2020
Annual Report

RF INDUSTRIES

Interconnect Solutions for a Connected World™

July 27, 2021

Fellow Shareholders:

As I sat down to prepare to write this annual President's Letter, I couldn't help but reflect on my comments in last year's letter and the huge difference a year makes. I ended last year's message with commentary on the challenging operating environment and ongoing uncertainty that we were facing during our Fiscal Year 2020 due to the global health pandemic and how we intended to power through it the best that we could.

Specifically, I wrote, "We continue to focus first and foremost on the health and safety of our employees and are thankful for their fortitude, innovation and positive spirit throughout this difficult time. The Board and leadership team are confident that with our solid financial standing, we remain well positioned to successfully navigate through this challenging operating environment and emerge a stronger company."

My favorite part of that message was celebrating our employees and knowing that they would be the reason we could come out stronger in the long run. More on that later.

Fiscal Year 2020 obviously had its challenges, as many projects were paused and overall softness in our key markets led to a decline in our sales from the prior year. But despite the disruptions of the pandemic, we remained focused on our long-term plan to build a sustainable engine for growth and didn't stand still. Instead, we used our strong financial position to weather the storm and keep our team safe and intact while also smartly investing in resources to strengthen our capabilities and return to growth. Let me recap what we accomplished this past fiscal year.

First, we strengthened our go-to-market capabilities by adding significant new talent and direction to our sales team. These higher-level sales resources have more direct experience and additional sales acumen that set us up for future growth. This team allows us to further leverage our expanded product offerings and extended footprint in the markets we serve while targeting opportunities in new market segments. We haven't yet seen the full impact of this team, but we believe the relationships they've been building and fostering position us for longer-term growth both this fiscal year and beyond.

Related to that, we also significantly broadened our relationships in the carrier ecosystem this past year, moving from just one big customer to having solid relationships with all major wireless carriers in North America, as well as neutral host and tower companies and several key OEMs and integrators. With the increased number of carriers that we now work with, we believe that our carrier-based business prospects are stronger than they've ever been. Our relationships are solid, and we are doing business with a much longer list than ever before. In fact, we are now shipping our products or integrated solutions into every North American carrier's network through various channels. This new diversity in our relationships positions us to gain a more significant portion of the carrier CapEx spend, which is a big part of our story going forward.

Additionally, our increased distribution focus was a key reason why we made it through Fiscal 2020 as well as we did. In 2017, we decided to focus on our distribution relationships in a more meaningful way, and that commitment has allowed us to grow our distribution sales even during a major market downturn. Three years ago, we essentially had one very large distributor that was generating 20-25% of our sales. With the addition of five meaningful distributors as well as our direct relationships with all the carriers and new segments, our future growth should be more diversified and less dependent on one big customer. Today, we are more about executing on our go-to-market plans and having a relevant offer in the markets that we serve. With the additional top-tier distributors and carrier relationships we have added, we are more effectively positioned to capture a larger portion of the spend as it returns.

To that point, this past fiscal year, we significantly expanded our product offering, taking us further down the path of becoming a product company as opposed to a custom project company. We see a huge opportunity in small cell and densification, and we have invested in the right product lines to increase our market share. As a result of our Schrofftech and C-Enterprises acquisitions, we have a more diverse product set, creating more carrier influence and relationships as a product company with a full solution set.

Going forward, we remain squarely focused on delivering shareholder value and, as we have consistently said, consolidation makes sense in our industry. Like any responsible company, we are always looking at value-enhancing acquisition opportunities and we believe that we can help drive some key consolidation in our markets.

So to conclude, while the pandemic impacted our fiscal 2020 revenue, we weathered the storm and remained focused on successfully executing our long-term growth plan. Our actions this past year have more effectively positioned us to drive demand creation and expand our participation in the different markets where we play. As a result, we are confident in our long-term prospects. Our sales pipeline continues to build in nearly all areas, giving us confidence that things are getting better, and our balance sheet remains strong and continues to provide us with significant operating flexibility.

Now back to my earlier comment about our awesome employees. I am incredibly proud of our team and would again like to thank them for their flexibility, positive attitudes and resilience during these challenging times. I had said that I was confident that our team and the trust from our customers would make us stronger in the long run. Maybe I should have said short run since, as I write this today, we have a sales backlog of over $32 million, which is by far the largest in Company history. We expect to return to growth in Fiscal Year 2021 and are quickly bouncing back from a tough year. I feel like this is only the beginning of the "long run."

We have made tremendous progress in the last few years, and while we're not done with our transformation, we are energized by the opportunities we see ahead. We appreciate the partnerships with our customers, distributors and suppliers, the hard work of our employees, and the support of our shareholders.

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, 2020

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 $49.4 million.

On December 28, 2020, the Registrant had 9,848,246 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, particularly those in Asia, 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 this 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”, “we”, “us”, or “our”) 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 our manufacturing and production facilities, we provide 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. Since our acquisition of Schroff Technologies International, Inc. in November 2019, we also manufacture and sell energy-efficient cooling systems and integrated small cell solutions and related components.

We operate 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 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 and information technology OEM markets and other end markets. The Custom Cabling segment designs, manufactures, markets and distributes custom copper and fiber cable assemblies, complex hybrid fiber optic and power solution cables, electromechanical wiring harnesses, wiring harnesses for a broad range of applications in a diverse set of end markets, energy-efficient cooling systems for wireless base stations and remote equipment shelters and custom designed, pole-ready 5G small cell integrated enclosures.

In March 2020, the World Health Organization (the “WHO”) declared coronavirus (“COVID-19”) a pandemic emergency. The COVID-19 pandemic has negatively impacted regional and global economies, disrupted global supply chains, and created significant volatility and disruption of financial markets. The global impact of the outbreak has been rapidly evolving and certain jurisdictions, including those where we have operations, have also reacted by instituting quarantines, restrictions on travel, “shelter in place” rules, social distancing protocols and restrictions on types of business that may continue to operate. While we have been deemed an “essential” business, and therefore have been permitted to continue our operations, the impact of the COVID-19 pandemic has affected both our operations and those of our customers. Our operations have been negatively affected by changes that we had to make on our operating methods and procedures, and by our reduced workforce capacity allowed inside our facilities. Many of our customers and vendors have likewise had temporary closures of their facilities and have otherwise been impacted by changes in their industries. As a result, overall demand for our products has been reduced and certain costs have increased. We have taken measures to protect the health and safety of our employees, and we continue to work with our customers and vendors to minimize potential disruptions in addressing the challenges posed by this global pandemic.

Recent Transactions

On March 15, 2019, we purchased the business and assets of C Enterprises L.P., a California based designer and manufacturer of quality connectivity solutions to telecommunications and data communications distributors.

On November 4, 2019, we purchased Schroff Technologies International, Inc. (“Schrofftech”), a Rhode Island-based manufacturer and marketer of intelligent thermal control systems used by telecommunications companies across the U.S. and Canada, and shrouds for small cell integration and installation.

Strategy

Our overall strategy is to provide our customers with a broad selection of products, rapid and high-quality service, and custom design capabilities, all at competitive prices. Specifically, our strategy is the following:

Provide rapid and flexible design and manufacturing services. Over the past few years we have focused our organization on providing a standardized portfolio, allowing for quick turn readily available products, while having the capabilities, flexible design and manufacturing services to customize our offering to address customer specific requirements or applications.

Competitive pricing. Our manufacturing and distribution arrangements have been designed to lower costs and enable us to offer prices on both our standard and custom manufactured products that are competitive with the marketplace.

Leverage our manufacturing and distribution capabilities and facilities. Our strategy is to operate our five manufacturing and distribution locations to best provide our customers with a competitively priced, high quality product offering delivered with a fast turnaround time. As part of this strategy, we utilize a "one-company" approach to our five production and distribution locations and allocate our resources based on that location's production specialization capabilities, its proximity to the shipment destination, and on other factors. Using this "one-company" approach, our goal is to leverage available capacity and shorten delivery times, while potentially providing lower shipping costs. Two of our five manufacturing and distribution locations are located in California, while the other three are in the Northeast.

Integrate marketing and selling efforts. Our strategy is to integrate and cross-sell the product lines manufactured at, or distributed by our five facilities. We have been integrating the marketing and sales efforts of the five divisions, thereby expanding the number and type of products each division can offer to its existing client base.

Broad range of immediately available connector products. Our strategy is to stock a large selection of connector parts, including parts for older or discontinued products that are available for immediate delivery. As a result, we are able to fill unique connector orders, as well as provide a broad range of standard connector products.

Targeted focus of product lines. Our strategy is to focus on passive products that are integrated into telecommunications, infrastructure and similar products manufactured by others, rather than manufacturing and selling operating components or products. As a result, we no longer manufacture radio modems, no longer provide mobile management solutions and services, and no longer manufacture medical monitoring products. Our product line focus still remains on supporting and leveraging our distribution channels with our core RF Cable & Connectors, Passive DAS, and Quick-Turn Fiber/Copper assemblies offering, while in parallel we continue to expand our portfolio of integrated solutions to address key end customer and market applications.

Increase long-term relationships with customers. Our goal is to establish long-term relationships with the customers who have to date used us for specialized projects by having our solutions built into the customer's product specifications and bills of materials. As we remain focused on maintaining and expanding our national distributor relationships through our dedicated sales and management teams, we have invested in a targeted business development efforts to assist in getting more closely aligned with the requirements of strategic end customers.

Grow through strategic and targeted acquisitions. We will continue to consider strategic acquisitions of companies or technologies that can increase or diversify our customer base, supplement our management team, expand our product offerings, and/or expand our footprint in a relevant market segment.

Operations

We currently conduct operations through our five divisions with our product areas divided into two reporting segments.

RF Connector and Cable Assembly Segment.

Our 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 our headquarters in San Diego, California. 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 a variety of connectivity / communication applications. 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 cable products, the RF Connector division also sells custom connectors specifically designed and manufactured to suit its customers' requirements.

The 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 our connectors obsolete. Accordingly, most connectors that we carry can be marketed for a number of years. Furthermore, because our connector products are not dependent on any single line of products or any market segment, our overall sales of connectors tend to fluctuate less when there are material changes or disruption to a single product line or market segment.

Cable assembly products manufactured and sold by the RF Connector division consist of various types of coaxial cables that are attached to connectors (usually our connectors) for use in a variety of communications applications. Cable assemblies manufactured for the RF Connector division are primarily manufactured at our San Diego, California facilities using state-of-the-art automation equipment and are sold through distributors or directly to major OEM accounts. Our cable assembly portfolio consists of both standard and custom cable assemblies designed for specific customer requirements. We offer a line of cable assemblies with over 100,000 cable product combinations.

We design our connectors at our headquarters in San Diego, California. However, most of the RF connectors are manufactured for us by third-party foreign manufacturers located in Asia.

Custom Cabling Manufacturing and Assembly Segment.

The Custom Cabling segment currently consists of four wholly-owned subsidiaries – three located in the Northeastern U.S and one located in Southern California. C Enterprises, Inc., which the Company acquired in March 2019, and Schrofftech, which was acquired in November 2019, are now part of the Custom Cabling segment. Our plan is to integrate certain aspects of the manufacturing, sales and marketing functions of these divisions so as to better address overlapping market opportunities and to more efficiently manufacture, market, and ship products to our customers.

The four divisions that comprise the current Custom Cabling segment consist of the following:

Cables Unlimited, Inc. Cables Unlimited, Inc. ("Cables Unlimited") is a custom cable manufacturer located in Yaphank, New York, that we 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.

Rel-Tech Electronics, Inc. Rel-Tech Electronics, Inc. ("Rel-Tech") was acquired in June 2015. Rel-Tech's offices and manufacturing facilities are located in Milford, Connecticut. 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.

C Enterprises, Inc. C Enterprises, Inc. ("C Enterprises") is a fiber optic and copper cable manufacturer located in Vista, California. This subsidiary acquired the business and assets of C Enterprises, L.P. on March 15, 2019. C Enterprises 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. C Enterprises designs, develops and manufactures connectivity solutions to telecommunications and data communications distributors.

Schroff Technologies International, Inc. We acquired Schroff Technologies ("Schrofftech") in November 2019. Schrofftech is a Rhode Island based manufacturer and marketer of intelligent thermal cooling control systems, along with pole-ready wireless small cell shrouds and enclosures, custom designed for plug-and-play installation. These products are typically used by telecommunications companies across the U.S. and Canada.

Product Description

We produce a broad offering of interconnect products and assemblies used in telecommunications and a range of other industries. The products that we offer and sell consist of the following:

Connector and Cable Products

We design, manufacture and market a broad range of coaxial connectors, adapters and cable assemblies for-numerous applications in commercial, industrial, automotive, transportation, scientific, aerospace and military markets.

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 our connectors include telecommunications companies, circuit board manufacturers, OEMs, consumer electronics manufacturers, audio and video product manufacturers and installers, and satellite companies. We market 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.

We also design and sell 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 us by outside contractors. Tool products are carried as an accommodation to our customers and have not materially contributed to our revenues.

We market and manufacture cable assemblies in a variety of sizes and combinations of RF coaxial connectors and coaxial cabling. Cabling is purchased from a variety of major unaffiliated suppliers and is assembled predominately with our 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.

We carry 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, we also have some proprietary products, including the CompPro product line, OptiFlex cables, and the Schrofftech telecom shelter cooling and control system products. 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. OptiFlex is a hybrid fiber optic and DC power cabling solution that we designed and manufactured, and the Schrofftech products are energy efficient cooling/temperature control and filtration systems for use in telecom shelters, outdoor enclosures and battery/power rooms.

Fiber Optic Products

Cables Unlimited 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 our Cables Unlimited division, we offer 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 custom designed hybrid fiber optic and DC power cabling solution manufactured 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.

C Enterprises 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. C Enterprises designs, develops and manufactures connectivity solutions to telecommunications and data communications distributors.

Other Cabling Products

We also design, manufacture and sell cable assemblies and wiring harnesses for 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.

Telecommunications Thermal Control Systems and Shrouds

Since our acquisition of Schrofftech in November 2019, we now also manufacture and sell intelligent thermal control systems for outdoor telecommunications equipment. The thermal control systems, which can be controlled offsite using networked software at the telecommunication company's own data center, maintain the interior temperature of telecommunications equipment. Schrofftech has also introduced shrouds for small cell deployments that reduce installation time and improve aesthetics by eliminating the exterior cabling used with current configurations.

Foreign Sales

Net sales to foreign customers accounted for $1,411,000 (or approximately 3%) of our net sales, and $960,000 (or approximately 2%) of our net sales for the fiscal years ended October 31, 2020 and 2019, respectively. The majority of the export sales during these periods were to Canada.

We do not own, or directly operate any manufacturing operations or sales offices in foreign countries.

Distribution and Marketing

We currently sell our products through independent warehousing distributors and through our in-house marketing and sales team. Sales through independent distributors accounted for approximately 55% of our net sales for the fiscal year ended October 31, 2020. Our agreements with most of the distributors are nonexclusive and generally may be terminated by either party upon 30-60 days' written notice. The Company directly 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

We contract with outside third parties for the manufacture of a significant portion of our coaxial connectors. However, virtually all of the RF cable assemblies sold during the fiscal year ended October 31, 2020 were assembled at the International Organization for Standardization (ISO) approved factory in San Diego, California. We procure our raw cable from manufacturers with ISO approved factories in the United States, China and Taiwan. The Company primarily relies on several third-party partners for the manufacture of its coaxial connectors, tools and other passive components and receives bulk cable from multiple manufacturing plants. Although we do not have manufacturing contracts with these manufacturers for our connectors and cable products, we do have long-term purchasing relationships. There are certain risks associated with our dependence on third-party manufacturers for some of our products. See “Risk Factors” below. We have 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.

We manufacture custom cable assemblies, adapters and electromechanical wiring harnesses and other products through Cables Unlimited at its Yaphank, New York manufacturing facility. The Yaphank facility is an ISO approved factory. Cables Unlimited 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 of Rel-Tech is an ISO approved manufacturing facility that is primarily used to manufacture cable assemblies, electromechanical assemblies, wiring harnesses and other similar products.

The Vista, California facility operated by C Enterprises is an ISO approved manufacturing facility that is primarily used to manufacture fiber optic and copper cable assemblies that are backed by Corning Cable Systems’ extended warranty.

The products sold by Schrofftech are designed and manufactured at its ISO approved manufacturing facility in North Kingstown, Rhode Island. Schrofftech’s products are manufactured and tested in accordance with the ETL Listing standards.

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. We believe that the raw materials used in our products are readily available and that we are not currently dependent on any supplier for our raw materials. We do not currently have any long-term purchase or supply agreements with our connector suppliers. The Custom Cabling divisions obtain coaxial connectors from the RF Connector division. We believe there are numerous domestic and international suppliers of other coaxial connectors that we may need for any of our cabling products.

The Cables Unlimited, Rel-Tech, C Enterprises, and Schrofftech divisions purchase largely all of the raw materials used in their products from sources 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, 2020, we employed 271 full-time employees, of whom 54 were in accounting, administration, sales and management, 210 were in manufacturing, distribution and assembly, and seven were engineers engaged in design, engineering and research and development. The employees were based at our facilities in San Diego, California (81 employees), Yaphank, New York (51 employees), Milford, Connecticut (48 employees), Vista, California (79 employees), and North Kingstown, Rhode Island (12 employees). We also occasionally hire part-time employees. We believe that we have a good relationship with our employees.

Patents, Trademarks and Licenses

We own ten U.S. patents related to CompPro Product Line that we 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.

Our Schrofftech subsidiary owns five issued patents on its proprietary telecom shelter cooling and control system technology and its equipment room ventilation controls. Schrofftech has also filed four pending patent applications related to ventilation and control equipment and controls.

The trademarks we own include the “CompPro” registered trademark associated with the compression cable product line and the “OptiFlex™” as a trademark for its hybrid cable wireless tower cable solution. Each of our subsidiaries also use various trademarks (and associated logos and trade names) in their operations, although none of these trademarks have been registered.

Because the RF Connectors division 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 our competitors, we do not believe that our cables and connector business or competitive position is dependent on patent protection.

Under its agreements with Corning Cables Systems LLC, Cables Unlimited and C Enterprises are permitted to advertise that they are Corning Cables System CAH Connections SM Gold Program members.

Warranties and Terms

We warrant our 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 we have 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.

We usually sell to customers on 30-day terms pursuant to invoices and do 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 and C Enterprises are authorized to manufacture optic cable assemblies that are backed by Corning Cables Systems' extended warranty (referred to as the "Gold Certified Warranty").

Competition

The industries in which we operate are highly competitive, and we compete with thousands of companies that range from large multinational corporations, some of which have greater assets and financial resources, to local manufacturers. Competition is generally based on breadth of product offering, product innovation, price, quality, delivery, performance and customer service. In addition, rapid technological changes occurring in the communications industry could also lead to the entry of new competitors of all sizes against whom we may not be able to successfully compete. There can be no assurance that we will be able to compete successfully against existing or new competition, and the inability to do so may result in price reductions, reduced margins, or loss of market share, any of which could have an adverse effect on our business, financial condition and results of operations.

Government Regulations

Our products are designed to meet all known existing or proposed governmental regulations. We believe that we currently meet existing standards for approvals by government regulatory agencies for our principal products.

Our products are Restriction on Hazardous Substances ("RoHS") compliant.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable**.**

ITEM 2. DESCRIPTION OF PROPERTY

We currently lease our corporate headquarters and RF connector and cable assembly manufacturing facilities in San Diego, California. At that location, we lease three buildings, with a total of approximately 21,908 square feet of office, warehouse and manufacturing space, that house our corporate administration, sales and marketing, and engineering departments. The buildings also are used for production and warehousing by our RF Connector segment. We also lease spaces in four other locations in the United States that house the administration offices and manufacturing facilities for our Custom Cabling segment. The table below shows a summary of the square footage of these locations as of October 31, 2020:

	Leased
Milford, CT	13,750
North Kingstown, RI	10,700
Vista, CA	24,014
Yaphank, NY	19,500

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

Market Information. RF Industries, Ltd.'s common stock is listed on the Nasdaq Global Market and is traded under the "RFIL" trading symbol.

Stockholders. As of October 31, 2020, there were 273 holders of our common stock according to the records of our transfer agent, Continental Stock Transfer & Trust Company, New York, New York, not including holders who hold their stock in "street name."

Repurchase of Securities. We did not repurchase any securities during the fiscal year October 31, 2020.

Recent Sales of Unregistered Securities. There were no previously unreported sales of equity securities by us that were not registered under the Securities Act during fiscal 2020.

Dividend Policy. During the past nine years, we have paid dividends on a quarterly basis. This fiscal year, due to the impact of the COVID-19 pandemic on our financial results, our Board terminated these dividend payments after the first two fiscal quarters. The declaration and amount of any actual cash dividend are in the sole discretion of the our Board of Directors and are subject to numerous factors that ordinarily affect dividend policy, including the results of our operations and financial position, as well as general economic and business conditions. Accordingly, if and when any dividends will be declared in the future will be determined by our Board based on the Company's future operations and on the Board's decision regarding the use of any future earnings.

EQUITY COMPENSATION PLAN INFORMATION

The following table provides information as of October 31, 2020 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)
2010 Stock Incentive Plan	778,143	$ 4.67	- (1)
2020 Equity Incentive Plan	10,000	$ 4.66	1,197,399
Total	788,143	$ 4.67	1,197,399

(1) The RF Industries, Ltd. 2010 Stock Incentive Plan expired on March 8, 2020. Accordingly, additional equity incentive awards cannot be granted under this plan.

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 us to make significant estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosure of contingent assets and liabilities. We evaluate our estimates, including those related to bad debts, inventory reserves and contingencies on an ongoing basis. We base our 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

On November 1, 2018, we adopted Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (Topic 606), (“ASC 606”) applying the modified retrospective method. The core principle of ASC 606 is that revenue should be recorded in an amount that reflects the consideration to which we expect to be entitled in exchange for goods or services promised to customers. Under ASC 606, we follow a five-step model to: (1) identify the contract with our customer; (2) identify our performance obligations in our contract; (3) determine the transaction price for our contract; (4) allocate the transaction price to our performance obligations; and (5) recognize revenue when (or as) each performance obligation is satisfied. In accordance with this accounting principle, we recognize revenue using the output method at a point in time when finished goods have been transferred to the customer and there are no other obligations to customers after the title of the goods have transferred. Title of goods are transferred based on shipping terms for each customer – for shipments with terms of FOB Shipping Point, title is transferred upon shipment; for shipments with terms of FOB Destination, title is transferred upon delivery.

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, we periodically review our 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 us to take write-offs that would affect our net worth and future earnings.

Allowance for Doubtful Accounts

We record our allowance for doubtful accounts based upon our assessment of various factors. We consider historical experience, the age of the accounts receivable balance, credit quality of our customers, current economic conditions and other factors that may affect a customer’s ability to pay.

Long-Lived Assets Including Goodwill

We assess 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. We measure 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.

We amortize our intangible assets with definite useful lives over their estimated useful lives and reviews these assets for impairment.

We test our 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.

Income Taxes

We record 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. We record a valuation allowance to reduce deferred tax assets to the amount that is believed more likely than not to be realized.

We account 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. We recognize 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 income taxes payable in our consolidated balance sheets. See Note 8 to the Consolidated Financial Statements included in this Report for more information on our 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 our financial condition and operating results.

Stock-based Compensation

We use the Black-Scholes model to value the stock option grants. This valuation is affected by our 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, we 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. We aggregate our operating divisions into segments that 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. We have two reportable segments – the RF Connector and Cable Assembly ("RF Connector") segment and the Custom Cabling Manufacturing and Assembly ("Custom Cabling") segment – based upon this evaluation.

In the fiscal years covered by this Annual Report, the RF Connector segment was comprised of one division, while the Custom Cabling segment was comprised of four divisions. The four divisions that met the quantitative thresholds for segment reporting in the fiscal year ended October 31, 2020 were the RF Connector and Cable Assembly division, Cables Unlimited, Rel-Tech, C Enterprises and Schrofftech subsidiaries.

For the year ended October 31, 2020, most of our revenues were generated from the Custom Cabling segment from its sale of fiber optic cable, copper cabling, custom patch cord assemblies and wiring harnesses This segment sells customized cable assemblies and wiring harnesses that are integrated into customers' products, as well as fiber optic cables used in the build out of wireless carrier 4G and 5G networks. Because of the decrease in capital expenditures by carriers as a result of COVID-19, Custom Cabling sales decreased in fiscal 2020, and the percentage of our revenues generated by the Custom Cabling segment decreased from 75% of our total sales in fiscal 2019 to 66% for the fiscal year ended October 31, 2020.

Revenues from the RF Connector segment were generated from the sales of RF connector products and connector cable assemblies and accounted for 34% of our total sales for the fiscal year ended October 31, 2020. This segment, which historically produces the largest margins of the five production sites, is known for its quick turnaround of high quality customized solutions in the form of cable assemblies.

On March 15, 2019, through C Enterprises, Inc. ("C Enterprises"), our newly formed subsidiary, we purchased the business and assets of C Enterprises L.P., a California based designer and manufacturer of quality connectivity solutions to telecommunications and data communications distributors. In consideration for the C Enterprises business and assets, we paid $600,000 in cash and assumed certain liabilities. The results of C Enterprises' operations subsequent to March 15, 2019 have been included in the results of the Custom Cabling segment. Costs related to the acquisition of C Enterprises were approximately $100,000 and have been expensed as incurred and categorized in selling and general expenses. For the fiscal year ended October 31, 2020, C Enterprises contributed $10.9 million of revenue.

On November 4, 2019, we purchased all of the issued and outstanding shares of Schroff Technologies International, Inc. ("Schrofftech") from DRC Technologies, Inc., an unaffiliated party. Based in Rhode Island, Schrofftech is a manufacturer and marketer of intelligent thermal control systems used by telecommunications companies across the U.S. and Canada, and shrouds for small cell integration and installation. We paid $4,000,000 in cash at the closing, of which $900,000 was deposited into two separate escrow accounts for a period of one year and two years, respectively, as security for any indemnification claims we may have against the seller. In addition to the cash paid at the closing, we agreed to pay up to an additional $2,400,000 as an earn-out payment if Schrofftech achieves certain adjusted earnings before interest, taxes, depreciation and amortization ("EBITDA") targets during the two-year period following the closing. The results of Schrofftech's operations have been included in the results of the Custom Cabling segment. Costs related to the acquisition of Schrofftech were approximately $151,000 and have been expensed as incurred and categorize in selling and general expenses. For the fiscal year ended October 31, 2020, Schrofftech contributed $4.3 million of revenue.

In March 2020, the World Health Organization (the "WHO") declared coronavirus ("COVID-19") a pandemic emergency. The COVID-19 pandemic has negatively impacted regional and global economies, disrupted global supply chains, and created significant volatility and disruption of financial markets. The global impact of the outbreak has been rapidly evolving and certain jurisdictions, including those where we have operations, have also reacted by instituting quarantines, restrictions on travel, "shelter in place" rules, social distancing protocols and restrictions on types of business that may continue to operate. While we have been deemed an "essential" business, and therefore have been permitted to continue our operations, the impact of the COVID-19 pandemic has affected both our operations and those of our customers. Our operations have been negatively affected by partial shutdowns of our facilities, by changes that we had to make on our operating methods and procedures, and by our reduced workforce as many of our employees stayed at home. Many of our customers and vendors have likewise had temporary closures of their facilities and have otherwise been impacted by changes in their industries. As a result, overall demand for our products has been reduced, and certain costs have increased. We have taken measures to protect the health and safety of our employees, and we continue to work with our customers and vendors to minimize potential disruptions in addressing the challenges posed by this global pandemic.

The extent of the impact of the COVID-19 pandemic on our operational and financial performance will depend on future developments, including the duration and spread of the pandemic and related actions taken by domestic and international jurisdictions to prevent disease spread, all of which are uncertain and cannot be predicted. The outbreak impacted our performance for the fiscal year ended October 31, 2020. We currently expect the decline caused by the economic slowdown to persist through at least the first quarter of 2021. The operations of our Cables Unlimited subsidiary in Long Island, New York, was particularly affected as many employees stayed at home and as local customers shut down or otherwise delayed, deferred or cancelled orders for our products. Because of the impact that COVID-19 has on our Northeastern operations, in May 2020 we applied for and received loans under the Paycheck Protection Program ("PPP") of the CARES Act totaling approximately $2.8 million ("PPP Loans"). The funds from the PPP Loans were used to retain employees, maintain payroll and benefits, and make lease and utility payments. Without the PPP Loans, we would have made material reductions in our workforce (particularly at Cables Unlimited). We anticipate that most of the PPP Loans will be eligible for forgiveness in accordance with the provisions of the CARES Act. To the extent not forgiven, the PPP Loans have a two-year term, a fixed interest rate of 1%, and principal and interest payments are deferred for six months.

We considered the impact of the COVID-19 related economic slowdown on our evaluation of goodwill impairment indicators as of October 31, 2020. Although no goodwill impairment indicators were identified, it is possible that impairments could emerge as the impact of the crisis becomes clearer, and those impairment losses could be material. The impact of the COVID-19 pandemic was considered in the annual assessment at fiscal year ended October 31, 2020.

Financial Condition

The following table presents certain key measures of financial condition as of October 31, 2020 and 2019 (in thousands, except percentages):

	2020			2019		
		Amount	% Total Assets		Amount	% Total Assets
Cash and cash equivalents	$	15,797	38.5%	$	12,540	33.3%
Current assets		30,865	75.2%		33,660	89.3%
Current liabilities		6,901	16.8%		6,080	16.1%
Working capital		23,964	58.4%		27,580	73.2%
Property and equipment, net		809	2.0%		839	2.2%
Total assets		41,059	100.0%		37,700	100.0%
Stockholders' equity		32,064	78.1%		31,533	83.6%

Liquidity and Capital Resources

We believe that our existing current assets and the amount of cash we anticipate we will generate from current operations will be sufficient to fund our anticipated liquidity and capital resource needs for at least twelve months from the date of this Annual Report.

As of October 31, 2020, we had a total of $15.8 million of cash and cash equivalents compared to a total of $12.5 million of cash and cash equivalents as of October 31, 2019. As of October 31, 2020, we had working capital of $24.0 million and a current ratio of approximately 4.5:1. Despite a decrease in sales as a result of the COVID-19 pandemic, our cash and cash equivalents increased compared to our cash and cash equivalents as of October 31, 2019 due to the receipt of the PPP Loans, and the timing of collections of outstanding accounts receivable, resulting in a decrease in the accounts receivable balance by $6.5 million, from $12.2 million as of October 31, 2019 to $5.7 million as of October 31, 2020. As of October 31, 2020, we had $30.9 million in current assets and $6.9 million in current liabilities.

As of October 31, 2020, our backlog was $6.3 million compared to a backlog of $6.1 million as of October 31, 2019. Since purchase orders are submitted from customers based on the timing of their requirements, our 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 we have not historically experienced material cancellations of purchase orders.

We generated cash of $3.3 million during the fiscal year ended October 31, 2020 due largely to the receipt of the PPP Loans ($2.8 million) and the collection of accounts receivable ($6.8 million) that were outstanding as of October 31, 2019. The cash received from the PPP Loans and collected from our accounts receivables, and the increase in cash from non-cash credits from depreciation and amortization ($1.0 million) and from stock-based compensation expense ($0.6 million), was partially offset by the net cash used in the purchase of Schrofftech ($3.9 million), net loss of $0.1 million, and a decrease in accounts payable ($1.0 million) and accrued expenses ($1.4 million) primarily due to the payout of prior year's bonuses. In addition, during the fiscal year ended October 31, 2020, we received $0.4 million from the exercise of stock options and paid out $0.4 million in dividends. The current year dividends were declared before the full impact of the COVID-19 pandemic was realized, and our Board of Directors stopped the dividend payment when the adverse effects of the COVID-19 pandemic on our operations became clear.

We do not anticipate needing material additional capital equipment in the next twelve months. In the past, we have financed some of our 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. We also believe that based on our current financial condition, our current backlog of unfulfilled orders and our anticipated future operations, we would be able to finance its expansion, if necessary.

As of October 31, 2020, aside from the PPP Loans, we had no other outstanding indebtedness for borrowed funds. See Note 11 of the Notes to Consolidated Financial Statements for further discussion on the PPP Loans. In November 2019, we entered into an agreement for a revolving line of credit ("LOC") in the amount of $5.0 million from Bank of America, N.A. Amounts outstanding under the LOC shall bear interest at a rate of 2.0% plus LIBOR Daily Floating Rate ("base interest rate"), with interest payable on the first day of each month. Borrowings under the LOC are secured by a security interest in certain assets of the Company. The LOC contains certain loan covenants. Failure to maintain the loan covenants may constitute an event of default, which could result in all outstanding amounts of principal and interest becoming immediately due and payable. All outstanding principal and interest is due and payable on December 1, 2021. As of October 31, 2020, we were in compliance with all loan covenants. Additionally, as of the date of this report, we have not used the LOC and accordingly, the entire amount of the LOC is currently available.

From time to time, we may undertake acquisitions of other companies or product lines in order to diversify our product and solutions offerings and customer base. Conversely, we may undertake the disposition of a division or product line due to changes in our business strategy or market conditions. Acquisitions may require the outlay of cash, which may reduce our liquidity and capital resources while dispositions may increase our cash position, liquidity and capital resources. On November 4, 2019, we purchased the business of Schroff Technologies International, Inc., a Rhode Island-based manufacturer and marketer of intelligent thermal control systems used by telecommunications companies across the U.S. and Canada, and shrouds for small cell integration and installation. At the closing, in consideration for Schrofftech, we paid the sellers $4 million in cash, and, if certain financial targets are met by Schrofftech over a two-year period, agreed to pay an additional cash earn-out payment of up to $2.4 million.

Results of Operations

The following summarizes the key components of our consolidated results of operations for the fiscal years ended October 31, 2020 and 2019 (in thousands, except percentages):

	2020		2019	
	Amount	% of Net Sales	Amount	% of Net Sales
Net sales	$ 43,044	100.0%	$ 55,325	100.0%
Cost of sales	31,478	73.1%	39,688	71.7%
Gross profit	11,566	26.9%	15,637	28.3%
Engineering expenses	1,989	4.6%	1,468	2.7%
Selling and general expenses	9,980	23.2%	9,710	17.6%
Operating (loss) income	(403)	-0.9%	4,459	8.1%
Other (loss) income	(45)	-0.1%	98	0.2%
(Loss) income before provision for income taxes	(448)	-1.0%	4,557	8.2%
(Benefit) provision for income taxes	(367)	-0.9%	1,036	1.9%
Consolidated net (loss) income	(81)	-0.2%	3,521	6.4%

Net sales for the year ended October 31, 2020 ("fiscal 2020") decreased by $12.3 million (or 22%) to $43.0 million, as compared to net sales of $55.3 million for the year ended October 31, 2019 ("fiscal 2019"). The decrease in net sales is attributable to a decrease in net sales at the Custom Cabling segment, which decreased by $13.1 million, or 32%, to $28.5 million compared to $41.6 million in fiscal 2020. The decrease was primarily in our project-based business which declined following the slowdown in carrier capital expenditure spending. The project-based sales decrease was partially offset by additional sales from the newly acquired Schrofftech and C Enterprises subsidiaries. The sales decrease in net sales at the Custom Cabling segment was partially offset by an increase in net sales at the RF Connector segment. Net sales for fiscal 2020 at the RF Connector segment increased by $0.9 million, or 6%, to $14.6 million as compared to $13.7 million for fiscal 2019 as business from the Company's distribution channel increased.

Gross profit for fiscal 2020 declined $4.1 million to $11.6 million, and gross margins decreased to 26.9% of sales from 28.3% of sales in fiscal 2019. The decrease in gross profit and gross margins was due to (i) lower sales in the project-based business that resulted in lower coverage of fixed production costs, (ii) product mix at the Custom Cabling segment, and (iii) increased sales at the C Enterprises subsidiary, whose gross margins are lower than the blended margins of our other divisions.

Engineering expenses increased $0.5 million to $2.0 million for fiscal 2020 compared to $1.5 million in fiscal 2019 primarily due to the absorption of the engineering costs of the newly acquired Schrofftech (which we did not own in fiscal 2019) and a full twelve months of engineering costs at C Enterprises (whose expenses were only included in 2019 following the acquisition of this subsidiary on March 15, 2019). Engineering expenses represent costs incurred relating to the ongoing development of new products.

Selling and general expenses increased $0.3 million to $10.0 million (23% of sales) in fiscal 2020 compared to $9.7 million (18% of sales) in fiscal 2019 largely due to the additional selling and general expenses of the recently acquired Schrofftech and C Enterprises subsidiaries. Additionally, total selling and general expenses in fiscal 2020 included (i) $0.7 million of amortization expense, an increase of $0.4 million over last year as a result of the acquisition of Schrofftech, (ii) $0.6 million in stock-based compensation expense, an increase of $0.2 million over last year due in part to option grants to new hires and the expense related to accelerated vesting of options under a departing officer's severance agreement, and (iii) $0.2 million of severance obligations. These costs were partially offset with a $0.9 million valuation decrease in the Schrofftech earn-out liability.

For fiscal 2020, pretax (loss) income for the Custom Cabling segment and the RF Connector segment was $(2.4) million and $2.0 million, respectively, as compared to $3.6 million and $0.9 million for fiscal 2019. The pretax loss at the Custom Cabling segment in fiscal 2020 was primarily due to the decrease in project-based businesses resulting from the slowdown in carrier spending.

The provision or benefit for income taxes was $(0.4) million for an effective tax rate of 81.9% and $1.0 million for an effective tax rate of 22.7% for fiscal 2020 and 2019, respectively. The fiscal 2020 effective tax rate differed from the statutory federal rate of 21% primarily as a result of the benefit from research and development tax credits and tax benefits associated with share-based compensation.

For fiscal 2020, net loss was $(0.1) million and fully diluted loss per share was $0.01 per share as compared to a net income of $3.5 million and fully diluted earnings per share of $0.36 per share for fiscal 2019.

RF INDUSTRIES, LTD. AND SUBSIDIARIES

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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, 2020 and 2019, 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, 2020, 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, 2020 and 2019, and the results of its operations and its cash flows for each of the years in the two-year period ended October 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Company has changed its method of accounting for leases as of November 1, 2019 due to the adoption of Accounting Standards Codification Topic 842, Leases.

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 29, 2020

RF INDUSTRIES, LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
OCTOBER 31, 2020 AND 2019
(In thousands, except share and per share amounts)

	2020	2019
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 15,797	$ 12,540
Trade accounts receivable, net of allowance for doubtful accounts of $66 and $23, respectively	5,669	12,190
Inventories	8,586	8,245
Other current assets	813	685
TOTAL CURRENT ASSETS	30,865	33,660
Property and equipment:		
Equipment and tooling	3,819	3,602
Furniture and office equipment	1,073	998
	4,892	4,600
Less accumulated depreciation	4,082	3,761
Total property and equipment	810	839
Operating lease right of use assets, net	1,421	-
Goodwill	2,467	1,340
Amortizable intangible assets, net	3,181	1,092
Non-amortizable intangible assets	1,174	657
Deferred tax assets	834	44
Other assets	70	68
TOTAL ASSETS	$ 40,822	$ 37,700

RF INDUSTRIES, LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
OCTOBER 31, 2020 AND 2019
(In thousands, except share and per share amounts)

	2020	2019
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 1,475	$ 2,406
Accrued expenses	2,573	3,653
Current portion of PPP Loan	1,699	-
Income taxes payable	43	21
Other current liabilities	874	-
TOTAL CURRENT LIABILITIES	6,664	6,080
Operating lease liabilities	635	-
PPP Loan	1,089	-
Other long-term liabilities	370	87
TOTAL LIABILITIES	8,758	6,167
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common stock - authorized 21,250,000 and 20,000,000 shares of $0.01 par value; 9,814,118 and 9,462,267 shares issued and outstanding at October 31, 2020 and October 31, 2019, respectively	98	95
Additional paid-in capital	22,946	21,949
Retained earnings	9,020	9,489
TOTAL STOCKHOLDERS' EQUITY	32,064	31,533
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 40,822	$ 37,700

See Notes to Consolidated Financial Statements.

RF INDUSTRIES, LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED OCTOBER 31, 2020 AND 2019
(In thousands, except share and per share amounts)

	2020	2019
Net sales	$ 43,044	$ 55,325
Cost of sales	31,478	39,688
Gross profit	11,566	15,637
Operating expenses:		
Engineering	1,989	1,468
Selling and general	9,980	9,710
Total operating expense	11,969	11,178
Operating (loss) income	(403)	4,459
Other (loss) income	(45)	98
(Loss) income before (benefit) provision for income taxes	(448)	4,557
(Benefit) provision for income taxes	(367)	1,036
Consolidated net (loss) income	$ (81)	$ 3,521
(Loss) earnings per share		
Basic	$ (0.01)	$ 0.38
Diluted	$ (0.01)	$ 0.36
Weighted average shares outstanding		
Basic	9,678,822	9,358,836
Diluted	9,678,822	9,854,604

See Notes to Consolidated Financial Statements.

RF INDUSTRIES, LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED OCTOBER 31, 2020 AND 2019
(In thousands, except share amounts)

	Common Stock		Additional Paid-In	Retained	
	Shares	Amount	Capital	Earnings	Total
Balance, November 1, 2018	9,291,201	$ 93	$ 20,974	$ 6,716	$ 27,783
Exercise of stock options	171,066	2	658	-	660
Stock-based compensation expense	-	-	317	-	317
Dividends	-	-	-	(748)	(748)
Net income	-	-	-	3,521	3,521
Balance, October 31, 2019	9,462,267	$ 95	$ 21,949	$ 9,489	$ 31,533
Exercise of stock options	241,209	2	443	-	445
Stock-based compensation expense	-	-	473	-	473
Issuance of restricted stock	97,451	1	(1)	-	-
Issuance of common shares	13,191	-	82	-	82
Dividends	-	-	-	(388)	(388)
Net income	-	-	-	(81)	(81)
Balance, October 31, 2020	9,814,118	$ 98	$ 22,946	$ 9,020	$ 32,064

See Notes to Consolidated Financial Statements.

RF INDUSTRIES, LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED OCTOBER 31, 2020 AND 2019
(In thousands)

	2020	2019
OPERATING ACTIVITIES:		
Consolidated net (loss) income	$ (81)	$ 3,521
Adjustments to reconcile consolidated net income to net cash provided by (used in) operating activities:		
Bad debt expense	16	21
Depreciation and amortization	1,014	563
Stock-based compensation expense	556	317
Deferred income taxes	(790)	(43)
Changes in operating assets and liabilities:		
Trade accounts receivable	6,775	(6,640)
Inventories	442	(657)
Other current assets	(113)	218
Right of use asset	88	-
Other long-term assets	(2)	(1)
Accounts payable	(1,040)	106
Accrued expenses	(1,374)	(211)
Income tax payable	22	21
Other long-term liabilities	(966)	75
Net cash provided by (used in) operating activities	4,547	(2,710)
INVESTING ACTIVITIES:		
Capital expenditures	(235)	(538)
Purchase of C Enterprises, net of cash acquired ($143)	-	(458)
Purchase of Schrofftech, net of cash acquired ($99)	(3,901)	-
Net cash used in investing activities	(4,136)	(996)
FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	445	660
Dividends paid	(388)	(748)
Proceeds from PPP Loan	2,789	-
Net cash provided by (used in) financing activities	2,846	(88)
Net increase (decrease) in cash and cash equivalents	3,257	(3,794)
Cash and cash equivalents, beginning of year	12,540	16,334
Cash and cash equivalents, end of year	$ 15,797	$ 12,540
Supplemental cash flow information – income taxes paid	$ 415	$ 739

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 four wholly-owned subsidiaries (collectively, hereinafter the "Company", "we", "us", or "our"), 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, 2020, we classified our operations into the following five 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; (iii) Rel-Tech Electronics, Inc., the subsidiary that designs and manufacturers cable assemblies and wiring harnesses for blue chip industrial, oilfield, instrumentation and military customers; (iv) C Enterprises, Inc., the subsidiary that designs and manufactures quality connectivity solutions to telecommunications and data communications distributors; and (v) Schroff Technologies International, Ltd., the subsidiary that manufactures and markets intelligent thermal control systems used by telecommunications companies across the U.S. and Canada, and shrouds for small cell integration and installation. The Cables Unlimited and C Enterprises divisions are Corning Cables Systems CAH Connections SM Gold Program members that are 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"), Rel-Tech Electronics, Inc. ("Rel-Tech"), C Enterprises, Inc. ("C Enterprises"), and Schroff Technologies International, Ltd. ("Schrofftech"), wholly-owned subsidiaries of RF Industries, Ltd. All intercompany balances and transactions have been eliminated in consolidation.

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

On November 1, 2018, we adopted Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606), ("ASC 606") applying the modified retrospective method. The core principle of ASC 606 is that revenue should be recorded in an amount that reflects the consideration to which we expect to be entitled in exchange for goods or services promised to customers. Under ASC 606, we follow a five-step model to: (1) identify the contract with our customer; (2) identify our performance obligations in our contract; (3) determine the transaction price for our contract; (4) allocate the transaction price to our performance obligations; and (5) recognize revenue when (or as) each performance obligation is satisfied. In accordance with this accounting principle, we recognize revenue using the output method at a point in time when finished goods have been transferred to the customer and there are no other obligations to customers after the title of the goods have transferred. Title of goods are transferred based on shipping terms for each customer – for shipments with terms of FOB Shipping Point, title is transferred upon shipment; for shipments with terms of FOB Destination, title is transferred upon delivery.

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 three to five 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 we perform 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, 2020 and 2019. We considered the impact of the COVID-19 related economic slowdown on our evaluation of goodwill impairment indicators as of October 31, 2020 as well as consideration of positive factors including backlog and sell-through subsequent to October 31, 2020. Although no goodwill impairment indicators were identified, it is possible that impairments could emerge as the impact of the crisis becomes clearer, and those impairment losses could be material.

On June 15, 2011, we completed the acquisition of Cables Unlimited. Goodwill related to this acquisition is included within the Cables Unlimited reporting unit. As of May 19, 2015, we completed the 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, we completed the acquisition of Rel-Tech. Goodwill related to this acquisition is included within the Rel-Tech reporting unit. On March 15, 2019, we completed the acquisition of C Enterprises; however, no goodwill resulted from this transaction. On November 4, 2019, we completed the acquisition of Schrofftech. Goodwill related to this acquisition is included within the Schrofftech reporting unit.

Long-lived assets

We assess 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. We measure 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. We have made no material adjustments to our long-lived assets in any of the years presented.

We amortize our intangible assets with definite useful lives over their estimated useful lives and review these assets for impairment.

In addition, we test 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, 2020 or 2019.

Fair value measurement

We measure at fair value certain financial assets and liabilities. Fair value is defined as the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. 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 our 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.

As of October 31, 2020 and 2019, the carrying amounts reflected in the accompanying consolidated balance sheets for cash and cash equivalents, accounts receivable, accounts payable, and the current portion of the PPP Loan approximated their carrying value due to their short-term nature.

Intangible assets

Intangible assets consist of the following as of October 31, 2020 and 2019 (in thousands):

	2020	2019
Amortizable intangible assets:		
Non-compete agreement (estimated life 5 years)	$ 423	$ 200
Accumulated amortization	(245)	(200)
	178	-
Customer relationships (estimated lives 7 - 15 years)	5,058	2,879
Accumulated amortization	(2,367)	(1,884)
	2,691	995
Backlog (estimated life 1 - 2 years)	287	134
Accumulated amortization	(266)	(134)
	21	-
Patents (estimated life 14 years)	368	142
Accumulated amortization	(77)	(45)
	291	97
Totals	$ 3,181	$ 1,092
Non-amortizable intangible assets:		
Trademarks	$ 1,174	$ 657

Amortization expense was $692,000 and $275,000 for the years ended October 31, 2020 and 2019. The weighted-average amortization period for the amortizable intangible assets is 8.39 years.

There was no impairment to trademarks for the years ended October 31, 2020 and 2019.

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

Year ending October 31,	Amount
2021	$ 443
2022	374
2023	364
2024	364
2025	320
Thereafter	1,316
Total	$ 3,181

Advertising

We expense the cost of advertising and promotions as incurred. Advertising costs charged to operations were approximately $295,000 and $422,000 in 2020 and 2019, respectively.

Research and development

Research and development costs are expensed as incurred. Our 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, 2020 and 2019, we recognized $1,989,000 and $1,468,000 in engineering expenses, respectively.

Income taxes

We account 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.

We had adopted the provisions of ASC 740-10, which clarifies the accounting for uncertain tax positions. ASC 740-10 requires that we 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. We recognize 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 income taxes payable in our 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, we recognize 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. We issue previously unissued common shares upon the exercise of stock options.

For the fiscal years ended October 31, 2020 and 2019, charges related to stock-based compensation amounted to approximately $556,000 and $317,000, respectively. For the fiscal years ended October 31, 2020 and 2019, all stock-based compensation is classified in selling and general and engineering expense.

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 upon the exercise of stock options in any period for the years ended October 31, 2020 and 2019, that were not included in the computation because they were anti-dilutive, totaled 402,838 and 124,097, respectively.

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

	2020	2019
Numerators:		
Consolidated net income (A)	$ (81,000)	$ 3,521,000
Denominators:		
Weighted average shares outstanding for basic earnings per share (B)	9,678,822	9,358,836
Add effects of potentially dilutive securities - assumed exercise of stock options	-	495,768
Weighted average shares outstanding for diluted earnings per share (C)	9,678,822	9,854,604
Basic earnings per share (A)/(B)	$ (0.01)	$ 0.38
Diluted earnings per share (A)/(C)	$ (0.01)	$ 0.36

Recent accounting standards

Recently issued accounting pronouncements not yet adopted:

In January 2017, the FASB issued ASU 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. We are evaluating the adoption of this new standard compared to the previous accounting policies and have not identified any material impact on our Consolidated Financial Statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses, which requires a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. The guidance is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. We are currently evaluating the impact the adoption of this new standard will have on our consolidated financial statements.

Recently issued accounting pronouncements adopted:

In May 2014, the FASB issued ASC 606. This guidance superseded Topic 605, Revenue Recognition, in addition to other industry-specific guidance. 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 was 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. On November 1, 2018, the Company adopted ASC 606 applying the modified retrospective method. The Company has performed a review of ASC 606 as compared to its previous accounting policies for our product revenue and did not identify any material impact to revenue recognized. Therefore, there was no adjustment to retained earnings for a cumulative effect. The necessary changes to business processes and controls to effectively review and account for any new contracts under this standard have been implemented.

In February 2016, the FASB issued ASU No. 2016-02, Leases. This ASU requires lessees to recognize lease assets and lease liabilities for those leases classified as operating leases under the current GAAP. Under ASU 2016-02, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, which includes a number of optional practical expedients. We adopted the standard as of November 1, 2019, the beginning of our fiscal 2020, applying the modified retrospective method. We elected the package of practical expedients permitted under the transition guidance with the new standard, which among other things, allows us to carryforward the historical lease classification. We elected the policy which allows us to combine the nonlease components with its related lease components rather than separating, and the policy election to keep leases with an initial term of 12 months or less off of the balance sheet. We have recognized those lease payments in the consolidated statements of operations on a straight-line basis over the lease term. The adoption of the standard resulted in a material recognition of additional right of use assets and lease liabilities of approximately $2.3 million and $2.4 million, respectively, as of November 1, 2019, but did not materially affect our consolidated net income.

Note 2 – Business Acquisition

C Enterprises, Inc.

On March 15, 2019, through C Enterprises, Inc. ("C Enterprises"), our newly formed subsidiary, we purchased the business and assets of C Enterprises L.P., a California based designer and manufacturer of quality connectivity solutions to telecommunications and data communications distributors. In consideration for the C Enterprises business and assets, we paid $600,000 in cash and assumed certain liabilities. The acquisition was determined not to be material and was accounted for in accordance with the acquisition method of accounting, and the acquired assets and assumed liabilities were recorded at their estimated fair values in accordance with ASC 805, Business Combinations. There were no intangible assets identified as part of the acquisition.

The results of C Enterprises' operations subsequent to March 15, 2019 have been included in the results of the Custom Cabling Manufacturing and Assembly segment ("Custom Cabling segment") as well as in the consolidated statements of operations. Costs related to the acquisition of C Enterprises were approximately $100,000 and have been expensed as incurred in fiscal 2019 and categorized in selling and general expenses. For the year ended October 31, 2020, C Enterprises contributed revenue of $10.9 million.

The following table summarizes the components of the purchase price at fair value at March 15, 2019:

Cash consideration paid	$	600,000
Total purchase price	$	600,000

The following table summarizes the allocation of the estimated purchase price at fair value at March 15, 2019:

Current assets	$	2,008,000
Fixed assets		30,000
Other assets		18,000
Non-interest bearing liabilities		(1,456,000)
Net assets	$	600,000

Schroff Technologies International, Inc.

On November 4, 2019, we purchased the business of Schroff Technologies International, Inc. ("Schrofftech"), a Rhode Island-based manufacturer and marketer of intelligent thermal control systems used by telecommunications companies across the U.S. and Canada, and shrouds for small cell integration and installation. At the closing, in consideration for the Schrofftech business, we paid the sellers $4 million in cash, and, if certain financial targets are met by Schrofftech over a two-year period, agreed to pay additional cash earn-out payments of up to $2.4 million.

The acquisition was accounted for as an acquisition of a business in accordance with the acquisition method of accounting. The acquired assets and assumed liabilities have been recorded at their estimated fair values. We determined the estimated fair values with the assistance of appraisals or valuations performed by an independent third-party specialist. Schrofftech serves the high growth wireless, telecom and cable markets. All manufacturing operations are performed at Schrofftech's facilities in Rhode Island. The Schrofftech business allows us to diversify the types of services provided for our customers in these markets. All manufacturing operations are performed at Schrofftech's facilities in Rhode Island.

Although the closing occurred on November 4, 2019, the acquisition of Schrofftech is deemed to have become effective for financial accounting purposes as of November 1, 2019. Accordingly, Schrofftech's financial results have been included in the results of the Custom Cabling segment as well as in the consolidated statements of operations. Total costs related to the acquisition of Schrofftech were approximately $151,000, of which $108,000 was incurred in fiscal 2019 and $43,000 was incurred in fiscal 2020. All acquisition-related costs have been expensed as incurred and categorized in selling and general expenses. For the year ended October 31, 2020, Schrofftech contributed revenue of $4.3 million.

The following table summarizes the components of the purchase price at fair values at November 1, 2019:

Cash consideration paid	$	4,000,000
Earn-out liability		1,249,000
Total purchase price	$	5,249,000

The following table summarizes the allocation of the purchase price at fair value at November 1, 2019:

Current assets	$	1,168,000
Fixed assets		58,000
Intangible assets		3,299,000
Goodwill		1,127,000
Non-interest bearing liabilities		(403,000)
Net assets	$	5,249,000

The following unaudited pro forma financial information presents the combined operating results of the Company, C Enterprises, and Schrofftech as if both acquisitions had occurred as of the beginning of the earliest period presented. Pro forma data is subject to various assumptions and estimates and is presented for informational purposes only. This pro forma data does not purport to represent or be indicative of the consolidated operating results that would have been reported had the transaction been completed as described herein, and the data should not be taken as indicative of future consolidated operating results.

Unaudited pro forma financial information assuming the acquisition of C Enterprises and Schrofftech as of November 1, 2018 is presented in the following table (in thousands):

		Fiscal Year Ended October 31, 2019
Revenue	$	67,096
Net income		4,815
Earnings per share		
Basic	$	0.51
Diluted	$	0.49
Weighted average shares outstanding		
Basic		9,358,836
Diluted		9,854,604

Note 3 – Concentrations of credit risk

Financial instruments which potentially subject us to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. We maintain our cash and cash equivalents with high-credit quality financial institutions. At October 31, 2020, we had cash and cash equivalent balances in excess of federally insured limits in the amount of approximately $14.2 million.

Two customers, both distributors, accounted for approximately 14% and 12% of net sales for the year ended October 31, 2020. These same two distributors had accounts receivable balances that accounted each for 12% of the total net accounts receivable balance at October 31, 2020. For the year ended October 31, 2019, one of these distributors and a wireless carrier accounted for approximately 19% and 23% of net sales. The wireless carrier's accounts receivable balance accounted for approximately 56% of the total net accounts receivable balance at October 31, 2019. Although these customers have been on-going major customers of the Company, the written agreement with these customers do not have any minimum purchase obligations and they could stop buying our products at any time and for any reason. A reduction, delay or cancellation of orders from these customers or the loss of these customers could significantly reduce our 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):

	2020	2019
Raw materials and supplies	$ 4,410	$ 3,576
Work in process	196	791
Finished goods	3,980	3,878
Totals	$ 8,586	$ 8,245

No vendor accounted for more than 10% of inventory purchases for the fiscal year ended October 31, 2020, compared to two vendors who accounted for 13% and 19% of inventory purchases during the fiscal year ended October 31, 2019. We have arrangements with these vendors to purchase products based on purchase orders that we periodically issue.

Note 5 – Other current assets

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

	2020	2019
Prepaid expense	$ 393	$ 346
Other	420	339
Totals	$ 813	$ 685

Note 6 – Accrued expenses and other long-term liabilities

Accrued expenses consist of the following (in thousands):

	2020	2019
Wages payable	$ 1,506	$ 1,591
Accrued receipts	518	1,683
Other current liabilities	549	379
Totals	$ 2,573	$ 3,653

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

The purchase agreement for the Schrofftech acquisition provides for earn-out payments of up to $2,400,000, which is earned through October 31, 2021. The initial earn-out liability was valued at its fair value using an option pricing based approach with a risk-neutral framework using Black Scholes due to the option-like nature of the earn-out payout structure. The earn-out was and will continue to be revalued quarterly using a present value approach and any resulting increase or decrease will be recorded into selling and general expenses. Any changes in the amount of the actual results and forecasted scenarios could impact the fair value. Significant judgment is employed in determining the appropriateness of the assumptions used in calculating the fair value of the earn-out as of the acquisition date and subsequent period ends. Accordingly, significant variances between actual and forecasted results or changes in the assumptions can materially impact the amount of contingent consideration expense we record in future periods. In determining the fair value of the earn-out liability as of October 31, 2020, we used the most recent projections while giving consideration to actual results versus such projections subsequent to October 31, 2020.

We estimate the fair value of the earn-out liability using an option pricing based approach with a risk-neutral framework using Black Scholes related to Schrofftech 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, 2020 (in thousands):

Description	Level 3
Earn-out liability	$ 370

There were no financial assets or liabilities measured at fair value as of October 31, 2019.

The following table summarizes the changes to the Level 3 liabilities measured at fair value for the three months ended October 31, 2020, July 31, 2020, April 30, 2020, and January 31, 2020 (in thousands):

	Level 3				
	October 31, 2020	**July 31, 2020**	**April 30, 2020**	**January 31, 2020**	**October 31, 2019**
Beginning balance	$ 558	$ 869	$ 1,215	$ 1,249	$ -
Change in value	(188)	(311)	(346)	(34)	-
Ending balance	$ 370	$ 558	$ 869	$ 1,215	$ -

As of October 31, 2020, the full amount of the $0.4 million earn-out was classified as other long-term liabilities.

Note 7 – Segment information

We aggregate 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, 2020, we had two reportable segments – RF Connector and Cable Assembly (“RF Connector”) and Custom Cabling Manufacturing and Assembly (“Custom Cabling”).

During fiscal 2020, the RF Connector segment was comprised of one division, while the Custom Cabling segment was comprised of four divisions. The five divisions that met the quantitative thresholds for segment reporting the were RF Connector and Cable Assembly division, Cables Unlimited, Rel-Tech, C Enterprises, and Schrofftech. While each segment has similar products and services, there was little overlapping of these services to their customer base. The biggest difference in segments is in the channels of sales; sales or product and services for the RF Connector segment were primarily through the distribution channel, while the Custom Cabling segment sales were through a combination of distribution and direct to the end customer.

Management identifies 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 division constitutes the RF Connector segment, and the Cables Unlimited, Rel-Tech, C Enterprises, and Schrofftech divisions constitute the Custom Cabling segment.

As reviewed by our chief operating decision maker, we evaluate the performance of each segment based on income or loss before income taxes. We charge 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.

All of our operations are conducted in the United States; however, we derive a portion of our revenue from export sales. We attribute sales to geographic areas based on the location of the customers. The following table presents the sales by geographic area for the years ended October 31, 2020 and 2019 (in thousands):

	2020	2019
United States	$ 41,633	$ 54,365
Foreign Countries:		
Canada	933	592
Mexico	12	109
All Other	466	259
	1,411	960
Totals	$ 43,044	$ 55,325

Net sales, income (loss) before provision (benefit) for income taxes and other related segment information for the years ended October 31, 2020 and 2019 are as follows (in thousands):

2020	RF Connector and Cable Assembly	Custom Cabling Manufacturing and Assembly	Corporate	Total
Net sales	$ 14,554	$ 28,490	$ -	$ 43,044
Income (loss) before benefit for income taxes	2,019	(2,423)	(44)	(448)
Depreciation and amortization	159	855	-	1,014
Total assets	7,822	15,486	17,514	40,822
2019				
Net sales	$ 13,704	$ 41,621	$ -	$ 55,325
Income before provision for income taxes	868	3,591	98	4,557
Depreciation and amortization	170	393	-	563
Total assets	7,081	17,282	13,337	37,700

Note 8 – Income tax provision

The provision (benefit) for income taxes for the fiscal years ended October 31, 2020 and 2019 consists of the following (in thousands):

	2020	2019
Current:		
Federal	$ 279	$ 859
State	143	220
	422	1,079
Deferred:		
Federal	(593)	(25)
State	(196)	(18)
	(789)	(43)
	$ (367)	$ 1,036

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

	2020		2019	
	Amount	% of Pretax Income	Amount	% of Pretax Income
Income taxes at federal statutory rate	$ (94)	21.0%	$ 957	21.0%
State tax provision, net of federal tax benefit	(41)	9.2%	160	3.5%
Nondeductible differences:				
Stock options	(123)	27.5%	21	0.5%
Meals and entertainment	2	-0.4%	8	0.2%
Parking disallowance	5	-1.1%	-	0.0%
R&D credits	(152)	33.9%	(119)	-2.6%
Foreign derived intangible income	(5)	1.1%	-	0.0%
ASC 740-10 Liability	27	-6.0%	21	0.5%
Penalties	11	-2.5%	-	0.0%
Other	3	-0.7%	(12)	-0.3%
	$ (367)	82.0%	$ 1,036	22.8%

Our total deferred tax assets and deferred tax liabilities at October 31, 2020 and 2019 are as follows (in thousands):

	2020	2019
Deferred Tax Assets:		
PPP Loan	$ 706	$ -
Reserves	344	172
Accrued vacation	149	97
Stock-based compensation awards	100	87
Uniform capitalization	92	64
Lease liability	381	-
Other	35	55
Total deferred tax assets	1,807	475
Deferred Tax Liabilities:		
Amortization / intangible assets	(479)	(307)
Change in ROU assets	(359)	-
Depreciation / equipment and furnishings	(135)	(124)
Total deferred tax liabilities	(973)	(431)
Total net deferred tax assets (liabilities)	$ 834	$ 44

On March 27, 2020, the United States enacted the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act"). The CARES Act is an emergency economic stimulus package that includes spending and tax breaks to strengthen the United States economy and fund a nationwide effort to curtail the effects of the COVID-19 pandemic. The CARES Act includes several provisions that provide economic relief for individuals and businesses. We continue to evaluate the impact the CARES Act will have on our tax obligations, but have concluded it did not materially impact our income taxes for the fiscal year ended October 31, 2020.

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. We have 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 (benefit) for income taxes was $(0.4) million or 81.9% and $1.0 million or 22.7% of income before income taxes for fiscal 2020 and 2019, respectively. The fiscal 2020 effective tax rate differed from the statutory federal rate of 21% primarily as a result of the benefit from research and development tax credits and tax benefits associated with share-based compensation.

Our adjustments to uncertain tax positions in fiscal years ended October 31, 2020 and 2019 are as follows:

	2020	2019
Balance, at beginning of year	$ 80	$ 59
Increase for tax positions related to the current year	32	23
Increase for tax positions related to prior years	-	3
Increase for interest and penalties	6	2
Statute of Limitations Expirations	(11)	(7)
Balance, at end of year	$ 107	$ 80

We had gross unrecognized tax benefits of $96,000 and $72,000 attributable to U.S. federal and California research tax credits as of October 31, 2020 and 2019, respectively. During fiscal 2020, the increase in our gross unrecognized tax benefit was primarily related to claiming additional federal and California research tax credits. The uncertain tax benefit is recorded as income taxes payable in our consolidated balance sheet.

We recognize interest and penalties related to uncertain tax positions in income tax expense. We recognized expense of approximately $11,000 and $8,000 during the years ended October 31, 2020 and 2019, respectively.

We believe that an adequate provision has been made for any adjustments that may result from tax examinations. However, it is possible that certain changes may occur within the next twelve months, but we do not anticipate that our accrual for uncertain tax positions will change by a material amount over the next twelve-month period.

We are subject to taxation in the United States and state jurisdictions. Our tax years for October 31, 2017 and forward are subject to examination by the United States and October 31, 2016 and forward with state tax authorities.

Note 9 – Stock options

Incentive and non-qualified stock option plans

On July 22, 2020, the Company's Board of Directors adopted the 2020 Equity Incentive Plan (the "2020 Plan"). In September 2020, the Company's stockholders approved the 2020 Plan by vote as required by NASDAQ. An aggregate of 1,250,000 shares of common stock was set aside and reserved for issuance under the 2020 Plan. As of October 31, 2020, 1,197,399 shares of common stock were remaining for future grants of stock options under the 2020 Plan.

Additional disclosures related to stock option plans

On December 3, 2018, two employees were each granted 25,000 incentive stock options. These options vested 5,000 each on the date of grant, and the balance vests as to 5,000 shares each per year thereafter on each of the next four anniversaries of December 3, 2018, and expire ten years from the date of grant. Also on December 3, 2018, one employee was granted 10,000 incentive stock options. These options vested 2,000 shares on the date of grant, and the balance vests as to 2,000 shares per year thereafter on each of the next four anniversaries of December 3, 2018, and expire ten years from the date of grant.

On March 8, 2019, one employee was granted 25,000 incentive stock options. These options vested 5,000 on the date of grant, and the balance vests as to 5,000 shares per year thereafter on each of the next four anniversaries of March 8, 2019, and expire ten years from the date of grant.

On January 6, 2020, one employee was granted 50,000 incentive stock options. These options vested 10,000 on the date of grant, and the balance vests as to 10,000 shares per year thereafter on each of the next four anniversaries of January 6, 2020, and expire ten years from the date of grant.

On January 9, 2020, we granted the following equity awards to our managers and officers:

- Stock grants for a total of 12,075 common shares to two officers and one employee. We accounted for these shares as stock-based compensation totaling $77,000;
- A total of 3,241 incentive stock options to two employees, all of which vested immediately on the date of grant; and
- A total of 38,500 shares of restricted stock and 77,000 incentive stock options to three officers and two employees. The shares of restricted stock and incentive stock options vest over four years as follows: (i) one-quarter of the restricted shares and options shall vest on January 9, 2021; and (ii) the remaining restricted shares and options shall vest in twelve equal

quarterly installments over the next three years, commencing with the first quarter following January 9, 2021. All incentive stock options expire ten years from the date of grant.

On June 29, 2020, one employee was granted 10,000 incentive stock options. These options vested 2,500 on the date of grant, and the balance vests as to 2,500 shares per year thereafter on each of the next three anniversaries of June 30, 2020, and expire ten years from the date of grant.

No other shares or options were granted to company employees during fiscal 2020.

The fair value of each option granted in 2020 and 2019 was estimated on the grant date using the Black-Scholes option pricing model with the following assumptions:

	2020	2019
Weighted average volatility	52.68%	55.42%
Expected dividends	0.63%	0.98%
Expected term (in years)	7.0	5.9
Risk-free interest rate	1.58%	2.86%
Weighted average fair value of options granted during the year	$3.06	$3.98
Weighted average fair value of options vested during the year	$2.38	$2.56

Expected volatilities are based on historical volatility of our stock price and other factors. We used the historical method to calculate the expected life of the 2020 and 2019 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 our outstanding stock options at October 31, 2020 and 2019 and changes in outstanding stock options in 2020 and 2019 follows:

	2020		2019	
	Shares or Price Per Share	Weighted Average Exercise Price	Shares or Price Per Share	Weighted Average Exercise Price
Outstanding at beginning of year	890,147	$ 3.62	942,366	$ 3.09
Options granted	140,241	$ 6.40	124,097	$ 8.16
Options exercised	(241,209)	$ 1.85	(171,066)	$ 3.86
Options canceled or expired	-	$ -	(5,250)	$ 6.82
Options outstanding at end of year	789,179	$ 4.66	890,147	$ 3.62
Options exercisable at end of year	459,513	$ 4.48	599,981	$ 3.25
Options vested and expected to vest at end of year	788,143	$ 4.67	889,088	$ 3.63
Option price range at end of year	$1.90 - $8.69		$1.90 - $8.69	
Aggregate intrinsic value of options exercised during year	$ 975,638		$ 317,827	

Weighted average remaining contractual life of options outstanding as of October 31, 2020: 4.73 years

Weighted average remaining contractual life of options exercisable as of October 31, 2020: 2.58 years

Weighted average remaining contractual life of options vested and expected to vest as of October 31, 2020: 4.72 years

Aggregate intrinsic value of options outstanding at October 31, 2020: $643,000

Aggregate intrinsic value of options exercisable at October 31, 2020: $387,000

Aggregate intrinsic value of options vested and expected to vest at October 31, 2020: $639,000

As of October 31, 2020, $571,000 and $245,000 of expense with respect to nonvested stock options and restricted shares, respectively, has yet to be recognized but is expected to be recognized over a weighted average period of 4.09 and 0.89 years, respectively.

Non-employee directors receive $50,000 annually, which is paid one-half in cash and one-half through the grant of non-qualified equity awards. For fiscal 2020, compensation payable to non-employee directors was prorated from November 1, 2019 through August 31, 2020. On November 4, 2019, we granted each of our five non-employee directors 3,270 shares of restricted stock. The number of restricted shares granted to each director was determined by prorating $25,000 for the 10 months ending August 31, 2020 and dividing by the 20-day average closing stock price ($6.36). These restricted shares vested ratably through August 31, 2020. As compensation for services to be provided until the 2021 annual meeting of stockholders, in September 15, 2020, we granted each of our five non-employee directors 5,757 shares of restricted stock, which number was determined by dividing $25,000 by the 20-day average closing stock price ($4.34).

Non-employee directors who are also a chairperson of a committee of the Board receive additional compensation of $15,000 annually. On June 5, 2020, the Board of Directors revised the committee chair compensation so that all future compensation from July 1, 2020 through the next annual meeting of the stockholders will be payable in shares of common stock rather than cash. Shares issued as compensation will be valued at the closing common stock price on the last day of each quarter. Accordingly, on July 31, 2020, each of the four committee chairpersons was awarded 279 shares at $4.47 per share. We account for these shares as stock-based compensation. On September 15, 2020, each of the four committee chairpersons was awarded 3,454 shares of restricted stock as payment for the $15,000 retainer payable to Chairpersons for the year ending with the 2021 annual meeting of stockholders. The number of restricted shares granted to each chairperson was determined by dividing $15,000 by the 20-day average RFIL stock price ($4.34).

Note 10 – Retirement plan

We have a 401(k) plan available to our employees. For the years ended October 31, 2020 and 2019, we contributed and recognized as an expense $295,000 and $181,000, respectively, which amount represented 3% of eligible employee earnings under its Safe Harbor Non-elective Employer Contribution Plan.

Note 11 – Line of credit and PPP Loan

Line of credit

In November 2019, we entered into an agreement for a revolving line of credit ("LOC") in the amount of $5.0 million. Amounts outstanding under the LOC shall bear interest at a rate of 2.0% plus LIBOR Daily Floating Rate ("base interest rate"), with interest payable on the first day of each month. Borrowings under the LOC are secured by a security interest in certain assets of the Company. The LOC contains certain loan covenants. Failure to maintain the loan covenants may constitute an event of default, resulting in all outstanding amounts of principal and interest becoming immediately due and payable. All outstanding principal and interest is due and payable on December 1, 2021. For the period ending October 31, 2020, we obtained a waiver with respect to the LOC that waived the Company to be in compliance of the financial covenants for the period. Additionally, as of October 31, 2020, no amounts were outstanding under the line of credit.

PPP Loan

In May 2020, we applied for and received loans under the Paycheck Protection Program ("PPP") of the CARES Act totaling approximately $2.8 million ("PPP Loans"). The funds from the PPP Loans were used to retain employees, maintain payroll and benefits, and make lease and utility payments. Without the PPP Loans, we would have made material reductions in our workforce (particularly at our New York facility). We anticipate that most of the PPP Loans will be eligible for forgiveness in accordance with the provisions of the CARES Act. To the extent not forgiven, the PPP Loans have a two-year term, a fixed interest rate of 1%, and principal and interest payments are deferred for six months.

Future minimum loan payments as of October 31, 2020 were as follows:

Year ended October 31,		**PPP Loan**
2021	$	1,699
2022		1,089
Total future minimum payments	**$**	**2,788**

Note 12 – Related party transactions

A portion of our operating leases are leased from K&K Unlimited, a company controlled by Darren Clark, the former owner and current President of Cables Unlimited. 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. In January 2020, we began to pay an additional $1,000 in rent expense for leased storage units located on the premises. During the fiscal year ended October 31, 2020, we paid a total of $180,000 under the leases.

During fiscal 2020, we paid royalties to Elmec Ltd. ("Elmec"), a European-based company that owns the intellectual property that is used in Schrofftech's products. One third of Elmec is jointly owned by David Therrien and Richard DeFelice, two of the former owners and current President and Vice President, respectively, of Schrofftech. For the year ended October 31, 2020, we paid a total of $11,000 of royalty payments to Elmec, and have accrued an additional $4,000 as of October 31, 2020. The expenses related to these transactions are included in cost of goods sold.

Note 13 – Cash dividend and declared dividends

We paid dividends of $0.02 per share for a total of $388,000 and $748,000 during fiscal year 2020 and 2019, respectively.

Note 14 – Commitments

We adopted ASU 2016-02 on November 1, 2019, and elected the practical expedient modified retrospective method whereby the lease qualification and classification was carried over from the accounting for leases under ASC 840. The lease contracts for the corporate headquarters, RF Connector division manufacturing facilities, Cables Unlimited, Rel-Tech, and C Enterprises commenced prior to the effective date of November 1, 2019, and were determined to be operating leases. All other new contracts have been assessed for the existence of a lease and for the proper classification into operating leases. The rate implicit in the leases was undeterminable, and therefore, the discount rate used in all lease contracts is our incremental borrowing rate.

We have operating leases for corporate offices, manufacturing facilities, and certain storage units. Our leases have remaining lease terms of one year to three years, some of which include options to extend the leases for up to five years. A portion of our operating leases are leased from K&K Unlimited, a company controlled by Darren Clark, the former owner and current President of Cables Unlimited, to whom we make rent payments totaling $14,000 per month.

We also have other operating leases for certain equipment. The components of our facilities and equipment operating lease expenses for the period ending October 31, 2020 were as follows (in thousands):

	Fiscal Year Ended October 31, 2020
Operating lease cost	$ 1,001
Short-term lease cost	1

Other information related to leases was as follows (in thousands):

	October 31, 2020
Supplemental Cash Flows Information	
Right of use assets obtained in exchange for lease obligations:	
Operating leases	$ 1,421
Weighted Average Remaining Lease Term	
Operating leases	22.94 months
Weighted Average Discount Rate	
Operating leases	3.54%

Future minimum lease payments under non-cancellable leases as of October 31, 2020 were as follows (in thousands):

Year ended October 31,		**Operating Leases**
2021	$	920
2022		532
2023		166
2024		-
Thereafter		-
Total future minimum lease payments		1,618
Less imputed interest		(109)
Total	**$**	**1,509**

Reported as of October 31, 2020		**Operating Leases**
Other current liabilities	$	874
Operating lease liabilities		635
Finance lease liabilities		-
Total	**$**	**1,509**

As of October 31, 2020, operating lease ROU asset was $1.4 million and operating lease liability totaled $1.5 million, of which $874,000 is classified as current. There were no finance leases as of October 31, 2020.

Leadership

Directors

Mark K. Holdsworth
Chairman
Managing Partner
The Holdsworth Group

Marvin H. Fink
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

Peter Yin
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 11:00 a.m. PDT, Wednesday, September 8, 2021, at RF Industries, Ltd., 7610 Miramar Road, Suite 6000, San Diego, California 92126

Investor Relations

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

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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, Ltd., 7610 Miramar Road, Suite 6000, San Diego, California 92126

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