable.

Inventories

Inventories are stated at the lower of cost or net realizable value, with cost determined using the weighted average cost method of accounting. Certain items in inventory may be considered obsolete or excess and, as such, the Company periodically reviews its inventories for excess and slow moving items and makes provisions as necessary to properly reflect inventory value. Because inventories have, during the past couple years, represented up to one-fourth of our total assets, any reduction in the value of our inventories would require the Company to take write-offs that would affect the net worth and future earnings.

Allowance for Doubtful Accounts

The Company records its allowance for doubtful accounts based upon its assessment of various factors. The Company considers historical experience, the age of the accounts receivable balance, credit quality of the Company's customers, current economic conditions and other factors that may affect a customer's ability to pay.

Long-Lived Assets Including Goodwill

The Company assesses property, plant and equipment and intangible assets, which are considered definite-lived assets, for impairment. Definite-lived assets are reviewed when there is evidence that events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company measures recoverability of these assets by comparing the carrying amounts to the future undiscounted cash flows the assets are expected to generate. If property and equipment and intangible assets are considered to be impaired, the impairment to be recognized equals the amount by which the carrying value of the asset exceeds its fair market value.

The Company amortizes its intangible assets with definite useful lives over their estimated useful lives and reviews these assets for impairment.

The Company tests its goodwill and trademarks and indefinite-lived assets for impairment at least annually or more frequently if events or changes in circumstances indicate these assets may be impaired. These events or circumstances require significant judgment and could include a significant change in the business climate, legal factors, operating performance indicators, competition and sale or disposition of all or a portion of a division. This analysis requires significant judgments, including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for our business, estimation of the useful life over which cash flows will occur, and determination of our weighted average cost of capital.

Earn-out Liability

The purchase agreement for the Rel-Tech acquisition provided for earn-out payments of up to $800,000, payable through May 31, 2018. No earn-out obligation to Rel-Tech remains as of October 31, 2018. The initial earn-out liability was valued at its fair value using the Monte Carlo simulation and was included as a component of the total purchase price. The earn-out was revalued quarterly using a present value approach and any resulting increase or decrease has been recorded into selling and general expenses. Any changes in the assumed timing and amount of the probability of payment scenarios could have impacted the fair value. Significant judgment was employed in determining the appropriateness of the assumptions used in calculating the fair value of the earn-out as of the acquisition date.

Income Taxes

The Company records a tax provision for the anticipated tax consequences of the reported results of operations. Income taxes are accounted for under the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and for operating losses and tax credit carryforwards. Deferred tax assets and liabilities are measured using the currently enacted tax rates as of the date of the financial statements that apply to taxable income in effect for the years in which those tax assets are expected to be realized or settled. The Company records a valuation allowance to reduce deferred tax assets to the amount that is believed more likely than not to be realized.

The Company accounts for uncertain tax positions by determining if it is "more likely than not" that a tax position will be sustained by the appropriate taxing authorities upon examination based on the technical merits of the position. An uncertain income tax position is not recognized if it has less than a 50% likelihood of being sustained. The Company recognizes interest and penalties related to certain uncertain tax positions as a component of income tax expense and the accrued interest and penalties are included in deferred and other long-term liabilities in the Company's consolidated balance sheets. See Note 8 to the Consolidated Financial Statements included in this Report for more information on the Company's accounting for uncertain tax positions.

The calculation of the tax provision involves significant judgment in estimating the impact of uncertainties in the application of GAAP and complex tax laws. Resolution of these uncertainties in a manner inconsistent with management's expectations could have a material impact on the Company's financial condition and operating results.

Stock-based Compensation

The Company uses the Black-Scholes model to value the stock option grants. This valuation is affected by the Company's stock price as well as assumptions regarding a number of inputs which involve significant judgments and estimates. These inputs include the expected term of employee stock options, the expected volatility of the stock price, the risk-free interest rate and expected dividends.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

For recently issued accounting pronouncements that may affect us, see Note 1 of Notes to Consolidated Financial Statements.

OVERVIEW

During the periods covered by this Annual Report, the Company marketed a variety of connector products, including connectors and cables, standard and custom cable assemblies, wiring harnesses and fiber optic cable products to numerous industries for use in thousands of products. The range of products that the Company sold has changed in the periods covered by the attached financial statements. Most recently, on October 31, 2018, the Company sold all of the assets and liabilities of its Comnet Telecom Supply division (a provider of fiber optic and other cabling technologies, custom patch cord assemblies, and other data center products), which had been acquired in November 2014.

The Company aggregates operating divisions into operating segments which have similar economic characteristics and are similar in the majority of the following areas: (1) the nature of the product and services; (2) the nature of the production process; (3) the type or class of customer for their products and services; (4) the methods used to distribute their products or services; and (5) if applicable, the nature of the regulatory environment. The Company has two reportable segments – the "RF Connector and Cable Assembly" segment (RF Connector) and the "Custom Cabling Manufacturing and Assembly" segment (Custom Cabling) – based upon this evaluation.

The RF Connector segment is comprised of one division, while the Custom Cabling segment is comprised of two divisions. The three divisions that met the quantitative thresholds for segment reporting are the RF Connector and Cable Assembly division and the Cables Unlimited and Rel-Tech subsidiaries. While each segment had similar products and services, with one major exception, there was little overlapping of these services to their customer base. In addition, sales or product and services for the RF Connector segment was primarily through the distribution channel while the Custom Cabling sales was through a combination of distribution and direct to the end customer.

For the year ended October 31, 2018, most of the Company's revenues were generated from the Custom Cabling segment from the sale of fiber optics cable, copper cabling, custom patch cord assemblies and wiring harnesses (which accounted for 76% of the Company's total sales for the fiscal year ended October 31, 2018). This segment largely benefitted from an increase in demand of the segment's fiber optics cable used primarily in the build out of wireless carrier 4G and 5G network deployment. This segment also sells highly customized cable assemblies and wiring harnesses which are integrated into other customers' products, directly to blue-chip customers.

Revenues from the RF Connector segment were generated from the sales of RF connector products and connector cable assemblies and accounted for 24% of the Company's total sales for the fiscal year ended October 31, 2018. This segment, which historically produces the largest margins of the three production sites, is known for its quick turnaround of high quality customized solutions in the form of cable assemblies.

On October 31, 2018, the Company sold all of the shares of Comnet Telecom division for a cash purchase price of $4.2 million. The sale of Comnet was consistent with the Company's business transformation toward a one company culture and operating structure to more efficiently leverage its capabilities across the entire business. Comnet's business did not match the Company's go-to-market strategy since it operated with a different sales model and margin profile than the rest of the Company. As a result of the sale, the Company recognized a loss from discontinued operations of $0.2 million for the year ended October 31, 2018 and reclassified prior year results to report income from discontinued operations of $0.2 million for the year ended October 31, 2017.

Financial Condition

The following table presents certain key measures of financial condition as of October 31, 2018 and 2017 (in thousands, except percentages):

	2018		2017	
	Amount	% Total Assets	Amount	% Total Assets
Cash and cash equivalents	$ 16,334	50.3%	$ 5,208	20.8%
Current assets	28,530	87.8%	16,793	67.0%
Current liabilities	4,719	14.5%	3,598	14.4%
Working capital	23,811	73.3%	13,195	52.7%
Property and equipment, net	559	1.7%	565	2.3%
Total assets	32,502	100.0%	25,060	100.0%
Stockholders' equity	27,783	85.5%	21,343	85.2%

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 at least twelve months from the date of this filing. Management believes that its existing assets and the cash it expects to generate from operations, including its current backlog of unfulfilled orders, will be sufficient during the current fiscal year based on the following:

- As of October 31, 2018, the Company had cash and cash equivalents equal to $16.3 million.
- As of October 31, 2018, the Company had $28.5 million in current assets and $4.7 million in current liabilities.
- As of October 31, 2018, the Company had no outstanding indebtedness for borrowed funds.
- As of October 31, 2018, the Company had a total of $16.3 million of cash and cash equivalents compared to a total of $5.2 million of cash and cash equivalents as of October 31, 2017. As of October 31, 2018, the Company had working capital of $23.8 million and a current ratio of approximately 6:1.

Subsequent to the fiscal year ended October 31, 2017, the Company experienced a substantial increase in orders for its products in the Custom Cabling segment. As a result of these increased orders, the Company's backlog had increased to $11 million as of October 31, 2018 as compared to $4 million as of October 31, 2017. During the year ended October 31, 2018, while the Company had shipments of over $50 million, the Company generated $57 million of new orders. Since purchase orders are submitted from customers based on the timing of their requirements, the Company's ability to predict orders in future periods or trends in future periods is limited. Furthermore, purchase orders may be subject to cancellation from customers, although the Company has not historically experienced material cancellations of purchase orders. As a result of the Company's backlog balance as of October 31, 2018, the Company's liquidity and available capital resources are expected to continue to improve over the next twelve months.

The Company generated cash of $10.3 million during the year ended October 31, 2018 due largely to $5.3 million of cash generated from continuing operations primarily due to consolidated net income of $5.8 million, the increase in accrued bonuses and commissions of $1.5 million, noncash charges of $0.5 million for depreciation and amortization related to the acquisitions of Rel-Tech and CompPro, and $0.2 million of stock-based compensation expense. This increase in cash was partially offset by an increase in accounts receivable of $1.4 million and inventories of $1.6 million. The increase in net income, accrued expenses, accounts receivable and inventories were all due primarily to the increase in demand from the Company's Custom Cabling segment for its fiber optics cable used primarily in the build out of wireless carrier 4G and 5G network deployment. In addition, the Company received $4.2 million of cash from the sale of its Comnet subsidiary and $1.1 million of proceeds from the exercise of stock options by its employees. These increases were partially offset by the payment of dividends ($0.7 million) and capital expenditures of $0.3 million.

The Company does not anticipate needing material additional capital equipment in the next twelve months. In the past, the Company has financed some of its equipment and furnishings requirements through capital leases. No additional capital equipment purchases have been currently identified that would require significant additional leasing or capital expenditures during the next twelve months. Management also believes that based on the Company's current financial condition, its current backlog of unfulfilled orders and its anticipated future operations, the Company would be able to finance its expansion, if necessary.

From time to time, the Company may undertake acquisitions of other companies or product lines in order to diversify its product and solutions offerings and customer base. Conversely, the Company may undertake the disposition of a division or product line due to changes in the Company's business strategy or market conditions. Acquisitions may require the outlay of cash, which may reduce the Company's liquidity and capital resources while dispositions may increase the Company's cash position, liquidity and capital resources.

We are currently evaluating the financial impact of the import tariffs that were recently enacted in the U.S. and abroad. While we do not believe that the financial impact on the Company of the enacted tariffs will be material, we recognize that there is uncertainty related to potential costs related to these actions.

Results of Operations

The following summarizes the key components of the consolidated results of operations for the fiscal years ended October 31, 2018 and 2017 (in thousands, except percentages) of the Company, excluding Comnet. On October 31, 2018, the Company sold its Comnet subsidiary. Except as stated, all information regarding the Company's results of operations during the past two years exclude the operations of Comnet. As a result of the sale of the Comnet division, Comnet is included in the Company's results from operations as discontinued operations.

	2018		2017	
	Amount	**% of Net Sales**	**Amount**	**% of Net Sales**
Net sales	$ 50,196	100.0%	$ 22,983	100.0%
Cost of sales	33,096	65.9%	15,996	69.6%
Gross profit	17,100	34.1%	6,987	30.4%
Engineering expenses	1,480	2.9%	824	3.6%
Selling and general expenses	8,173	16.3%	5,960	25.9%
Operating income	7,447	14.8%	203	0.9%
Other income	47	0.1%	29	0.1%
Income from continuing operations before provision for income taxes	7,494	14.9%	232	1.0%
Provision for income taxes	1,468	2.9%	62	0.3%
Income from continuing operations	6,026	12.0%	170	0.7%
Income (loss) from discontinued operations, net of tax	(180)	-0.4%	212	0.9%
Consolidated net income	5,846	11.6%	382	1.7%

As it relates to continuing operations, net sales of $50.2 million for the year ended October 31, 2018 (“fiscal 2018”) increased by $27.2 million or 118% when compared to net sales of $23.0 million for the year ended October 31, 2017 (“fiscal 2017”). Net sales for fiscal 2018 at the RF Connector segment increased by $0.4 million, or 3%, to $11.8 million as compared to $11.4 million for fiscal 2017. The Company’s Custom Cabling segment generated $38.4 million of net sales for fiscal 2018, an increase of $26.9 million or 234% when compared to $11.5 million for fiscal 2017. The increase in net sales at this segment is primarily attributable to an increase in demand for its fiber optics cable used primarily in the build out of wireless carrier 4G and 5G network deployment.

The Company’s gross profit as a percentage of sales in fiscal 2018 increased by 3.7% to 34.1% compared to 30.4% in 2017 fiscal due primarily to the increased revenues at the Custom Cabling segment. The improvement in gross margins was primarily due to the revenue increase at the Custom Cabling segment which had the effect of spreading certain fixed manufacturing costs over a larger revenue base.

Engineering expenses for fiscal 2018 increased as compared to fiscal 2017 due to increased compensation expense related to engineering activities. Engineering expenses represent costs incurred relating to the ongoing development of new products.

Selling and general expenses increased by $2.2 million, or 37.1%, during fiscal 2018 to $8.2 million from $6.0 million in the prior period. The increase in selling and general expenses in 2018 was primarily due to the increased incentive bonus compensation resulting from the increase in net sales. Selling and general as a percentage of sales declined to 16% for fiscal 2018 as compared to 26% for fiscal 2017 indicating the Company’s increased operational efficiencies.

For fiscal 2018, the Company incurred operating income of $7.4 million and net income of $5.8 million, compared to an operating income of $203,000 and net income of $382,000 in the prior fiscal year.

On December 22, 2017, the President signed the Tax Cuts and Jobs Act (the “Tax Act”). The Tax Act, among other things, lowered the U.S. corporate income tax rate from 35% to 21% effective January 1, 2018, which results in a blended statutory income tax rate for the Company of 23.17% for fiscal 2018. For the fiscal year ending October 31, 2019 (“fiscal 2019”), the Company’s U.S. federal statutory income tax rate will be 21.0%. The Company has completed its accounting for the tax effects of the enactment of the Tax Act, which resulted in a tax benefit of $41,000 from remeasuring our U.S. deferred tax assets and liabilities at the lower 21% U.S. federal statutory rate.

The provision for income taxes from continuing operations was $1.5 million or 19.6% and $62,000 or 26.7% of income before income taxes for fiscal 2018 and 2017, respectively. The decrease in the effective income tax rate from year to year is primarily attributable to the reduction of the federal corporate income tax rate due to the Tax Act, the benefit of research and development credits, and the recognition of a stock option windfall benefit related to the exercise of non-qualified stock options resulting from the Company’s adoption of ASU 2016-09. Prior to the adoption of ASU 2016-09, the stock option windfall benefit related to the exercise and disposition of equity-based incentive awards was credited to additional paid-in capital, not the provision for income taxes.

The adoption of this standard on share-based compensation in fiscal 2018 will increase or decrease the effective tax rate based upon the tax effect of the difference between the share-based compensation expenses and the benefits recognized on the Company’s tax returns. The Company anticipates the impact to the effective tax rate from the recognition of excess tax benefits will vary from year to year depending on the Company’s share price in each period.

Loss from discontinued operations, net of tax, during fiscal 2018 was $180,000 compared to income of $212,000 in the prior year. On October 31, 2018, the Company sold its Comnet subsidiary. For fiscal 2018 and 2017, the Company recognized pretax loss of $221,000 and pretax income of $168,000, respectively, from Comnet Telecom’s operations. In 2013, the Company sold its RadioMobile division, in exchange for which it received a three-year commitment to receive royalty payments from the operations of RadioMobile. Accordingly, the results of the RadioMobile division have been included as discontinued operations for the 2017 fiscal year in the attached financial statements. The Company recognized royalty income in fiscal 2018 and 2017 of $0 and $57,000, respectively, from the sale of RadioMobile. The three-year period for earning royalties from RadioMobile has now expired.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
of RF Industries, Ltd.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of RF Industries, Ltd. and Subsidiaries (the Company) as of October 31, 2018 and 2017, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the two-year period ended October 31, 2018, and the related notes (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of October 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the two-year period ended October 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ CohnReznick LLP

We are uncertain as to the year CohnReznick LLP became the Company's auditor as 1995 is the earliest year of which we have knowledge.

Jericho, New York

December 20, 2018

RF INDUSTRIES, LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

OCTOBER 31, 2018 AND 2017

(In thousands, except share and per share amounts)

ASSETS	2018	2017
CURRENT ASSETS		
Cash and cash equivalents	$ 16,334	$ 5,208
Trade accounts receivable, net of allowance for doubtful accounts of $88 and $73, respectively	4,255	2,903
Inventories	7,113	5,543
Other current assets	828	506
Current assets held for sale	-	2,633
TOTAL CURRENT ASSETS	28,530	16,793
Property and equipment		
Equipment and tooling	3,210	3,088
Furniture and office equipment	822	802
	4,032	3,890
Less accumulated depreciation	3,473	3,325
Total property and equipment	559	565
Goodwill	1,340	1,340
Amortizable intangible assets, net	1,367	1,642
Non-amortizable intangible assets	657	657
Other assets	49	70
Noncurrent assets held for sale	-	3,993
TOTAL ASSETS	$ 32,502	$ 25,060

RF INDUSTRIES, LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

OCTOBER 31, 2018 AND 2017

(In thousands, except share and per share amounts)

LIABILITIES AND STOCKHOLDERS' EQUITY	2018	2017
CURRENT LIABILITIES		
Accounts payable	$ 1,342	$ 1,036
Accrued expenses	3,377	1,791
Current liabilities held for sale	-	771
TOTAL CURRENT LIABILITIES	4,719	3,598
Deferred tax liabilities	-	119
TOTAL LIABILITIES	4,719	3,717
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common stock - authorized 20,000,000 shares of $0.01 par value; 9,291,201 and 8,872,246 shares issued and outstanding at October 31, 2018 and October 31, 2017, respectively	93	89
Additional paid-in capital	20,974	19,654
Retained earnings	6,716	1,600
TOTAL STOCKHOLDERS' EQUITY	27,783	21,343
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 32,502	$ 25,060

See Notes to Consolidated Financial Statements.

RF INDUSTRIES, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

YEARS ENDED OCTOBER 31, 2018 AND 2017

(In thousands, except share and per share amounts)

	2018	2017
Net sales	$ 50,196	$ 22,983
Cost of sales	33,096	15,996
Gross profit	17,100	6,987
Operating expenses:		
Engineering	1,480	824
Selling and general	8,173	5,960
Total operating expense	9,653	6,784
Operating income	7,447	203
Other income	47	29
Income from continuing operations before provision for income taxes	7,494	232
Provision for income taxes	1,468	62
Income from continuing operations	6,026	170
Income (loss) from discontinued operations, net of tax	(180)	212
Consolidated net income	$ 5,846	$ 382
Earnings (loss) per share		
Basic		
Continuing operations	$ 0.66	$ 0.02
Discontinued operations	(0.02)	0.02
Net income per share	$ 0.64	$ 0.04
Earnings (loss) per share		
Diluted		
Continuing operations	$ 0.63	$ 0.02
Discontinued operations	(0.02)	0.02
Net income per share	$ 0.61	$ 0.04
Weighted average shares outstanding		
Basic	9,105,406	8,840,895
Diluted	9,593,066	8,915,764

See Notes to Consolidated Financial Statements.

RF INDUSTRIES, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

YEARS ENDED OCTOBER 31, 2018 AND 2017

(In thousands, except share amounts)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Total
	Shares	Amount			
Balance, November 1, 2016	8,835,483	$ 88	$ 19,379	$ 1,925	$ 21,392
Exercise of stock options	36,763	1	55	-	56
Excess tax benefit from exercise of stock options	-	-	6	-	6
Stock-based compensation expense	-	-	214	-	214
Dividends	-	-	-	(707)	(707)
Net loss	-	-	-	382	382
Balance, October 31, 2017	8,872,246	89	19,654	1,600	21,343
Exercise of stock options	418,955	4	1,109	-	1,113
Stock-based compensation expense	-	-	211	-	211
Dividends	-	-	-	(730)	(730)
Net Income	-	-	-	5,846	5,846
Balance, October 31, 2018	9,291,201	$ 93	$ 20,974	$ 6,716	$ 27,783

See Notes to Consolidated Financial Statements.

RF INDUSTRIES, LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED OCTOBER 31, 2018 AND 2017
(In thousands)

	2018	2017
OPERATING ACTIVITIES:		
Consolidated net income	$ 5,846	$ 382
Income (loss) from discontinued operations	(180)	212
Income from continuing operations	6,026	170
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Bad debt expense	8	10
Depreciation and amortization	513	506
Gain on sale of fixed assets	(1)	-
Stock-based compensation expense	211	214
Deferred income taxes	(79)	(290)
Changes in operating assets and liabilities:		
Trade accounts receivable	(1,360)	(405)
Inventories	(1,570)	(158)
Other current assets	(321)	878
Other long-term assets	21	72
Accounts payable	306	(451)
Accrued expenses	1,516	(486)
Income tax receivable	-	(66)
Other long-term liabilities	-	(128)
Net cash provided by operating activities from continuing operations	5,270	768
Net cash provided by operating activities from discontinued operations	945	831
INVESTING ACTIVITIES:		
Proceeds from landlord for tenant improvements	34	-
Proceeds from sale of fixed assets	1	-
Capital expenditures	(266)	(171)
Proceeds from sale of Comnet	4,200	-
Net cash provided by (used in) investing activities from continuing operations	3,969	(171)
Net cash used in investing activities from discontinued operations	(272)	-
FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	1,113	55
Excess tax benefit from exercise of stock options	-	5
Dividends paid	(730)	(707)
Net cash provided by (used in) financing activities	383	(647)
Net increase in cash and cash equivalents	10,295	781
Cash and cash equivalents of continuing operations, beginning of year	5,208	5,258
Cash and cash equivalents of discontinued operations, beginning of year	831	-
Cash and cash equivalents, beginning of year	6,039	5,258
Cash and cash equivalents, end of year	16,334	6,039
Less: cash and cash equivalents of discontinued operations	-	831
Cash and cash equivalents of continuing operations at end of year	$ 16,334	$ 5,208
Supplemental cash flow information – income taxes paid	$ 1,826	$ 349
Supplemental schedule of noncash investing and financing activities:		
Disposal of fully depreciated property and equipment	90	-
Write-off of deferred rent from sale of Comnet	$ 9	$ -

See Notes to Consolidated Financial Statements.

RF INDUSTRIES, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BUSINESS ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business activities

RF Industries, Ltd., together with its two wholly-owned subsidiaries (collectively, hereinafter the "Company"), primarily engages in the design, manufacture, and marketing of interconnect products and systems, including coaxial and specialty cables, fiber optic cables and connectors, and electrical and electronic specialty cables. For internal operating and reporting purposes, and for marketing purposes, as of the end of the fiscal year ended October 31, 2018 the Company classified its operations into the following three divisions/subsidiaries: (i) The RF Connector and Cable Assembly division designs, manufactures and distributes coaxial connectors and cable assemblies that are integrated with coaxial connectors; (ii) Cables Unlimited, Inc., the subsidiary that manufactures custom and standard cable assemblies, complex hybrid fiber optic power solution cables, adapters, and electromechanical wiring harnesses for communication, computer, LAN, automotive and medical equipment; and (iii) Rel-Tech Electronics, Inc., the subsidiary that designs and manufacturers of cable assemblies and wiring harnesses for blue chip industrial, oilfield, instrumentation and military customers. The Cables Unlimited division is a Corning Cables Systems CAH Connections SM Gold Program member that is authorized to manufacture fiber optic cable assemblies that are backed by Corning Cables Systems' extended warranty.

Use of estimates

The preparation of consolidated 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.

Principles of consolidation

The accompanying consolidated financial statements include the accounts of RF Industries, Ltd., Cables Unlimited, Inc. ("Cables Unlimited"), and Rel-Tech Electronics, Inc. ("Rel-Tech"), wholly-owned subsidiaries of RF Industries, Ltd. All intercompany balances and transactions have been eliminated in consolidation.

Reclassifications

Certain amounts in the prior period consolidated financial statements have been reclassified to conform to the current period presentation of continuing operations and discontinued operations (see Note 2). These reclassifications had no effect on reported consolidated net income.

Cash equivalents

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

Revenue recognition

Four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services rendered; (3) the fee is fixed and determinable; and (4) collectability is reasonably assured. The Company recognizes revenue from product sales after purchase orders are received which contain a fixed price and for shipments with terms of FOB Shipping Point, revenue is recognized upon shipment, for shipments with terms of FOB Destination, revenue is recognized upon delivery and revenue from services is recognized when services are performed, and the recovery of the consideration is considered probable.

Inventories

Inventories are stated at the lower of cost or net realizable value, with cost determined using the weighted average cost of accounting. Cost includes materials, labor, and manufacturing overhead related to the purchase and production of inventories. We regularly review inventory quantities on hand, future purchase commitments with our suppliers, and the estimated utility of our inventory. If our review indicates a reduction in utility below carrying value due to damage, physical deterioration, obsolescence, changes in price levels, or other causes, we reduce our inventory to a new cost basis through a charge to cost of sales in the period in which it occurs. The determination of market value and the estimated volume of demand used in the lower of cost or market analysis requires significant judgment.

Property and equipment

Equipment, tooling and furniture are recorded at cost and depreciated over their estimated useful lives (generally 3 to 5 years) using the straight-line method. Expenditures for repairs and maintenance are charged to operations in the period incurred.

Goodwill

Goodwill is recorded when the purchase price paid for an acquisition exceeds the estimated fair value of the net identified tangible and intangible assets acquired. Goodwill is not amortized, but is subject to impairment analysis at least once annually, which the Company performs in October, or more frequently upon the occurrence of an event or when circumstances indicate that a reporting unit's carrying amount is greater than its fair value.

We assess whether a goodwill impairment exists using both qualitative and quantitative assessments at the reporting level. Our qualitative assessment involves determining whether events or circumstances exist that indicate it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. If based on this qualitative assessment we determine it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, we will not perform a quantitative assessment.

If the qualitative assessment indicates that it is more likely than not that the fair value of a reporting unit is less than its carrying amount or if we elect not to perform a qualitative assessment, we perform a quantitative assessment, or two-step impairment test, to determine whether a goodwill impairment exists at the reporting unit. The first step in our quantitative assessment identifies potential impairments by comparing the estimated fair value of the reporting unit to its carrying value, including goodwill ("Step 1"). If the carrying value exceeds estimated fair value, there is an indication of potential impairment and the second step is performed to measure the amount of impairment ("Step 2").

No instances of goodwill impairment were identified as of October 31, 2018 and 2017.

On June 15, 2011, the Company completed its acquisition of Cables Unlimited. Goodwill related to this acquisition is included within the Cables Unlimited reporting unit. As of May 19, 2015, the Company completed its acquisition of the CompPro product line. Goodwill related to this acquisition is included within the RF Connector and Cable Assembly Division. Effective June 1, 2015, the Company completed its acquisition of Rel-Tech. Goodwill related to this acquisition is included within the Rel-Tech reporting unit.

Long-lived assets

The Company assesses property, plant and equipment and intangible assets, which are considered definite-lived assets for impairment. Definite-lived assets are reviewed when there is evidence that events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company measures recoverability of these assets by comparing the carrying amounts to the future undiscounted cash flows the assets are expected to generate. If property and equipment and intangible assets are considered to be impaired, the impairment to be recognized equals the amount by which the carrying value of the asset exceeds its fair market value. The Company has made no material adjustments to our long-lived assets in any of the years presented.

The Company amortizes its intangible assets with definite useful lives over their estimated useful lives and reviews these assets for impairment.

In addition, the Company tests our trademarks and indefinite-lived asset for impairment at least annually or more frequently if events or changes in circumstances indicate that these assets may be impaired.

No instances of impairment were identified as of October 31, 2018 or 2017.

Earn-out liability

The purchase agreement for the Rel-Tech acquisition provides for earn-out payments of up to $800,000 in the aggregate, the last installment of which was payable on May 31, 2018. All payments have been made and no earn-out obligation remains as of October 31, 2018. The initial earn-out liability was valued at its fair value using the Monte Carlo simulation and was included as a component of the total purchase price. The earn-out was revalued quarterly using a present value approach and any resulting increase or decrease has been recorded into selling and general expenses. Any changes in the assumed timing and amount of the probability of payment scenarios could have impacted the fair value. Significant judgment was employed in determining the appropriateness of the assumptions used in calculating the fair value of the earn-out as of the acquisition date.

The Company measures at fair value certain financial assets and liabilities. U.S. GAAP specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. These two types of inputs have created the following fair-value hierarchy:

Level 1— Quoted prices for identical instruments in active markets;

Level 2— Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets; and

Level 3— Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

The contingent consideration liability represented future earn-out liability that we were required to pay in conjunction with the acquisition of Rel-Tech. The Company estimates the fair value of the earn-out liability using a probability-weighted scenario of estimated qualifying earn-out gross profit related to Rel-Tech calculated at net present value (level 3 of the fair value hierarchy).

The following table summarizes our financial assets and liabilities measured at fair value on a recurring basis as of October 31, 2018 (in thousands):

Description	Level 1	Level 2	Level 3
Earn-out liability	$ -	$ -	$ -

The following table summarizes our financial assets and liabilities measured at fair value on a recurring basis as of October 31, 2017 (in thousands):

Description	Level 1	Level 2	Level 3
Earn-out liability	$ -	$ -	$ 236

The following table summarizes the Level 3 transactions for the years ended October 31, 2018 and 2017 (in thousands):

	Level 3	
	2018	**2017**
Beginning balance	$ 236	$ 835
Payments	(210)	(578)
Change in value	(26)	21
Ending Balance	$ -	$ 236

Intangible assets

Intangible assets consist of the following as of October 31, 2018 and 2017 (in thousands):

	2018	2017
Amortizable intangible assets:		
Customer relationships (estimated lives 7 - 15 years)	$ 2,879	$ 2,879
Accumulated amortization	(1,619)	(1,354)
	1,260	1,525
Patents (estimated life 14 year)	142	142
Accumulated amortization	(35)	(25)
	107	117
Totals	$ 1,367	$ 1,642
Non-amortizable intangivle assets:		
Trademarks	$ 657	$ 657

Amortization expense was $275,000 for the years ended October 31, 2018 and 2017. The weighted-average amortization period for the amortizable intangible assets is 9.48 years.

There was no impairment to trademarks for the years ended October 31, 2018 and 2017.

Estimated amortization expense related to finite lived intangible assets is as follows (in thousands):

Year ending October 31,	Amount
2019	$ 275
2020	275
2021	136
2022	89
2023	79
Thereafter	513
Total	$ 1,367

Advertising

The Company expenses the cost of advertising and promotions as incurred. Advertising costs charged to operations were approximately $236,000 and $125,000 in 2018 and 2017, respectively.

Research and development

Research and development costs are expensed as incurred. The Company's research and development expenses relate to its engineering activities, which consist of the design and development of new products for specific customers, as well as the design and engineering of new or redesigned products for the industry in general. During the years ended October 31, 2018 and 2017, the Company recognized $1,480,000 and $824,000 in engineering expenses, respectively.

Income taxes

The Company accounts for income taxes under the asset and liability method, based on the income tax laws and rates in the jurisdictions in which operations are conducted and income is earned. This approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Developing the provision (benefit) for income taxes requires significant judgment and expertise in federal, international and state income tax laws, regulations and strategies, including the determination of deferred tax assets and liabilities and, if necessary, any valuation allowances that may be required for deferred tax assets. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Management's judgments and tax strategies are subject to audit by various taxing authorities.

The Company had adopted the provisions of ASC 740-10, which clarifies the accounting for uncertain tax positions. ASC 740-10 requires that the Company recognize the impact of a tax position in the financial statements if the position is not more likely than not to be sustained upon examination based on the technical merits of the position. The Company's recognizes interest and penalties related to certain uncertain tax positions as a component of income tax expense and the accrued interest and penalties are included in deferred and other long-term liabilities in the Company's consolidated balance sheets. See Note 8 to the Consolidated Financial Statements included in this Report for more information on the Company's accounting for uncertain tax positions.

Stock options

For stock option grants to employees, the Company recognizes compensation expense based on the estimated fair value of the options at the date of grant. Stock-based employee compensation expense is recognized on a straight-line basis over the requisite service period. The Company issues previously unissued common shares upon the exercise of stock options.

For the fiscal years ended October 31, 2018 and 2017, charges related to stock-based compensation amounted to approximately $211,000 and $214,000, respectively. For the fiscal years ended October 31, 2018 and 2017, stock-based compensation classified in cost of sales amounted to $0 and $13,000 and stock-based compensation classified in selling and general and engineering expense amounted to $211,000 and $201,000, respectively.

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 the Company upon the exercise of stock options in any period for the years ended October 31, 2018 and 2017, that were not included in the computation because they were anti-dilutive, totaled 133,220 and 737,512, respectively.

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

	2018	2017
Numerators:		
Consolidated net income (A)	$ 5,846,000	$ 382,000
Denominators:		
Weighted average shares outstanding for basic earnings per share (B)	9,105,406	8,840,895
Add effects of potentially dilutive securities - assumed exercise of stock options	487,660	74,869
Weighted average shares outstanding for diluted earnings per share (C)	9,593,066	8,915,764
Basic earnings per share (A)/(B)	$ 0.64	$ 0.04
Diluted earnings per share (A)/(C)	$ 0.61	$ 0.04

Recent accounting standards

Recently issued accounting pronouncements not yet adopted:

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, Leases. This ASU requires lessees to recognize most leases on their balance sheets related to the rights and obligations created by those leases. The ASU also requires additional qualitative and quantitative disclosures related to the nature, timing and uncertainty of cash flows arising from leases. The guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact the adoption of this new standard will have on its Consolidated Financial Statements.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers. This guidance will supersede Topic 605, Revenue Recognition, in addition to other industry-specific guidance, once effective. The new standard requires a company to recognize revenue in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods and services. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers: Deferral of the Effective Date, as a revision to ASU 2014-09, which revised the effective date to fiscal years, and interim periods within those years, beginning after December 15, 2017. Early adoption is permitted but not prior to periods beginning after December 15, 2016 (i.e., the original adoption date per ASU 2014-09). In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers: Principal versus Agent Considerations, which clarifies certain aspects of the principal-versus-agent guidance, including how an entity should identify the unit of accounting for the principal versus agent evaluation and how it should apply the control principle to certain types of arrangements, such as service transactions. The amendments also reframe the indicators to focus on evidence that an entity is acting as a principal rather than as an agent. In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing, which clarifies how an entity should evaluate the nature of its promise in granting a license of intellectual property, which will determine whether it recognizes revenue over time or at a point in time. The amendments also clarify when a promised good or service is separately identifiable (i.e., distinct within the context of the contract) and allow entities to disregard items that are immaterial in the context of a contract. The Company has assessed the impact this new standard has on its financial reporting. The Company has identified its revenue streams both by contract and product type and determined that there was no material impact in the timing or amount of revenue recognized. The Company continues to assess the impact this new standard may have on its ongoing financial reporting.

In January 2017, the FASB issued Accounting Standards Update No. 2017-04, Intangibles-Goodwill and Other, which simplifies the accounting for goodwill impairments by eliminating step 2 from the goodwill impairment test. Instead, if "the carrying amount of a reporting unit exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit." The guidance is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. The Company is currently evaluating the impact the adoption of this new standard will have on its Consolidated Financial Statements.

Recently issued accounting pronouncements adopted:

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, Compensation – Stock Compensation. The new standard modified several aspects of the accounting and reporting for employee share-based payments and related tax accounting impacts, including the presentation in the statements of operations and cash flows of certain tax benefits or deficiencies and employee tax withholdings, as well as the accounting for award forfeitures over the vesting period. One provision within this pronouncement requires that excess income tax benefits and tax deficiencies related to share-based payments be recognized within income tax expense in the statement of income, rather than within additional paid-in capital on the balance sheet. The Company adopted this provision in the first quarter of fiscal 2018. The adoption of this provision was applied prospectively. The impact to the Company's results of operations related to this provision for the year ended October 31, 2018 was the recognition of an income tax benefit of $189,000 within income tax expense, resulting in a 2.6% reduction to the effective tax rate versus if the standard had not been adopted. The impact of this provision on the Company's future results of operations will depend in part on the market prices for the Company's shares on the dates there are taxable events related to share awards. In connection with another provision within this pronouncement, the Company has elected to account for forfeitures as they occur rather than estimate expected forfeitures, with the change being applied prospectively. The adoption of this and other provisions within the pronouncement did not have a material impact on the Company's consolidated financial statements.

Note 2 - Discontinued operations

During 2013, the Company sold its RF Neulink and RadioMobile divisions, which together had comprised the Company's RF Wireless segment. The divisions were sold pursuant to asset purchase agreements, whereby no purchase price was paid at the closing. Rather, the agreements stipulated royalty payments from each of the purchasers over a three-year period. For the years ended October 31, 2018 and 2017, the Company recognized approximately $0 and $174,000, respectively, of aggregate royalty income for RF Neulink and RadioMobile, which amounts have been included within discontinued operations.

During March 2016, the Company announced the shutdown of its Bioconnect division, which comprised the entire operations of the Medical Cabling and Interconnect segment. The closure is part of the Company's ongoing plan to close or dispose of underperforming divisions that are not part of the Company's core operations. For the fiscal year ended October 31, 2018, no income was recognized related to the Bioconnect division. For the year ended October 31, 2017, the Company recognized approximately $10,000 of income related to the sale of equipment for the Bioconnect division, which amounts have been included within discontinued operations.

The following summarized financial information related to the RF Neulink, RadioMobile and Bioconnect divisions is segregated from continuing operations and reported as discontinued operations for the year ended October 31, 2017 (in thousands):

	2017
Royalties	$ 174
Bioconnect	10
Provision for income taxes	(68)
Income from discontinued operations, net of tax	$ 116

On October 31, 2018, the Company sold all of the assets and liabilities of its subsidiary, Comnet Telecom Supply ("Comnet Telecom"). The Company and RAP Acquisition Inc. ("RAP Acquisition"), a New Jersey corporation, entered into a stock purchase agreement under which RAP Acquisition agreed to purchase 100% of the issued and outstanding shares of Comnet Telecom for a purchase price of $4,200,000 in cash. Comnet Telecom is a New Jersey-based manufacturer and supplier of telecommunications and data products, including fiber optics cables, cabling technologies, custom patch cord assemblies, data center consoles and other data center equipment. This division was one of the three subsidiaries of the "Custom Cabling Manufacturing and Assembly" segment. Comnet Telecom was acquired by the Company in January 2015 from Robert Portera, and has been a wholly-owned subsidiary of the Company since that time. Mr. Portera served as the President of Comnet Telecom during the period that Comnet Telecom was owned by the Company, and is the founder and principal of RAP Acquisition.

For the years ended October 31, 2018 and 2017, the Company recognized pretax loss of $221,000 and pretax income of $168,000, respectively, from the discontinued operations of the Comnet Telecom division, and an income tax benefit of $41,000 and expense of $72,000, respectively. The major line items constituting the income (loss) of discontinued operations of Comnet are as follows (in thousands):

	Years Ended October 31,	
	2018	2017
Major line items constituting pretax income from discontinued operations:		
Net sales	$ 8,343	$ 7,981
Cost of sales	(6,199)	(6,246)
Gross profit	2,144	1,735
Selling, general and administrative expense	(1,569)	(1,567)
Pretax income from discontinued operations	575	168
Pretax loss on sale of Comnet	(796)	-
Total pretax income (loss) from discontinued operations	(221)	168
Provision (benefit) for income taxes	(41)	72
Income (loss) from discontinued operations	$ (180)	$ 96

For the prior 2017 period presented on the consolidated balance sheet, the major classes of assets and liabilities of assets held for sale are as follows (in thousands):

		October 31, 2017
Carrying amounts of major classes of assets included as part of discontinued operations:		
Cash and cash equivalents	$	831
Trade accounts receivable, net of allowance for doubtful accounts		998
Inventories		566
Other current assets		239
Fixed assets, net		146
Non-amortizable intangibles		580
Intangibles, net of accumulated amortization		1,387
Goodwill		1,879
Total assets included in Comnet sale	$	6,626
Carrying amounts of major classes of liabilities included as part of discontinued operations:		
Accounts payable	$	320
Other liabilities		451
Total liabilities included in Comnet sale	$	771

Note 3 - Concentrations of credit risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. The Company maintains its cash and cash equivalents with high-credit quality financial institutions. At October 31, 2018, the Company had cash and cash equivalent balances in excess of federally insured limits in the amount of approximately $15.4 million.

One customer, who is a distributor, accounted for approximately 62% of the Company's net sales for the fiscal year ended October 31, 2018. This same customer accounted for approximately 27% of the Company's net sales for the year ended October 31, 2017. This customer's accounts receivable balance accounted for approximately 48% and 36% of the total net accounts receivable balance at October 31, 2018 and 2017, respectively. Although this customer has been an on-going major customer of the Company continuously in the past, the written agreement with this customer does not have any minimum purchase obligations and they could stop buying the Company's products at any time and for any reason. A reduction, delay or cancellation of orders from this customer or the loss of this customer could significantly reduce the Company's future revenues and profits.

Note 4 - Inventories and major vendors

Inventories, consisting of materials, labor and manufacturing overhead, are stated at the lower of cost or net realizable value. Cost has been determined using the weighted average cost method. Inventories consist of the following (in thousands):

		2018		2017
Raw materials and supplies	$	2,711	$	1,956
Work in process		603		192
Finished goods		3,799		3,395
Totals	$	7,113	$	5,543

One vendor accounted for 39% of inventory purchases during the fiscal year ended October 31, 2018, compared to one vendor who accounted for 11% of inventory purchases for the fiscal year ended October 31, 2017. The Company has arrangements with their vendors to purchase product based on purchase orders periodically issued by the Company.

Note 5 - Other current assets

Other current assets consist of the following (in thousands):

	2018	2017
Prepaid taxes	$ 335	$ 21
Prepaid expense	228	294
Notes receivable, current portion	20	82
Other	245	109
Totals	$ 828	$ 506

Note 6 - Accrued expenses and other long-term liabilities

Accrued expenses consist of the following (in thousands):

	2018	2017
Wages payable	$ 1,705	$ 778
Accrued receipts	1,271	487
Earn-out liability	-	220
Other current liabilities	401	306
Totals	$ 3,377	$ 1,791

Accrued receipts represent purchased inventory for which invoices have not been received.

Note 7 - Segment information

The Company aggregates operating divisions into operating segments which have similar economic characteristics primarily in the following areas: (1) the nature of the product and services; (2) the nature of the production process; (3) the type or class of customer for their products and services; (4) the methods used to distribute their products or services; and (5) if applicable, the nature of the regulatory environment. Based upon this evaluation, as of October 31, 2018, the Company had two reportable segments – RF Connector and Cable Assembly (RF Connector) and Custom Cabling Manufacturing and Assembly (Custom Cabling).

During fiscal 2018, the RF Connector segment was comprised of one division, while the Custom Cabling segment was comprised of two divisions. The three divisions that met the quantitative thresholds for segment reporting the were RF Connector and Cable Assembly division and the Cables Unlimited and Rel-Tech subsidiaries. While each segment had similar products and services, with one major exception, there was little overlapping of these services to their customer base. In addition, sales or product and services for the RF Connector segment was primarily through the distribution channel while the Custom Cabling sales was through a combination of distribution and direct to the end customer.

Management identifies the Company's segments based on strategic business units that are, in turn, based along market lines. These strategic business units offer products and services to different markets in accordance with their customer base and product usage. For segment reporting purposes, the RF Connector and Cable Assembly division constitutes the RF Connector segment, and the Cables Unlimited and Rel-Tech divisions constitute the Custom Cabling segment.

As reviewed by the Company's chief operating decision maker, the Company evaluates the performance of each segment based on income or loss before income taxes. The Company charges depreciation and amortization directly to each division within the segment. Accounts receivable, inventory, property and equipment, goodwill and intangible assets are the only assets identified by segment. Except as discussed above, the accounting policies for segment reporting are the same for the Company as a whole.

Substantially all of the Company's operations are conducted in the United States; however, the Company derives a portion of its revenue from export sales. 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, 2018 and 2017 (in thousands):

	2018	2017
United States	$ 49,534	$ 22,254
Foreign Countries:		
Canada	547	551
Mexico	39	78
All Other	76	100
	662	729
Totals	$ 50,196	$ 22,983

Net sales, income (loss) from continuing operations before provision (benefit) for income taxes and other related segment information for the years ended October 31, 2018 and 2017 are as follows (in thousands):

2018	RF Connector and Cable Assembly	Custom Cabling Manufacturing and Assembly	Corporate	Total
Net sales	$ 11,846	$ 38,350	$ -	$ 50,196
Income (loss) from continuing operations before provision (benefit) for income taxes	107	7,340	47	7,494
Depreciation and amortization	172	341	-	513
Total assets	6,529	8,763	17,210	32,502
2017				
Net sales	$ 11,456	$ 11,527	$ -	$ 22,983
Income (loss) from continuing operations before provision (benefit) for income taxes	107	96	29	232
Depreciation and amortization	177	329	-	503
Total assets	6,297	6,353	12,410	25,060

Note 8 - Income tax provision

Reconciliation of provision (benefit) for income taxes for the years ended October 31, 2018 and 2017 are as follows (in thousands):

	2018	2017
Continuing operations	$ 1,468	$ 62
Discontinued operations	(41)	72
Net income	$ 1,427	$ 134

The provision (benefit) for income taxes for the fiscal years ended October 31, 2018 and 2017 consists of the following (in thousands):

	2018	2017
Current:		
Federal	$ 1,344	$ 322
State	236	12
	1,580	334
Deferred:		
Federal	(112)	(273)
State	-	1
	(112)	(272)
	$ 1,468	$ 62

Income tax at the federal statutory rate is reconciled to the Company's actual net provision (benefit) for income taxes as follows (in thousands, except percentages):

	2018		2017	
	Amount	% of Pretax Income	Amount	% of Pretax Income
Income taxes at federal statutory rate	$ 1,737	23.2%	$ 79	34.1%
State tax provision, net of federal tax benefit	170	2.3%	6	2.6%
Nondeductible differences:				
Rel-Tech earn-out	(6)	-0.1%	(9)	-3.9%
Qualified domestic production activities deduction	(141)	-1.9%	(59)	-25.4%
Stock compensation	(204)	-2.7%	52	22.4%
Meals and entertainment	8	0.1%	12	5.2%
Temporary true-ups	-	0.0%	-	0.0%
State tax refunds, net of federal expense	-	0.0%	(3)	-1.3%
R&D credit	(111)	-1.5%	(37)	-15.9%
ASC 740-10 Liability	54	0.7%	-	0.0%
Tax Cut and Jobs Act	(34)	-0.5%	-	0.0%
Other	(5)	-0.1%	21	9.1%
	$ 1,468	19.5%	$ 62	26.9%

The Company's total deferred tax assets and deferred tax liabilities at October 31, 2018 and 2017 are as follows (in thousands):

	2018	2017
Deferred Tax Assets:		
Reserves	$ 276	$ 375
Accrued vacation	116	122
Stock-based compensation awards	113	184
Uniform capitalization	78	130
Other	93	70
Total deferred tax assets	676	881
Deferred Tax Liabilities:		
Amortization / intangible assets	(544)	(805)
Depreciation / equipment and furnishings	(132)	(195)
Other	-	-
Total deferred tax liabilities	(676)	(1,000)
Total net deferred tax assets (liabilities)	$ -	$ (119)

On December 22, 2017, the President signed the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act, among other things, lowered the U.S. corporate income tax rate from 35% to 21% effective January 1, 2018, which results in a blended statutory income tax rate for the Company of 23.17% for fiscal 2018. For the fiscal year ending October 31, 2019 ("fiscal 2019"), the Company's U.S. federal statutory income tax rate will be 21.0%. The Company has completed its accounting for the tax effects of the enactment of the Tax Act, which resulted in a tax benefit of $41,000 from remeasuring our U.S. deferred tax assets and liabilities at the lower 21% U.S. federal statutory rate.

The Tax Act also includes items that the Company expects could increase its tax expense in future periods such as the elimination of the domestic production deduction (Section 199). In addition, the actual effective tax rate may be materially different than the statutory Federal tax rate (including being higher) based on the availability and impact of various other adjustments such as state taxes, Federal research and development credits, discrete tax benefits related to stock compensation, and the inclusion or exclusion of various items in taxable income which may differ from U.S. GAAP income.

Deferred income tax assets and liabilities are recorded for differences between the financial statement and tax basis of the assets and liabilities that will result in taxable or deductible amounts in the future based on enacted laws and rates applicable to the periods in which the 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 Company has evaluated the available evidence supporting the realization of its gross deferred tax assets, including the amount and timing of future taxable income, and has determined it is more likely than not that the assets will be realized in future tax years.

The provision for income taxes from continuing operations was $1.47 million or 19.5% and $62,000 or 26.9% of income before income taxes for fiscal 2018 and 2017, respectively. The decrease in the effective income tax rate from year to year is primarily attributable to the reduction of the federal corporate income tax rate due to the Tax Act, the benefit of R&D credits and the recognition of a stock option windfall benefit related to the exercise of NQSOs resulting from the Company's adoption of ASU 2016-09.

The Company's adjustments to its uncertain tax positions in fiscal years ended October 31, 2018 and 2017 are as follows:

	2018	2017
Balance, at beginning of year	$ -	$ -
Increase for tax positions related to the current year	24	-
Increase for tax positions related to prior years	29	-
Increase for interest and penalties	6	-
Balance, at end of year	$ 59	$ -

The Company has unrecognized tax benefits of approximately $53,000 related to its U.S. federal and California research tax credits as of October 31, 2018. The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. An increase in accrued interest and penalty charges of approximately $6,000 was recorded as a tax expense during the current fiscal year. The Company does not anticipate that its accrual for uncertain tax positions will change by a material amount over the next twelve-month period.

The Company is subject to taxation in the United States and state jurisdictions. The Company's tax years for October 31, 2014 and forward are subject to examination by the United States and October 31, 2013 and forward with state tax authorities.

Note 9 - Stock options

Incentive and non-qualified stock option plans

On March 9, 2010, the Company's Board of Directors adopted the RF Industries, Ltd. 2010 Stock Incentive Plan (the "2010 Plan"). In June 2010, the Company's stockholders approved the 2010 Plan by vote as required by NASDAQ. An aggregate of 1,000,000 shares of common stock was set aside and reserved for issuance under the 2010 Plan. The Company's stockholders approved the issuance of an additional 500,000 shares of common stock at its annual meeting held on September 5, 2014, another 500,000 shares of common stock at its annual meeting held September 4, 2015 and another 1,000,000 shares of common stock at its annual meeting held September 8, 2017. As of October 31, 2018, 1,524,588 shares of common stock were remaining for future grants of stock options under the 2010 Plan.

Additional disclosures related to stock option plans

On July 17, 2017, the Company granted 100,000 incentive stock options to its newly hired President and Chief Executive Officer. These options, which expire in ten years from the date of grant, vested as to 10,000 shares on the date of grant, and the balance thereafter vests as to 10,000 shares per annum over the remaining nine years of the grant. On December 13, 2017, the Company granted 80,000 incentive stock options to an employee. These options vested 8,000 shares on the date of grant, and the balance vests as to 8,000 shares per year thereafter on each of the next nine anniversaries of December 13, 2017, and expire ten years from date of grant. No other options were granted to Company employees during fiscal 2018.

The fair value of each option granted in 2018 and 2017 was estimated on the grant date using the Black-Scholes option pricing model with the following assumptions:

	2018	2017
Weighted average volatility	46.83%	43.30%
Expected dividends	3.28%	5.00%
Expected term (in years)	4.5	4.3
Risk-free interest rate	1.87%	1.20%
Weighted average fair value of options granted during the year	$ 0.82	$ 0.39
Weighted average fair value of options vested during the year	$ 2.64	$ 1.95

Expected volatilities are based on historical volatility of the Company's stock price and other factors. The Company used the historical method to calculate the expected life of the 2018 option grants. The expected life represents the period of time that options granted are expected to be outstanding. The risk-free rate is based on the U.S. Treasury rate with a maturity date corresponding to the options' expected life. The dividend yield is based upon the historical dividend yield.

Additional information regarding all of the Company's outstanding stock options at October 31, 2018 and 2017 and changes in outstanding stock options in 2018 and 2017 follows:

	2018		2017	
	Shares or Price Per Share	Weighted Average Exercise Price	Shares or Price Per Share	Weighted Average Exercise Price
Outstanding at beginning of year	1,159,771	$ 3.19	1,007,851	$ 4.07
Options granted	269,635	$ 2.44	449,068	$ 1.61
Options exercised	(418,955)	$ 2.66	(36,763)	$ 1.50
Options canceled or expired	(68,085)	$ 4.98	(260,385)	$ 4.10
Options outstanding at end of year	942,366	$ 3.09	1,159,771	$ 3.19
Options exercisable at end of year	675,033	$ 3.01	926,272	$ 3.08
Options vested and expected to vest at end of year	940,144	$ 3.09	1,159,002	$ 3.19
Option price range at end of year	$1.90 - $5.88		$1.07 - $6.91	
Aggregate intrinsic value of options exercised during year	$ 1,207,148		$ 55,000	

Weighted average remaining contractual life of options outstanding as of October 31, 2018: 4.50 years

Weighted average remaining contractual life of options exercisable as of October 31, 2018: 3.23 years

Weighted average remaining contractual life of options vested and expected to vest as of October 31, 2018: 4.49 years

Aggregate intrinsic value of options outstanding at October 31, 2018: $4,411,000

Aggregate intrinsic value of options exercisable at October 31, 2018: $3,205,000

Aggregate intrinsic value of options vested and expected to vest at October 31, 2018: $4,391,000

As of October 31, 2018, $261,000 of expense with respect to nonvested share-based arrangements has yet to be recognized which is expected to be recognized over a weighted average period of 6.64 years.

Non-employee directors receive $50,000 annually, which is paid one-half in cash and one-half through the grant of non-qualified stock options to purchase shares of the Company's common stock. During the quarter ended January 31, 2018, the Company granted each of its five non-employee directors 37,927 non-qualified stock options. The number of stock options granted to each director was determined by dividing $25,000 by the fair value of a stock option grant using the Black-Scholes model ($0.659 per share). These options vest ratably over fiscal year 2018 and expire five years from the date of grant.

Note 10 - Retirement plan

The Company has a 401(K) plan available to its employees. For the years ended October 31, 2018 and 2017, the Company contributed and recognized as an expense $159,000 and $144,000, respectively, which amount represented 3% of eligible employee earnings under its Safe Harbor Non-elective Employer Contribution Plan.

Note 11 - Related party transactions

On June 15, 2011, the Company purchased Cables Unlimited, Inc., a New York corporation, from Darren Clark, the sole shareholder of Cables Unlimited, Inc. In connection with the purchase of Cables Unlimited, the Company entered into a lease for the New York facilities from which Cables Unlimited conducts its operations. Cables Unlimited's monthly rent expense under the lease is $13,000 per month, plus payments of all utilities, janitorial expenses, routine maintenance costs, and costs of insurance for Cables Unlimited's business operations and equipment. During the fiscal year ended October 31, 2018, the Company paid the landlord a total of $156,000 under the lease. The owner and landlord of the facility is a company controlled by Darren Clark, the former owner of Cables Unlimited and the current President of this subsidiary of the Company.

On October 31, 2018, the Company sold its Comnet Telecom Supply, Inc.("Comnet") subsidiary to RAP Acquisition, Inc. for $4.2 million in cash. RAP Acquisition, Inc. is an affiliate of Robert A. Portera, the founder of Comnet and its President.

Note 12 - Cash dividend and declared dividends

The Company paid quarterly dividends of $0.02 per share during fiscal year 2018 for a total of $730,000. The Company paid quarterly dividends of $0.02 per share during fiscal year 2017 for a total of $707,000.

Note 13 - Commitments

For the year ended October 31, 2018, the Company leased its facilities in San Diego, California, Yaphank, New York, Milford, Connecticut and East Brunswick, New Jersey under non-cancelable operating leases. Deferred rent, included in accrued expenses and other long-term liabilities, was $93,000 as of October 31, 2018 and $95,000 as of October 31, 2017. 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.

Rent expense under all operating leases totaled approximately $546,000 and $519,000 in 2018 and 2017, respectively.

Minimum lease payments under these non-cancelable operating leases in each of the years subsequent to October 31, 2018 are as follows (in thousands):

Year ending October 31,	Amount	
2019	$	664
2020		504
2021		448
2022		262
2023		1
Total	$	1,879

Note 14 - Subsequent events

On November 1, 2018, Cables Unlimited entered into a lease agreement with 100 Bellport Avenue, LLC for approximately 7,500 square feet located in Yaphank, New York with a monthly rent expense of $5,625. The lease expires on October 31, 2019.

On December 17, 2018, the Board of Directors of the Company declared a quarterly dividend of $0.02 per share payable on January 15, 2019 to stockholders of record on December 31, 2018.

Leadership

Directors

Marvin H. Fink
Chairman
Retired Executive

Howard F. Hill
Retired Executive

William L. Reynolds
Retired Executive

Joseph Benoit
Retired Executive

Gerald Garland
Retired Executive

Sheryl Cefali
Managing Director
Duff & Phelps

Robert Dawson
President and
Chief Executive Officer

Officers

Robert Dawson
President and
Chief Executive Officer

Mark Turfler
Senior Vice President,
Chief Financial Officer and
Corporate Secretary

Stockholder Information

Annual Meeting

The Annual Meeting of Stockholder of RF Industries is scheduled to be held at 1:00 p.m. PDT, Monday, September 9, 2019 at CohnReznick LLP, 11452 El Camino Real, Ste. 100, San Diego, CA 92130

Investor Relations

Analysts, investors and stockholders seeking additional information about RF Industries are invited to contact:

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Email: RFIL@mkr-group.com

A copy of the Company's Annual Report on Form 10-K as filed with the United States Securities and Exchange Commission is available without charge on the SEC website, www.sec.gov, or upon request RF Industries, 7610 Miramar Road, San Diego, CA 92126

RF Industries on NASDAQ
RF Industries common stock trades on the NASDAQ Global Market under the symbol RFIL.

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