



Interconnect Solutions for a Connected World™

# Annual Report

## Fiscal 2016



July 27, 2017

Fellow Shareholders:

Fiscal 2016 was a year of change for your Company. In response to changes in our principal markets, we shed non-core operations and made major inroads into new markets. An industry-wide softening of demand for wireless cabling products and a series of non-cash charges and one-time expenses in fiscal 2016 affected our net results. In response, we have brought new energy to the company in the form of a new President/CEO as well as added additional talent to our experienced team of Directors. Increased sales primarily in the growing Distributed Antenna Systems (DAS) market coupled with reduced fixed costs and expenses from prior cost reduction programs returned the Company to profitability in the second quarter of fiscal 2017. With these changes in place, we are hopeful for stronger results as we progress through the remainder of the current fiscal year and beyond.

For the fiscal year ended October 31, 2016, net sales declined 2.3% to \$30.2 million, compared to \$30.9 million in fiscal 2015, primarily due to a decline in sales at RF Cables and Connector division as a result of a continuing industry-wide softening of demand for its products. Sales at the Custom Cabling segment increased due to additional net sales generated from the Company's newly acquired Rel-Tech Electronics division. This increase was offset by a sales decline at its Comnet Telecom Supply and Cables Unlimited divisions. The decline in sales at Comnet was due to the softening of demand for its telecommunications and data products, while the decline at Cables Unlimited was due to a continuing decline in the sale of their fiber optic products. The net loss for fiscal 2016 was \$4.1 million, or \$0.47 per share. However, the 2016 net loss included a one-time, non-cash goodwill impairment charge of \$2.8 million. This compares to net income of \$994,000, or \$0.11 per share in fiscal 2015. The net loss for fiscal 2016 also was affected by certain one-time expenses of \$256,000 for an abandoned strategic business combination and expenses related to changes in management personnel.

During fiscal 2016 we divested marginal businesses and refocused our efforts on improving the profitability of the Company. This led to the sale of the Aviel division in December, 2015, closely followed by the closure of the Bioconnect division in March, 2016. While the targeted acquisitions we made in fiscal 2015 were contributing to profitability and sales growth, the Company's remaining legacy businesses were underperforming. As a result, we implemented several cost cutting programs to reduce operating expenses, including the reduction of employee count.

Our efforts to reduce expenses and streamline operations during fiscal 2016 resulted in a decline of over \$1.0 million, or 21.5%, in general and administrative expenses in fiscal 2017 as compared to the first six months of fiscal 2016. The improvement in operating margins coupled with increased sales, particularly in the DAS market, returned the Company to profitability in the second quarter of fiscal 2017, and has set the stage for continued cost savings through the second half of fiscal 2017.

Our efforts to increase sales by focusing on the rapidly growing DAS market are starting to produce results; overall sales improved in the first and second quarters of fiscal 2017 in the Company's RF Cables and Connector division, achieving double-digit, year-over-year growth in sales for each quarter. Increased DAS sales coupled with cost reductions resulted in this division's return to profitability in the second quarter of fiscal 2017. While the Custom Cabling segment is impacted by the weak wireless telecom business, significantly lower operating expenses have dramatically improved operating margins and we are hopeful that only modest sales gains will return this segment to profitability in the second half of fiscal 2017.

RF Connector's growing DAS revenue represents a long-term opportunity for our products. DAS is an in-building wireless solution for cellular, public safety and other RF signals transfer supporting public safety and first responder communication standards and requirements. DAS systems utilize a large number of products currently marketed by RF Industries and have been installed in office buildings, hotels, hospitals, sports centers and gaming centers nationwide. These installations also include custom fiber solutions, coaxial cabling assemblies, plenum cables and additional passive products designed, manufactured and distributed by the Company.

To preserve our financial flexibility and our ability to complete potential future acquisitions, the Company reduced its dividend early in fiscal 2016. Now, at the half way mark of fiscal 2017, our cash position has stabilized at \$4.3 million and our working capital and current ratio are nearly unchanged from the beginning of the fiscal year. We believe our financial condition will strengthen and benefit from the Company's reduced expense levels and prospects for higher sales particularly in the DAS market.

As previously noted, to support our growth in the coming years, we have brought on new senior management and added additional expertise to our Board of Directors. Effective July 17, 2017, the Company hired a new President and CEO, Robert D. Dawson, who has extensive experience in information technology, wireless markets and telecommunications. Mr. Dawson took over the reins from me on July 17, 2017 while I remain on the Company's Board of Directors. Also in the third quarter of fiscal 2017, we further enhanced the strength of our Board of Directors with the appointment of Gerald T. Garland, an accomplished senior executive with experience in finance as well as product and sales management in the wireless industry. Mr. Dawson and Mr. Garland both have many years of experience at TESSCO Technologies, one of the Company's major customers.

As a result of improved results at RF Connector, reduced general and administrative expenses and the addition to our management and Board teams, we believe we are better positioned for the remainder of fiscal 2017 and beyond. The support of our employees and shareholders has strengthened the Company and its prospects for the future. We look forward to reporting future results.

On a personal note, as a founder of the Company in 1979 and having served as the Company's principal executive officer during most time since then, I am pleased to hand over the reins to Rob Dawson. I firmly believe that he will continue the evolution and growth of the Company for the benefit its shareholders.

Sincerely,

A handwritten signature in black ink, appearing to read "Howard Hill". The signature is written in a cursive, flowing style.

Howard Hill,

Director, and former President and Chief Executive Officer

## PART I

### ITEM 1. BUSINESS

RF Industries, Ltd., through its divisions and its three wholly-owned subsidiaries (collectively, hereinafter the “Company”), primarily engages in the design, manufacture, and marketing of interconnect products and systems, including coaxial and specialty cables, fiber optic cables and connectors, and electrical and electronic specialty cables. The Company conducts its operations through the following four divisions/subsidiaries: (i) The Connector and Cable Assembly Division based in California, designs, manufactures and distributes coaxial connectors and cable assemblies that are integrated with coaxial connectors; (ii) Cables Unlimited, Inc., a New York based 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) Comnet Telecom Supply, Inc., a New Jersey based subsidiary that manufactures and sells fiber optics cable, distinctive cabling technologies and custom patch cord assemblies, as well as other data center products; and (iv) Rel-Tech Electronics, Inc., a Connecticut based subsidiary that designs and manufactures cable assemblies and wiring harnesses for blue chip industrial, oilfield, instrumentation and military customers. Both Cables Unlimited and Comnet Telecom 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.

Until its sale on December 22, 2015, the Company also operated the Aviel Electronics Division, a Nevada based division that designed, manufactured and distributed specialty and custom RF connectors primarily for aerospace and military customers. On November 17, 2015, the Company decided to sell its Aviel Electronics Division and on December 22, 2015 the Company sold this division. In March 2016, the Company announced the shutdown of its Bioconnect division, which comprised the entire operations of the Medical Cabling and Interconnect segment. Accordingly, the Company has segregated Bioconnect’s results from continuing operations and reported it as discontinued operations for the years ended October 31, 2016 and 2015. The closure is part of the Company’s ongoing plan to close or dispose of underperforming divisions that are not part of the Company’s core operations.

The Company’s principal executive office is currently located at 7610 Miramar Road, Building #6000, San Diego, California. The Company was incorporated in the State of Nevada on November 1, 1979, completed its initial public offering in March 1984 under the name Celltronics, Inc., and changed its name to RF Industries, Ltd. in November 1990. Unless the context requires otherwise, references to the “Company” in this report include RF Industries, Ltd. and Cables Unlimited, Inc., a New York company. In addition, all references to this Company for periods after November 1, 2014 also include Comnet Telecom Supply, Inc., a wholly owned subsidiary that RF Industries, Ltd. acquired on that date. Also, all references to this Company for periods after June 1, 2015 also include Rel-Tech Electronics, Inc., a wholly owned subsidiary that RF Industries, Ltd. acquired on that date.

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

#### Corporate Reorganization in fiscal 2016

##### **Shutdown of Bioconnect division**

In March 2016, the Company announced the shutdown of its Bioconnect division, which comprised the entire operations



of the Medical Cabling and Interconnect segment. The closure is part of the Company's ongoing plan to close or dispose of underperforming divisions that are not part of the Company's core operations. For fiscal year ended October 31, 2016, the Company recognized a loss of approximately \$148,000 for the Bioconnect division (which loss is attributed to discontinued operations in the fiscal 2016 financial statements) after Bioconnect lost its principal customer. For the prior fiscal year ended October 31, 2015, the Company recognized approximately \$419,000 of income for the Bioconnect division. The Bioconnect Division operated out of the Company's San Diego, California, facilities and was primarily engaged in product development, design, manufacture and sale of high-end or specialty cables and interconnects for medical monitoring applications.

#### **Sale of Aviel Electronics division**

On December 22, 2015, the Company sold the assets of its Aviel Electronics Division to an unaffiliated third party for \$400,000. The purchase price for the Aviel assets was paid as follows: \$150,000 was paid at the closing, and a \$250,000 was paid by the delivery of a secured promissory note. The promissory note bears interest at a rate of 5% per annum and is payable over a three-year period. Aviel Electronics Division generated sales of \$884,000 in the fiscal year ended October 31, 2015 (the operations of Aviel included in the Company's RF Connector and Cable Assembly business segment). Aviel Electronics Division was based in Las Vegas, Nevada, and was primarily engaged in the design, manufacture and sale of custom, specialty or precision connectors and cable systems for specialized purposes, such as commercial aerospace and military systems.

#### **Acquisitions in 2015**

##### **Rel-Tech Electronics, Inc.**

On June 5, 2015, the Company purchased 100% of the issued and outstanding shares of Rel-Tech Electronics, Inc. ("Rel-Tech") from four shareholders, including Ralph Palumbo. RF Industries, Ltd. paid the sellers \$3,100,000, which consisted of \$2,100,000 in cash, 50,467 shares of the Company's unregistered common stock valued at \$200,000 based on a per share price of \$3.96 (the volume weighted average price of the Company's common stock during the five trading days before the closing date) and, if certain financial targets are met by Rel-Tech over a three-year period, additional cash earn-out payments of up to \$800,000. Mr. Palumbo agreed to serve as President of Rel-Tech at a base salary of \$150,000 per year. Mr. Palumbo will also be entitled to earn an annual bonus of up to 50% of his base salary. Financial results for Rel-Tech have been included in the results of the Custom Cabling Manufacturing and Assembly segment subsequent to June 1, 2015.

##### **CompPro Product Line**

On May 19, 2015, the Company purchased the CompPro braided product line ("CompPro"), including the intellectual property rights to that product line, for a total purchase price of \$700,000 cash. CompPro utilizes a patented compression technology that offers revolutionary advantages for a water-tight connection, 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. Included in the purchase is inventory, designs, intellectual property rights and rights to manufacture and sell CompPro products. Financial results for the CompPro products have been included in the results of the Company since May 19, 2015.

##### **Comnet Telecom Supply, Inc.**

On January 20, 2015, the Company purchased 100% of the issued and outstanding shares of Comnet Telecom Supply, Inc. ("Comnet Telecom") from Robert Portera, the sole shareholder of Comnet Telecom. Comnet Telecom is a New Jersey based manufacturer and supplier of telecommunications and data products, including fiber optic cables, cabling technologies, custom patch cord assemblies, data center consoles, and other data center equipment was formed in 1993. The Company paid Mr. Portera \$4,150,000 in cash and stock, and agreed to pay him up to an additional \$1,360,000 in cash as an earn-out over the next two years if Comnet Telecom meets certain financial milestones in the next two years. The purchase price paid at the closing consisted of \$3,090,000 in cash and 252,381 shares of the Company's unregistered common stock, which shares were valued at \$1.1 million based on a per share price of \$4.20 (the volume weighted average price of the Company's common stock during the five trading days before the closing date). Comnet Telecom has, to date, been operated as a stand-alone subsidiary. The Company entered into a two-year employment agreement with Mr. Portera pursuant to which Mr. Portera has served as the President of Comnet Telecom for a base salary will be \$210,000 per year. Because the acquisition of Comnet was effective

for financial accounting purposes as of November 1, 2014, Comnet's financial results have been included in the Company's results for the entire fiscal year ended October 31, 2015.

### Net Loss in Fiscal 2016

For the first time in over two decades, the Company experienced an annual net loss in the fiscal year ended October 31, 2016. Also, for the first time during that period, the Company had negative cash flow from its operations. The Company believes that there were various extraordinary factors that contributed to these adverse results, including certain non-recurring charges and expenses. The following factors contributed to the Company's financial results in fiscal 2016:

(a) On June 15, 2011 the Company purchased Cables Unlimited, Inc. and, in connection therewith, recorded \$3.1 million and \$410,000 for Cables Unlimited's goodwill and the tradename (an intangible asset with indefinite life), respectively. Purchased goodwill and intangible assets with indefinite lives are not amortized, but instead are tested for impairment annually or when indicators of impairment exist. For the fiscal year 2016, Cables Unlimited did not meet its sales volume and revenue goals, and the mix of product sold had lower margins than planned. These results, along with changes in the competitive marketplace and an evaluation of business priorities, led to a shift in strategic direction and reduced future revenue and profitability expectations for the business. The results of these changes and circumstances lead to the determination that Cables Unlimited did not pass our qualitative assessment and therefore a quantitative assessment was required. In connection with the fiscal year ended October 31, 2016, the Company quantitatively evaluated the goodwill and intangibles of Cables Unlimited and determined that the carrying value of Cables Unlimited on the Company's financial statements exceeded its fair market value. As a result, an impairment to Cables Unlimited's goodwill and tradename was determined and the Company recorded a non-cash impairment charge to goodwill and tradename of \$2.6 million and \$150,000, respectively, for the 2016 fiscal year.

(b) As a result of the continuing change in the wireless marketplace, there has been a decreased demand for certain of the Company's wireless products (including in particular for the Company's wireless cabling products used by cell towers). During the past few years, the Company benefitted from the demand for the products it sold to wireless service providers who were updating their networks to 4G technologies. Now that much of that upgrading work has been completed, the demand for the Company's products has softened, resulting in lower sales and narrower gross margins. The decrease in sales was particularly significant in the Company's Cables Unlimited subsidiary as demand for its Optiflex and other cell tower solutions dried up. This decrease in sales at Cables Unlimited triggered the impairment charge described above. Because of the reduced demand, the Company also reserved or disposed of excess inventory, which resulted in a \$900,000 decrease in its inventory balance from the prior year end and negatively impacted the Company's income. In order to react to this decrease in net sales, during the last two years the Company redirected its focus on certain new products and incurred significant additional marketing and personnel expenses. These efforts increased the Company's selling and general administrative expenses in fiscal 2016, but did not produce satisfactory returns. As a result, the Company has now ended certain of these unsuccessful programs and has made employee changes, which changes are expected to result in a significant decrease in selling and general expenses in fiscal 2017.

(c) The Company has, during the past two years, made material changes in the composition of its business units, which have resulted in one-time additional legal, accounting, personnel and infrastructure expenses. As described above, in fiscal 2015 the Company purchased its Comnet and Rel-Tech subsidiaries and, in fiscal 2016 the Company sold its Aviel division and closed its Bioconnect division. The Company incurred significant legal, accounting and other expenses in connection with these acquisitions and dispositions. In addition, the Company has also incurred significant additional expenses in integrating the Comnet and Rel-Tech businesses with the Company's existing operations. For example, in fiscal 2016 the Company incurred \$171,000 of expenses in connection with implementing a new enterprise resource planning (ERP) system that now integrates all of the Company's operations on both the East Coast and California.

(d) During fiscal 2016 the Company considered a strategic transaction with another wireless company. After a due diligence and financial review, the Company determined that the transaction was not in the best interests of the Company's stockholders and, therefore, the proposed transaction was terminated. The Company incurred over \$256,000 of professional fees and expenses in connection with the abandoned transaction, which fees and expenses negatively affected the Company's cash flow and profitability in fiscal 2016.

## Operating Divisions/Subsidiaries

Connector and Cable Assembly Division The Connector and Cable Assembly Division is engaged in the design, manufacture and distribution of coaxial connector solutions for companies that design, build, operate, maintain and use wireless voice, data, messaging, and location tracking systems. Coaxial connector products consist primarily of connectors which, when attached to a coaxial cable, facilitate the transmission of analog and digital signals in various frequencies. Although most of the connectors are designed to fit standard products, the Company also sells custom connectors specifically designed and manufactured to suit its customers' requirements such as the Wi-Fi and broadband wireless markets. The Company's Connector and Cable Assembly Division typically carry over 1,500 different types of connectors, adapters, tools, and test and measurements kits. The Company's RF connectors are used in thousands of different devices, products and types of equipment. While the models and types of devices, products and equipment may change from year to year, the demand for the types of connectors used in such products and offered by the Company does not fluctuate with the changes in the end product incorporating the connectors. In addition, since the Company's standard connectors can be used in a number of different products and devices, the discontinuation of one product typically does not make the Company's connectors obsolete. Accordingly, most connectors carried by the Company can be marketed for a number of years and are only gradually phased out. Furthermore, because the Company's connector products are not dependent on any single line of products or any market segment, the Company's overall sales of connectors do not fluctuate materially when there are changes to any product line or market segment. Sales of the Company's connector products are, however, dependent upon the overall economy, infrastructure build out by large telecommunications firms and on the Company's ability to market its products.

Cable assembly products consist of various types of coaxial cables that are attached to connectors (usually the Company's connectors) for use in a variety of communications applications. Cable assemblies manufactured for the Connector and Cable Assembly Division are manufactured at the Company's California facilities using state-of-the-art automation equipment and are sold through distributors or directly to major OEM accounts. Cable assemblies consist of both standard cable assemblies and assemblies that are custom manufactured for the Company's clients. The Company offers a line of cable assemblies with over 100,000 cable product combinations. The Company launched its cable assembly operations in 2000.

The Connector and Cable Assembly Division also includes Oddcables.com, formerly a stand-alone division that sells coaxial, fiber optic and other connectors and cable assemblies on a retail basis. Effective November 1, 2013, the Oddcables.com Division was integrated with the Connector and Cable Division.

The Company designs its connectors at its headquarters in San Diego, California. However, most of the RF connectors are manufactured by third party foreign manufacturers located in Asia. The Company's Connector and Cable Assembly operations are conducted out of the Company's San Diego, California, facilities.

Cables Unlimited Division Cables Unlimited, Inc. is a custom cable manufacturer that RF Industries, Ltd. purchased in 2011. Cables Unlimited is located in Yaphank, New York, and is operated as a separate division. 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 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. In 2012, Cables Unlimited introduced a new custom cabling solution known as OptiFlex. The OptiFlex cable is a hybrid power and communications cable designed and built for wireless service providers who are updating their networks to 4G technologies such as WiMAX, LTE and other technologies.

Comnet Telecom Supply Division RF Industries, Ltd. purchased Comnet Telecom Supply, Inc. in January 2015. Comnet Telecom's offices and manufacturing facilities are located in East Brunswick, New Jersey. Formed in 1995, Comnet Telecom is a Corning Cable Systems CAH Connections SM Gold Program member that is authorized to manufacture fiber optic telecommunications products that are backed by Corning Cable Systems' extended warranty and is a Telcordia GR-326 certified manufacturer. Comnet Telecommunications manufactures and distributes telecom equipment and cabling infrastructure products used by telecommunications carriers, co-location service companies, and other telecommunication and data center companies in the U.S. across multiple industries. This division is also a supplier of Hot/Cold Aisle Containment as well as Technology Furnishing Solutions. Data center filler panel containment products have recently been developed by this division with production commencing in 2016.

Rel-Tech Electronics Division RF Industries, Ltd. purchased Rel-Tech Electronics, Inc. in June 2015. Rel-Tech's offices and manufacturing facilities are located in Milford, Connecticut. Founded in 1986, Rel-Tech is a designer and manufacturer of cable assemblies and wiring harnesses for blue chip industrial, oilfield, instrumentation, medical and military customers. Wire and cable assembly products include custom wire harnesses, ribbon cable, electromechanical and kitted assemblies, and networking and communications cabling. DIN and Mini-DIN connector assemblies include power cord, coaxial, Mil-spec, and testing.

The Company aggregates operating divisions into operating segments which have similar economic characteristics and are similar in the majority of the following areas: (1) the nature of the product and services; (2) the nature of the production process; (3) the type or class of customer for their products and services; (4) the methods used to distribute their products or services; and (5) if applicable, the nature of the regulatory environment. Based upon this evaluation, as of the end of fiscal 2016, the Company has two segments - the "RF Connector and Cable Assembly" segment and the "Custom Cabling Manufacturing and Assembly" segment. For the fiscal year ended October 31, 2016, the RF Connector and Cable Assembly segment was comprised of the Connector and Cable Assembly Division and of Aviel Electronics. Since Aviel Electronics was sold in December 2015, the Connector and Cable Assembly Division currently is the only division in this financial reporting segment. The Custom Cabling Manufacturing and Assembly segment is comprised of the Company's three operating subsidiaries (Cables Unlimited, Comnet and Rel-Tech). Both Comnet Telecom and Rel-Tech are included in the Custom Cabling Manufacturing and Assembly segment in the fiscal years ended October 31, 2016 and 2015. Since the acquisition of Comnet Telecom was effective for financial accounting purposes as of November 1, 2014, Comnet Telecom's financial results are included in the results of the Custom Cabling Manufacturing and Assembly segment for the entire fiscal year ended October 31, 2016 and 2015. Financial results for Rel-Tech have been included in the results of the Custom Cabling Manufacturing and Assembly segment beginning June 1, 2015.

### **Product Description**

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

#### **Connector and Cable Products**

The Company's Connector and Cable Assembly Division designs, manufactures and markets a broad range of coaxial connectors, coaxial adapters and coaxial cable assemblies for the numerous products with applications in commercial, industrial, automotive, transportation, scientific, aerospace and military markets. Various types of products/connectors are offered by the RF Connector Division including passive Distributed Antenna Systems (DAS) related items such as splitters, couplers and loads, Mini-DIN, 4.3/10, Compression Connectors, 2.4mm, 3.5mm, 7-16 DIN, BNC, MCX, MHV, Mini-UHF, MMCX, N, SMA, SMB, TNC, QMA and UHF. These connectors are offered in several configurations and cable attachment methods for customer applications. There are numerous applications for these connectors, some of which include digital applications, 2.5G, 3G, 4G, Wi-MAX, LTE and other broadband wireless infrastructure, GPS (Global Positioning Systems), mobile radio products, aircraft, video surveillance systems, cable assemblies and test equipment. Users of the Company's connectors include telecommunications companies, circuit board manufacturers, OEM, consumer electronics manufacturers, audio and video product manufacturers and installers, and satellite companies. The Connector Division markets over 1,500 types of connectors, adapters, tools, assembly, test and measurement kits, which range in price from under \$1 to over \$1,000 per unit. The kits satisfy a variety of applications including, but not limited to, lab operations, site requirements and adapter needs.

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

In addition and as a result of the acquisition of the CompPro Product Line, the Connector Division markets and manufactures a patented compression technology that offers revolutionary 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.



The Cable Assembly component of the Connector and Cable Assembly Division markets and manufactures cable assemblies in a variety of sizes and combinations of RF coaxial connectors and coax cabling. Cabling is purchased from a variety of major unaffiliated suppliers and is assembled predominately with the Company's connectors or other brands of connectors as complete cable assemblies. Coaxial cable assemblies have numerous applications including low PIM, wireless and wireless local area networks, wide area networks, internet systems, PCS/cellular systems including 2.5G, 3G, 4G, Wi-MAX, LTE wireless infrastructure, DAS 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.

Through its Oddcables.com website, the Company offers hundreds of audio cables, video cables, S-video cables, VGA cables, DVI cables, HDMI cables, RF coax adapters, coax cables, coax tools kits, computer cables, USB and firewire cables and other networking cables to retail customers.

### **Cables Unlimited Products**

Cables Unlimited is an International Standards Organization (ISO) approved factory that manufactures custom cable assemblies. Cables Unlimited is also 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. Products manufactured by Cables Unlimited include custom copper and fiber optic cable assemblies, adapters and electromechanical wiring harnesses for telecommunications, computer, LAN, automotive and medical equipment companies. Cables Unlimited also provides cable installation services in the New York regional area. In April 2012, Cables Unlimited commercially released a cabling solution for wireless service providers engaged in upgrading their cell towers for 4G technologies. The custom hybrid cable, called OptiFlex, is significantly lighter and possesses greater flexibility than cables previously used for wireless service. Most of the products that Cables Unlimited develops and sells are built specifically for its customers' needs.

The acquisition of Cables Unlimited in 2011 gave the Company the ability to offer a broad range of interconnect products and systems to the Company's largest customers. These interconnect systems have the ability to combine radio frequency and fiber optic interconnect components, with various connectors and power cables through customized solutions for these customers. The Company continues to actively market its ability to provide these fiber optic interconnect solutions to its larger customers.

### **Comnet Telecom Products**

Comnet Telecom manufactures and distributes both standard and custom equipment and cabling products used by telecommunications carriers, co-location center operators and other telecommunication and data center companies in the U.S. Such products include fiber optics cable, copper cabling, custom patch cord assemblies, transceivers/converters, data center consoles and other data center equipment (such as server cabinets and network racks). The acquisition of Comnet Telecom expands the Company's fiber optic cabling capabilities and the customer base to which the Company can sell its other cabling products. The opportunities are further enhanced to sell Comnet data center infrastructure and telecom products into our cable product customer base.

### **Rel-Tech Electronics Products**

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, networking and communications cabling. DIN and Mini DIN connector assemblies include power cord, coaxial, Mil-spec and testing.

### **Foreign Sales**

Net sales to foreign customers accounted for \$1.0 million (or approximately 3%) of the Company's net sales, and \$1.2 million (or approximately 4%) of the Company's sales, respectively, for the fiscal years ended October 31, 2016 and 2015. The majority of the export sales during these periods were to Canada, Mexico and Israel.

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

## **Distribution, Marketing and Customers**

Sales methods vary greatly between the Company's divisions. The Connector and Cable Assembly Division, the Cables Unlimited Division and the Rel-Tech Electronics Division currently sell their products primarily through warehousing distributors and OEM customers who utilize coaxial connectors and cable assemblies in the manufacture of their products.

Comnet Telecom sells its products directly to its own customers through its in-house marketing and sales team. Comnet Telecom's principal customers include co-location centers, data processing centers, telecommunications and telephone companies, and wireless carriers. Comnet Telecom also sells certain of its products to large, national telecommunication equipment and solution providers who include Comnet Telecom's products in their own product offerings.

## **Manufacturing**

The Connector and Cable Assembly Division contracts with outside third parties for the manufacture of a significant portion of its coaxial connectors. However, virtually all of the RF cable assemblies sold by the Connector and Cable Assembly Division during the fiscal year ended October 31, 2016 were assembled by the Cable Assembly side of the Connector and Cable Assembly Division at the Company's approved ISO factory in California. The Connector and Cable Assembly Division procures its raw cable from manufacturers with ISO approved factories in the United States, China and Taiwan. The Company is dependent primarily on eleven manufacturers for its coaxial connectors, tools and other passive components and several plants for raw cable. Although the Company does not have manufacturing agreements with these manufacturers for its connectors and cable products, the Company does have long-term purchasing relationships with these manufacturers. There are certain risks associated with the Company's dependence on third-party manufacturers for some of its products. See "Risk Factors" below. The Company has in-house design engineers who create the engineering drawings for fabrication and assembly of connectors and cable assemblies. Accordingly, the manufacturers are not primarily responsible for design work related to the manufacture of the connectors and cable assemblies.

Cables Unlimited manufactures its custom cable assemblies, adapters and electromechanical wiring harnesses and other products in its Yaphank, New York manufacturing facility. Cables Unlimited is an ISO approved factory, as well as 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. Cables Unlimited outsources the assembly of a portion of its proprietary OptiFlex cable to a third party manufacturer. The final assembly and termination of the OptiFlex cable is completed by Cables Unlimited at its Yaphank, New York facilities.

Comnet Telecom manufactures, assembles and tests its cabling products at its facilities in East Brunswick, New Jersey. Comnet Telecom is a Corning Cable Systems CAH Connections SM Gold Program approved fiber optic member and a Telcordia GR-326 approved manufacturer also authorized to produce fiber optic products and assemblies that are backed by Corning Cable Systems' extended warranty.

Rel-Tech Electronics manufactures its cable assemblies, electromechanical assemblies, wiring harnesses and other products in its Milford, Connecticut, ISO approved manufacturing facility.

## **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 Connector and Cable Division purchases most of its connector products from contract manufacturers located in Asia and the United States. The Company believes that the raw materials used in its products are readily available and that the Company is not currently dependent on any supplier for its raw materials. The Company does not currently have any long-term purchase or supply agreements with its connector or suppliers. The Cable Assembly Group obtains coaxial connectors from RF Connector group. The Company believes there are numerous domestic and international suppliers of coaxial connectors.

The Cables Unlimited Division, Comnet Telecom Division and the Rel-Tech Electronics Division purchase all of their products from manufacturers located in the United States. Fiber optic cables are available from various manufacturers located throughout the United States; however, both Cables Unlimited and Comnet Telecom purchase most of their fiber optic cables

from Corning Cables Systems LLC. The Company believes that the raw materials used by Cables Unlimited and Comnet Telecom in their products are readily available and that neither division is not currently dependent on any supplier for its raw materials except where Corning Extended Warranty certification is required. Neither Cables Unlimited, nor Comnet Telecom nor Rel-Tech Electronics currently have any long-term purchase or supply agreements with their connector and cable suppliers.

## **Employees**

As of October 31, 2016, the Company employed 189 full-time employees, of whom 60 were in accounting, administration, sales and management, 123 were in manufacturing, distribution and assembly, and 6 were engineers engaged in design, engineering and research and development. The employees were based at the Company's offices in San Diego, California (64 employees), Yaphank, New York (33 employees), Milford, Connecticut (62 employees) and East Brunswick, New Jersey (30 employees). The Company also occasionally hires part-time employees. The Company believes that it has a good relationship with its employees. The Cables Unlimited Division employs six cable installers who are currently represented by a union. Other than the foregoing installers that belong to a union, none of the Company's other employees are unionized.

## **Research and Development**

The Company's research and development expenses relate to its engineering activities, which consist of the design and development of new products for specific customers, as well as the design and engineering of new or redesigned products for the industry in general. During the years ended October 31, 2016 and 2015, the Company recognized \$747,000 and \$775,000 in engineering expenses, respectively. Research and development costs are expensed as incurred.

## **Patents, Trademarks and Licenses**

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

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

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

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

## **Warranties and Terms**

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

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

Under its agreements with Corning Cables Systems LLC, Cables Unlimited and Comnet Telecom 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 Company and industry analysts estimate worldwide sales of interconnect products of approximately \$54 billion in 2016. The Company believes that the worldwide industry for interconnect products and systems is highly fragmented, with no one competitor having over a 20% share of the total market. The Company and industry analysts estimate worldwide sales of cable assembly products of approximately \$142 billion in 2015. In North America, there are an estimated 1,105 companies participating in the cable assembly business with approximately 23% of the companies serving the industrial market sector. Many of the competitors of the Connector and Cable Assembly Division have significantly greater financial resources and broader product lines. The Connector and Cable Assembly Division competes on the basis of product quality, product availability, price, service, delivery time and value-added support to its distributors and OEM customers. Since the Company's strategy is to provide a broad selection of products in the areas in which it competes and to have a ready supply of those products available at all times, the Company normally carries a significant amount of inventory of its connector products.

Cables Unlimited competes on the basis of product quality, custom design, service, delivery time and value-added support to its customers. Since Cables Unlimited and Comnet Telecom are Corning Cables System CAH Connections Gold Program members, along with 13 companies permitted to manufacture fiber optic cable assemblies that are backed by Corning Cables Systems' extended warranty. Cables Unlimited and Comnet Telecom believes that being part of a limited number of Corning Cables System CAH Connections Gold Program members provides a competitive advantage in certain fiber optic markets.

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

## Government Regulations

The Company's products are designed to meet all known existing or proposed governmental regulations. Management believes that the Company currently meets existing standards for approvals by government regulatory agencies for its principal products.

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

## ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

## ITEM 2. DESCRIPTION OF PROPERTY

The Company currently leases its corporate headquarters and RF connector and cable assembly manufacturing facilities at 7610 Miramar Road, San Diego, California. At that location, the Company leases three buildings, consisting of approximately 19,600 square feet in the aggregate, that house the Company's corporate administration, sales and marketing, and engineering departments. The buildings also are used for production and warehousing by the Company's Connector and Cable Assembly division. The lease for this facility was scheduled to expire on March 31, 2017. However, the Company and its landlord have verbally agreed to amend the existing lease, which amendment, when executed by all parties, is expected to become effective on April 1, 2017. Under the proposed amendment, (i) the term of the lease will be extended until July 31, 2022, (ii) the Company will be required to pay monthly base rent of \$22,721 (which amount shall increase annually by 3% on each anniversary of the amendment), and (iii) the Company will be granted an option to renew the lease for one five year period at the then fair market rental rate (which in no event will be less than 103% of the then current base rent).

- (i) The Cables Unlimited Division leases an approximately 12,000 square foot facility located at 3 Old Dock Road, Yaphank, New York. The lease for this space expires June 30, 2017. However, Cables Unlimited has a one-time option to extend the term of the lease for an additional five (5) year term. 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. The landlord is a company controlled by Darren Clark, the former owner and current President of Cables Unlimited.



- (ii) The Comnet Telecom Division leases an approximately 15,000 square feet in two suites located at 1 Kimberly Road, East Brunswick, New Jersey. The lease for these facilities expires in September 2017.
- (iii) The Rel-Tech Electronics Division leases an approximately 14,000 square feet facility located at 215 Pepe Farm Road #B-D, Milford, Connecticut. The lease for this facility expires in May 2017.

The aggregate monthly rental for all of the Company's facilities currently is approximately \$52,000 per month, plus utilities, maintenance and insurance.

**ITEMS 3. LEGAL PROCEEDINGS**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**PART II**

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

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

The price range per share of common stock presented below represents the highest and lowest intraday sales prices for the Company's common stock on the NASDAQ during each quarter of the two most recent years.

<u>Quarter</u>	<u>High</u>	<u>Low</u>
<u>Fiscal 2016</u>		
November 1, 2015 - January 31, 2016	\$ 4.55	\$ 3.90
February 1, 2016 - April 30, 2016	4.35	2.09
May 1, 2016 - July 31, 2016	2.54	1.99
August 1, 2016 - October 31, 2016	2.45	1.70
<u>Fiscal 2015</u>		
November 1, 2014 - January 31, 2015	\$ 4.85	\$ 4.03
February 1, 2015 - April 30, 2015	4.49	4.00
May 1, 2015 - July 31, 2015	4.46	3.89
August 1, 2015 - October 31, 2015	4.61	3.95

Stockholders As of October 31, 2016, there were 196 holders of the Company's Common Stock according to the records of the Company's transfer agent, Continental Stock Transfer & Trust Company, New York, New York, not including holders who hold their stock in "street name."

Dividends The Company paid dividends of \$0.02, \$0.02, \$0.02 and \$0.07 per share during the three months ended October 31, 2016, July 31, 2016, April 30, 2016 and January 31, 2016, respectively, for a total of \$1.1 million. The Company paid a total of \$2.4 million of dividends during the fiscal year ended October 31, 2015 in four quarterly dividend payments

of \$0.07 per share. Dividends are declared and paid from time to time at the discretion of the Board of Directors subject to applicable laws, and depend on a number of factors, including our financial condition, results of operations, capital requirements, plans for future acquisitions, contractual restrictions, general business conditions and other factors that our Board of Directors may deem relevant.

Repurchase of Securities The Company did not repurchase any securities during the fiscal year October 31, 2016, and the previously announced repurchase program was terminated in September 2016.

Recent Sales of Unregistered Securities There were no previously unreported sales of equity securities by the Company that were not registered under the Securities Act during fiscal 2016.

## EQUITY COMPENSATION PLAN INFORMATION

The following table provides information as of October 31, 2016 with respect to the shares of Company common stock that may be issued under the Company's existing equity compensation plans.

Plan Category	A	B	C
	Number of Securities to be Issued Upon Exercise of Outstanding Options	Weighted Average Exercise Price of Outstanding Options (\$)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column A)
Equity Compensation Plans Approved by Stockholders (1)	857,851	\$ 4.59	800,411
Equity Compensation Plans Not Approved by Stockholders (2)	150,000	\$ 1.09	—
Total	1,007,851	\$ 4.07	800,411

(1) Consists of options granted under the R.F. Industries, Ltd. (i) 2010 Stock Option Plan and (ii) 2000 Stock Option Plan. The 2000 Stock Option Plan has expired, and no additional options can be granted under this plan. Accordingly, all 800,411 shares remaining available for issuance represent shares under the 2010 Stock Option Plan.

(2) Consists of options granted to five officers and/or key employees of the Company under employment agreements entered into by the Company with each of these officers and employees. Not applicable to a "smaller reporting company" as defined in Item 10(f)(1) of SEC Regulation S-K.

## 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

Our 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.

### **Inventories**

Inventories are stated at the lower of cost or market, 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 make provisions as necessary to properly reflect inventory value. Because inventories have, during the past few years, represented approximately one-third of our current 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. In June 2015, the Company acquired Rel-Tech Electronics, Inc. ("Rel-Tech"), a company that, from the date of its purchase by the Company through the second fiscal quarter of 2016, valued inventories using specific identification (last purchase price) on a FIFO basis. As of July 31, 2016, Rel-Tech values its inventories cost using the weighted average cost of accounting.

### **Allowance for Doubtful Accounts**

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

### **Long-Lived Assets Including Goodwill**

The Company assesses property, plant and equipment and intangible assets, which are considered definite-lived assets for impairment. Definite-lived assets are reviewed when there is evidence that events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. 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.

The Company amortizes its 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 requires 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**

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

If a deduction reported on a tax return for an equity-based incentive award exceeds the cumulative compensation cost for those instruments recognized for financial reporting purposes, any resulting realized tax benefit that exceeds the previously

calculated deferred tax asset for those instruments is considered an excess tax benefit, and is recognized as additional paid-in capital. If the tax deduction is less than the cumulative book compensation cost, the tax effect of the resulting difference is charged first to APIC, to the extent of the available pool of windfall tax benefits, with any remainder recognized in income tax expense.

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

### **Stock-based Compensation**

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

### **Earn-out Liability**

The purchase agreements for the Comnet and Rel-Tech acquisitions provides for earn-out payments of up to \$1,360,000 and \$800,000, respectively. The initial earn-out liability was valued at its fair value using the Monte Carlo simulation and is included as a component of the total purchase price. The earn-outs were 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 assumed timing and amount of the probability of payment 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. 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. The Comnet and Rel-Tech acquisitions are more fully described in Note 2 of the consolidated financial statements included with this report.

## **RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

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

## **OVERVIEW**

During the periods covered by this Annual Report, the Company marketed a variety of connector products, including connectors and cables, standard and custom cable assemblies, wiring harnesses, fiber optic cable products, and data center products to numerous industries for use in thousands of products. The range of products that the Company sold and the services that the Company provided has changed substantially in the periods covered by the attached financial statements. During the past few years, the Company sold its: (i) RF Neulink RF division (a manufacturer of data links and wireless modems), (ii) the RadioMobile division (a provider of end-to-end mobile management solutions for governmental agencies), and (iii) Aviel Electronics division (a provider of custom RF connectors primarily for aerospace and military customers). In addition, during March 2016, the Company announced the shutdown of its Bioconnect division, which comprised the entire operations of the Medical Cabling and Interconnect segment. RF Industries also purchased Comnet Telecom (a provider of fiber optic and other cabling technologies, custom patch cord assemblies, and other data center products) effective November 2014 and Rel-Tech (a provider of cable assemblies and wiring harnesses for blue chip industrial, oilfield, instrumentation and military customers) in June 2015. The acquisitions of Comnet and Rel-Tech have diversified the Company's product line and customer base, and have increased the Company's presence on the East Coast. As well, the Comnet and Rel-Tech divisions have significantly contributed to the Company's revenues and profitability since their acquisitions. During 2015, the Company also purchased a new patented connector product line and technology (the CompPro line).

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



and Cable Assembly” segment and the “Custom Cabling Manufacturing and Assembly” segment-based upon this evaluation.

During the fiscal year ended October 31, 2016, the RF Connector and Cable Assembly segment was comprised of two divisions and, upon the sale of Aviel Electronics during December 2015, only one division thereafter, while the Custom Cabling Manufacturing and Assembly segment was comprised of three divisions. The four divisions that met the quantitative thresholds for segment reporting are Connector and Cable Assembly, Cables Unlimited, Comnet and Rel-Tech. Each of the other divisions aggregated into these segments had similar products that were marketed to their respective customer base and production and product development processes that are similar in nature. The specific customers are different for each division; however, there was some overlapping of product sales to them. The methods used to distribute products are similar within each division aggregated. RF Industries purchased Comnet Telecom in January 2015 and Rel-Tech in June 2015. Both Comnet Telecom and Rel-Tech are included in the Custom Cabling Manufacturing and Assembly segment in the fiscal years ended October 31, 2016 and 2015. Since the acquisition of Comnet Telecom was effective for financial accounting purposes as of November 1, 2014, Comnet Telecom’s financial results are included in the results of the Custom Cabling Manufacturing and Assembly segment for the entire fiscal years ended October 31, 2016 and 2015. Financial results for Rel-Tech have been included in the results of the Custom Cabling Manufacturing and Assembly segment beginning June 1, 2015.

For the year ended October 31, 2016, most of the Company’s revenues were generated from the sale of RF connector products and connector cable assemblies (the Connector and Cable Assembly division accounted for approximately 31% of the Company’s total sales for the fiscal year ended October 31, 2016), and from the sale of fiber optics cable, copper cabling, custom patch cord assemblies, transceivers/converters and other data center equipment by Comnet (which accounted for approximately 30% of the Company’s total sales for the fiscal year ended October 31, 2016).

For the year ended October 31, 2016, the Company recognized \$57,000 of pretax royalty income from the sale of the former RF Neulink and RadioMobile divisions as well as \$148,000 of pretax loss from the shutdown of the Bioconnect division, all of which amounts have been included within discontinued operations.

The Company experienced an annual net loss in the fiscal year ended October 31, 2016 of \$4.1 million. The primary factor contributing to this net loss was a \$2.8 million non-cash charge related to the impairment of the goodwill and tradename of the Company’s Cables Unlimited subsidiary. However, other factors also contributed to the net loss, such as \$256,000 of professional fees and expenses in connection with the business combination transaction that the Company considered, and then abandoned, in fiscal 2016, \$171,000 of expenses incurred in connection with the implementation of a new enterprise resource planning (ERP) system that now integrates all of the Company’s operations on the East Coast and in California, and the legal, accounting and other expenses related to the disposition of the Aviel division and the closure of the Bioconnect division.

## Financial Condition

The following table presents certain key measures of financial condition as of October 31, 2016 and 2015 (in thousands, except percentages):

	2016		2015	
	Amount	% Total Assets	Amount	% Total Assets
Cash and cash equivalents	\$ 5,258	20.4%	\$ 7,595	23.5%
Current assets	16,793	65.0%	19,657	60.9%
Current liabilities	3,908	15.1%	4,361	13.5%
Working capital	12,885	49.9%	15,296	47.4%
Property and equipment, net	828	3.2%	921	2.9%
Total assets	25,837	100.0%	32,252	100.0%
Stockholders' equity	21,392	82.8%	26,371	81.8%

## Liquidity and Capital Resources

Management believes that its existing current assets and the amount of cash it anticipates it will generate from current operations will be sufficient to fund the anticipated liquidity and capital resource needs of the Company for at least twelve months subsequent to October 31, 2016. Management believes that its existing assets and the cash it expects to generate from operations will be sufficient during the current fiscal year based on the following:

- As of October 31, 2016, the Company had cash and cash equivalents equal to \$5.3 million.
- As of October 31, 2016, the Company had \$16.8 million in current assets and \$3.9 million in current liabilities.
- As of October 31, 2016, the Company had no outstanding indebtedness for borrowed funds.

As of October 31, 2016, the Company had a total of \$5.3 million of cash and cash equivalents compared to a total of \$7.6 million of cash and cash equivalents as of October 31, 2015. As of October 31, 2016, the Company had working capital of \$12.9 million and a current ratio of approximately 4.3:1.

The Company used \$1.3 million cash from operating activities during the year ended October 31, 2016. The cash flow deficit from operating activities was due to the net loss in fiscal 2016. However, the net loss significantly exceeded the net cash used in operating activities because of non-cash charges such as a \$2.8 million impairment charge to the goodwill and tradename of Cables Unlimited, \$1.0 million of depreciation and amortization expenses related to the acquisitions of Comnet, Rel-Tech and CompPro, and a \$168,000 write-down in the value of inventory. However, these non-cash charges were offset by certain cash expenditures, such as the \$895,000 paid, in the aggregate, to the owners/officers of Comnet and Rel-Tech as earn-out purchase price payments and incentive bonuses and the over \$256,000 of professional fees and expenses in connection with a business combination transaction that the Company considered, but abandoned, in fiscal 2016. The earn-outs and incentive payments related to Comnet ended in January 2017 and, accordingly, will not materially affect the Company's fiscal 2017 cash from operations. Furthermore, in fiscal 2016 the Company incurred over \$750,000 in salaries, travel expenses, office rent and certain other expenses that it does not anticipate will be incurred in fiscal 2017 as a result of recent personnel and other changes that the Company implemented.

During the year ended October 31, 2016, the Company generated \$26,000 from investing activities, primarily \$321,000 of cash received from the sale of Aviel's inventories and fixed assets, and the repayment of a \$67,000 note by the Company's retiring former CEO and founder. The funds generated from investment activities were partially offset by \$384,000 of capital expenditures, which included \$171,000 of payments toward the implementation of the Company's new enterprise resource planning (ERP) system.

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

As part of its announced business plan, the Company may from time to time acquire other companies or product lines in the future in order to diversify its product and customer base. Any future acquisitions may require the Company to make cash payments, which payments may reduce the Company's future liquidity and capital resources.

In April 2014, the Company announced that it may repurchase up to 500,000 shares of the Company's common stock in open market transactions. No shares were repurchased during the year ended October 31, 2016, and the repurchase program was terminated in September 2016.

During the year ended October 31, 2016, the Company paid a total of \$1.1 million of dividends to its stockholders. In order to improve the Company's ability to acquire other companies or product lines in the future and to maintain a sufficient level of liquidity, for the fiscal quarter ended April 30, 2016 the Company reduced its quarterly dividend from \$0.07 per share to \$0.02 per share.

## Results of Operations

The following summarizes the key components of the results of operations for the fiscal years ended October 31, 2016 and 2015 (in thousands, except percentages).

	2016		2015	
	Amount	% of Net Sales	Amount	% of Net Sales
Net Sales	\$ 30,241	100%	\$ 30,908	100%
Cost of sales	21,778	72%	20,446	66%
Gross profit	8,463	28%	10,462	34%
Engineering expenses	747	2%	775	3%
Goodwill and other intangible asset impairment	2,844	9%	-	0%
Selling and general expenses	9,560	32%	8,888	29%
Operating income (loss)	(4,688)	-15%	799	3%
Other income	5	0%	35	0%
Income (loss) from continuing operations before provision (benefit) for income taxes	(4,683)	-15%	834	3%
Provision (benefit) for income taxes	(652)	-2%	140	0%
Income (loss) from continuing operations	(4,031)	-13%	694	2%
Income (loss) from discontinued operations, net of tax	(58)	0%	300	1%
Consolidated net income (loss)	(4,089)	-13%	994	3%

Net sales of \$30.2 million for the year ended October 31, 2016 (the “fiscal 2016 year”) decreased \$700,000 or 2% when compared to net sales of \$30.9 million for the year ended October 31, 2015 (the “fiscal 2015 year”) despite the additional net sales of generated from the Company’s newly acquired Rel-Tech Electronics division. Rel-Tech, which was acquired in June 2015, contributed \$6.8 million of net sales during the fiscal 2016 year, compared to only \$3.1 million of net sales for the fiscal 2015 year. Excluding the net sales that were generated by newly acquired Rel-Tech, the aggregate net sales of the Company’s other divisions decreased by \$4.4 million or 16% during fiscal 2016 compared to fiscal 2015. The Company’s “Custom Cabling Manufacturing and Assembly” segment generated \$20.9 million of net sales for the fiscal 2016 and was the Company’s largest operating segment. While net sales in the Custom Cabling Manufacturing and Assembly segment increased due to the acquisition of Rel-Tech, net sales at Comnet decreased \$1.2 million or 12% for the fiscal 2016 compared to the fiscal 2015, while net sales at Cables Unlimited decreased \$832,000 or 14% for the same period. The decrease in net sales at Comnet was due to the softening of demand for its telecommunications and data products, while the decline at Cables Unlimited was due to a continuing decline in the sale of Cables Unlimited’s fiber optic products. For the fiscal 2016 year, the RF Connector and Cable Assembly segment had net sales of \$9.4 million, a decline of \$2.4 million or 20% from net sales of \$11.7 million for the fiscal 2015 year. The Company believes that the decrease in net sales at the RF Connector and Cable Assembly segment is attributable to a continuing industry-wide softening of demand for RF cable and connector products. In addition, in December 2015, the Company sold the assets of the Aviel division, which further decreased net sales in the RF Connector and Cable Assembly segment (in the fiscal 2015 year, Aviel generated \$884,000 of net sales).

The Company’s gross profit as a percentage of sales in the fiscal 2016 year decreased by 6 basis points to 28% compared to 34% in the fiscal 2015 year. The decrease in gross margins is primarily due to the decline in 1) higher margin connector sales at the Company’s RF Connector and Cable Assembly division and higher margin Optiflex sales at Cables Unlimited, 2) certain fixed manufacturing costs at the Company’s RF Connector and Cable Assembly and Cables Unlimited divisions spread over a lower revenue base, and 3) increased inventory reserves for specific product lines at the Company’s RF Connector and Cable Assembly and Cables Unlimited divisions. Historically, before the acquisitions of Comnet and Rel-Tech, the RF Connector and Cable Assembly segment operated with gross margins above 45%. However, Comnet and Rel-Tech’s gross margins historically have been lower than those of the RF Connector and Cable Assembly segment and the Company in general. Since sales at the RF Connector and Cable Assembly segment have been decreasing and the Custom Cabling Manufacturing

and Assembly segment now generates a majority of the Company's net sales, the Company's aggregate gross margins have decreased and are expected to remain below historical rates in the future.

Engineering expenses decreased \$28,000 or 4% for the fiscal 2016 year to \$747,000 compared to \$775,000 for the fiscal 2015 year due to decreased salary expense related to engineering activities. Engineering expenses represent costs incurred relating to the ongoing development of new products.

Selling and general expenses increased by \$700,000, or 8%, during the fiscal 2016 year to \$9.6 million from \$8.9 million in the prior period. The increase in selling and general expenses was primarily due to additional one-time expenses of approximately \$256,000 for professional fees and other costs incurred in an abandoned business combination transaction. In addition, selling and general expenses for the fiscal 2016 year increased due to a \$100,000 bonus the Company paid to its former CEO and founder upon his retirement from the Company after over 35 years of service, and \$85,000 of severance and legal costs related to the termination of the Company's CEO in October 2016. The increase in selling and general expenses was also attributable to additional on-going expenses of \$379,000 incurred by the Company's newly acquired Rel-Tech subsidiary, which subsidiary was owned by the Company for two months during the fiscal year 2015, compared to a full twelve months during fiscal 2016 year. Excluding selling and general expenses attributable to the abandoned business combination transaction, the retirement bonus, severance and legal costs, and the addition of Rel-Tech, selling and general expenses for the fiscal year 2016 decreased \$148,000 or 2% as compared to the comparable prior year period. In addition, to reduce the Company's selling and general expenses in fiscal 2017, the Company has recently implemented other cost cutting measures (and its interim President and Chief Executive Officer has agreed to serve for no salary).

In connection with the fiscal year ended October 31, 2016, the Company quantitatively evaluated the goodwill and intangibles of Cables Unlimited and determined that the carrying value of Cables Unlimited on the Company's financial statements exceeded its fair market value. As a result, an impairment to Cables Unlimited's goodwill and tradename was determined and the Company recorded a non-cash impairment charge to goodwill and tradename of \$2.6 million and \$150,000, respectively, for the 2016 fiscal year.

The provision (benefit) for income taxes from continuing operations was \$(652,000) or 14% and \$140,000 or 17% of income (loss) before income taxes for fiscal 2016 and 2015, respectively. The difference in the effective tax rates in each fiscal year is primarily attributable to the recognition of state tax benefits from the reapportionment of state income, R&D Credits, changes in earn-outs, goodwill impairment and other items. Deductions related to the exercise and disposition of equity-based incentive awards during the periods presented are, in general, available to offset taxable income on the Company's consolidated tax returns. Accordingly, the excess tax benefit related to the exercise and disposition of equity-based incentive awards for the periods presented, was credited to additional paid-in capital, not the provision (benefit) for income taxes. For the fiscal year 2016 and 2015, the Company incurred approximately \$154,000 and \$83,000, respectively, of windfalls from the exercise and disposition of equity-based incentive awards, of which \$154,000 and \$83,000 was recorded against its additional paid-in capital.

The Company had a loss of \$58,000 from discontinued operations, net of tax, during the fiscal 2016 year, compared to \$300,000 of income in the fiscal 2015 year. During March 2016, the Company announced the shutdown of its Bioconnect division. The closure is part of the Company's ongoing plan to close or dispose of underperforming divisions that are not part of the Company's core operations. For the fiscal 2016 and 2015 years, the Company recognized pretax losses of \$90,000 and pretax income of \$419,000, respectively, from the Bioconnect division. Included in the loss for the fiscal 2016 year, the Company recognized a \$148,000 pretax write-down on Bioconnect division's inventory. During the fiscal year ended October 31, 2013, the Company sold its RadioMobile and RF Neulink divisions and, accordingly, the results of these divisions are also included in discontinued operations for all periods presented. The Company recognized royalty income of \$57,000 and \$93,000, respectively, from RadioMobile and RF Neulink for the fiscal 2016 and 2015 years.

For the fiscal 2016 year, the Company incurred an operating loss of \$4.7 million and a net loss of \$4.1 million compared to income from operations of \$799,000 and net income of \$994,000 for the fiscal 2015 year. The losses in the fiscal 2016 year are attributable primarily to an impairment charge of \$2.8 million, a reduction in the Company's gross margins and to increased selling and general expenses. In part to address these losses, the Company has recently disposed of, or terminated, two underperforming divisions and is taking steps to reduce its expenses including the recent termination of certain officers and other personnel. The compensation and related expense savings from these personnel reductions is expected to be in excess of \$750,000 in fiscal 2017.



## 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.

We have audited the accompanying consolidated balance sheets of RF Industries, Ltd. and Subsidiaries as of October 31, 2016 and 2015, and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended. RF Industries, Ltd. and Subsidiaries' management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, 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. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of RF Industries, Ltd. and Subsidiaries as of October 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ CohnReznick LLP

San Diego, California

January 27, 2017

**RF INDUSTRIES, LTD. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**OCTOBER 31, 2016 AND 2015**  
(In thousands, except share and per share amounts)

<u>ASSETS</u>	<u>2016</u>	<u>2015</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 5,258	\$ 7,595
Trade accounts receivable, net of allowance for doubtful accounts of \$62 and \$59, respectively	4,077	3,980
Inventories	6,022	6,928
Other current assets	1,436	728
Deferred tax assets	-	426
<b>TOTAL CURRENT ASSETS</b>	<u>16,793</u>	<u>19,657</u>
Property and equipment		
Equipment and tooling	3,203	3,215
Furniture and office equipment	799	936
	<u>4,002</u>	<u>4,151</u>
Less accumulated depreciation	3,174	3,230
Total property and equipment	<u>828</u>	<u>921</u>
Goodwill		
Amortizable intangible assets, net	3,219	5,913
Non-amortizable intangible assets	3,619	4,268
Note receivable from stockholder	1,237	1,387
Other assets	-	67
	141	39
<b>TOTAL ASSETS</b>	<u>\$ 25,837</u>	<u>\$ 32,252</u>

**RF INDUSTRIES, LTD. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**OCTOBER 31, 2016 AND 2015**  
(In thousands, except share and per share amounts)

<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>2016</b>	<b>2015</b>
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 1,138	\$ 1,493
Accrued expenses	2,770	2,868
<b>TOTAL CURRENT LIABILITIES</b>	<b>3,908</b>	<b>4,361</b>
Deferred tax liabilities	409	1,143
Other long-term liabilities	128	377
<b>TOTAL LIABILITIES</b>	<b>4,445</b>	<b>5,881</b>
 <b>COMMITMENTS AND CONTINGENCIES</b>		
 <b>STOCKHOLDERS' EQUITY</b>		
Common stock - authorized 20,000,000 shares of \$0.01 par value; 8,835,483 and 8,713,664 shares issued and outstanding at October 31, 2016 and 2015, respectively	88	87
Additional paid-in capital	19,379	19,129
Retained earnings	1,925	7,155
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>21,392</b>	<b>26,371</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 25,837</b>	<b>\$ 32,252</b>

See Notes to Consolidated Financial Statements.

**RF INDUSTRIES, LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**YEARS ENDED OCTOBER 31, 2016 AND 2015**  
(In thousands, except share and per share amounts)

	<u>2016</u>	<u>2015</u>
Net sales	\$ 30,241	\$ 30,908
Cost of sales	<u>21,778</u>	<u>20,446</u>
Gross profit	<u>8,463</u>	<u>10,462</u>
Operating expenses:	747	775
Engineering	2,844	-
Goodwill and other intangible asset impairment	<u>9,560</u>	<u>8,888</u>
Selling and general	<u>13,151</u>	<u>9,663</u>
Totals	<u>(4,688)</u>	<u>799</u>
Operating income (loss)	<u>5</u>	<u>35</u>
Other income		
Income (loss) from continuing operations before provision (benefit) for income taxes	(4,683)	834
Provision (benefit) for income taxes	<u>(652)</u>	<u>140</u>
Income (loss) from continuing operations	<u>(4,031)</u>	<u>694</u>
Income (loss) from discontinued operations, net of tax	<u>(58)</u>	<u>300</u>
Consolidated net income (loss)	<u>\$ (4,089)</u>	<u>\$ 994</u>
Earnings (loss) per share		
Basic		
Continuing operations	\$ (0.46)	\$ 0.08
Discontinued operations	<u>(0.01)</u>	<u>0.04</u>
Net income (loss) per share	<u>\$ (0.47)</u>	<u>\$ 0.12</u>
Earnings (loss) per share		
Diluted		
Continuing operations	\$ (0.46)	\$ 0.08
Discontinued operations	<u>(0.01)</u>	<u>0.03</u>
Net income (loss) per share	<u>\$ (0.47)</u>	<u>\$ 0.11</u>
Weighted average shares outstanding		
Basic	<u>8,786,510</u>	<u>8,494,111</u>
Diluted	<u>8,786,510</u>	<u>8,862,217</u>

See Notes to Consolidated Financial Statements.



**RF INDUSTRIES, LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**YEARS ENDED OCTOBER 31, 2016 AND 2015**  
(In thousands, except share amounts)

	<u>Common Stock</u>		<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>			
Balance, November 1, 2014	8,255,979	\$ 83	\$ 17,230	\$ 8,543	\$ 25,856
Exercise of stock options	154,837	1	327	-	328
Stock issuances for acquisition of Comnet and Rel-Tech	302,848	3	1,257	-	1,260
Excess tax benefit from exercise of stock options	-	-	83	-	83
Stock-based compensation expense	-	-	232	-	232
Dividends	-	-	-	(2,382)	(2,382)
Net income	-	-	-	994	994
<hr/>					
Balance, October 31, 2015	8,713,664	87	19,129	7,155	26,371
Exercise of stock options	180,067	2	47	-	49
Excess tax benefit from exercise of stock options	-	-	154	-	154
Stock-based compensation expense	-	-	206	-	206
Dividends	-	-	-	(1,141)	(1,141)
Treasury stock purchase and retired	(58,248)	(1)	(157)	-	(158)
Net loss	-	-	-	(4,089)	(4,089)
<hr/>					
Balance, October 31, 2016	8,835,483	\$ 88	\$ 19,379	\$ 1,925	\$ 21,392

See Notes to Consolidated Financial Statements.

**RF INDUSTRIES, LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED OCTOBER 31, 2016 AND 2015**  
(In thousands)

	<b>2016</b>	<b>2015</b>
<b>OPERATING ACTIVITIES:</b>		
Consolidated net income (loss)	\$ (4,089)	\$ 994
Adjustments to reconcile consolidated net income (loss) to net cash provided by (used in) operating activities:		
Bad debt expense	9	20
Accounts receivable write-off	-	11
Depreciation and amortization	1,036	996
Goodwill and other intangible asset impairment	2,844	-
Inventory write-downs	168	170
Gain (loss) on disposal of fixed assets	68	(16)
Stock-based compensation expense	206	232
Deferred income taxes	(307)	(164)
Excess tax benefit from stock-based compensation	(154)	(83)
<b>Changes in operating assets and liabilities:</b>		
Trade accounts receivable	(107)	(400)
Inventories	417	(205)
Other current assets	(554)	(5)
Other long-term assets	(102)	(2)
Accounts payable	(355)	(354)
Customer deposit	-	(6)
Accrued expenses	(98)	(451)
Other long-term liabilities	(249)	(569)
Net cash provided by (used in) operating activities	(1,267)	168
<b>INVESTING ACTIVITIES:</b>		
Acquisition of businesses, net of cash acquired of \$758	-	(5,132)
Proceeds from notes receivable from stockholder	67	-
Proceeds from sale of fixed assets	22	16
Proceeds from sale of inventory	321	-
Capital expenditures	(384)	(204)
Net cash provided by (used in) investing activities	26	(5,320)
<b>FINANCING ACTIVITIES:</b>		
Proceeds from exercise of stock options	49	328
Purchases of treasury stock	(158)	-
Excess tax benefit from exercise of stock options	154	83
Dividends paid	(1,141)	(2,382)
Net cash used in financing activities	(1,096)	(1,971)
Net decrease in cash and cash equivalents	(2,337)	(7,123)
Cash and cash equivalents, beginning of year	7,595	14,718
Cash and cash equivalents, end of year	\$ 5,258	\$ 7,595
Supplemental cash flow information – income taxes paid	\$ 208	\$ 645
<b>Supplemental schedule of noncash investing and financing activities:</b>		
Retirement of treasury stock	\$ 157	\$ -
Stock issuance for acquisition of businesses (Comnet and Rel-Tech)	\$ -	\$ 1,260

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 three wholly-owned subsidiaries (collectively, hereinafter the “Company”), primarily engages in the design, manufacture, and marketing of interconnect products and systems, including coaxial and specialty cables, fiber optic cables and connectors, and electrical and electronic specialty cables. For internal operating and reporting purposes, and for marketing purposes, as of the end of the fiscal year ended October 31, 2016 the Company classified its operations into the following four divisions/subsidiaries: (i) The 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) Comnet Telecom Supply, Inc., the subsidiary that manufactures and sells fiber optics cable, distinctive cabling technologies and custom patch cord assemblies, as well as other data center products; and (iv) the recently acquired Rel-Tech Electronics, Inc., the subsidiary that designs and manufacturers of cable assemblies and wiring harnesses for blue chip industrial, oilfield, instrumentation and military customers. Both the Cables Unlimited division and the Comnet Telecom division 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. During the fiscal year ended October 31, 2016, RF Industries, Ltd. sold the Aviel Electronics Division that designed, manufactured and distributed specialty and custom RF connectors, and discontinued the Bioconnect Division that manufactured and distributed cabling and interconnect products to the medical monitoring market.

**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 for the year ended October 31, 2015 include the accounts of RF Industries, Ltd., Cables Unlimited, Inc. (“Cables Unlimited”), Comnet Telecom Supply, Inc. (“Comnet”), a wholly-owned subsidiary that RF Industries, Ltd. acquired effective November 1, 2014, and Rel-Tech Electronics, Inc. (“Rel-Tech”), a wholly-owned subsidiary that RF Industries, Ltd. acquired effective June 1, 2015. The consolidated financial statements for the year ended October 31, 2016 include the accounts of RF Industries, Ltd., Cables Unlimited, Comnet and Rel-Tech (collectively the “Company”). All intercompany balances and transactions have been eliminated in consolidation.

**Reclassifications**

Certain amounts in the prior period consolidated financial statements have been reclassified to conform to the current period presentation. These reclassifications had no effect on reported consolidated net income.

**Cash equivalents**

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

## **Revenue recognition**

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

## **Inventories**

Inventories are stated at the lower of cost or market, 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.

In June 2015, the Company acquired Rel-Tech, a company that valued its inventories using specific identification (last purchase price) on a FIFO basis. As of July 31, 2016, Rel-Tech values its inventories cost using the weighted average cost of accounting.

## **Property and equipment**

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

## **Goodwill**

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

We assess whether a goodwill impairment exists using both qualitative and quantitative assessments. 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").

For the fiscal year 2016, Cables Unlimited did not meet its sales volume and revenue goals, and the mix of product sold had lower margins than planned. These results, along with changes in the competitive marketplace and an evaluation of business priorities, led to a shift in strategic direction and reduced future revenue and profitability expectations for the business. The results of these changes and circumstances lead to the determination that Cables Unlimited did not pass our qualitative assessment and therefore a quantitative assessment was required.

Upon completion of our Step 1 test, we found that the results indicated that Cables Unlimited's carrying value exceeded its estimated fair value, and as a result, the Step 2 test was performed specific to Cables Unlimited. Under Step 2, the fair value of all assets and liabilities were estimated, including customer list and backlog, for the purpose of deriving an estimate of the fair value of goodwill. The fair value of the goodwill was then compared to the recorded goodwill to determine the amount of the impairment. Assumptions used in measuring the value of these assets and liabilities included the discount rates used in valuing the intangible assets, and consideration of the market environment in valuing the tangible assets.

Upon completion of our Step 2 test, our Cables Unlimited division's goodwill was determined to be impaired. As of October 31, 2016, the Company recorded a \$2.6 million impairment charge to goodwill. Cables Unlimited's goodwill is included in the Custom Cabling Manufacturing and Assembly segment.

No other instances of impairment were identified as of October 31, 2016 and no instances of goodwill impairment were identified as of October 31, 2015.

On June 15, 2011, the Company completed its acquisition of Cables Unlimited. Goodwill related to this acquisition is included within the Cables Unlimited reporting unit. Effective November 1, 2014, the Company also completed its acquisition of Comnet. Goodwill related to this acquisition is included within the Comnet reporting unit. As of May 19, 2015, the Company completed its acquisition of the CompPro product line. Goodwill related to this acquisition is included within the Connector and Cable Assembly Division. Effective June 1, 2015, the Company completed its acquisition of Rel-Tech. Goodwill related to this acquisition is included within the Rel-Tech reporting unit.

### **Long-lived assets**

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

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

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

Upon completion of our Step 2 test (see "Goodwill" above), our Cables Unlimited division's trademark was determined to be impaired. As of October 31, 2016, the Company recorded a \$150,000 impairment charge to its trademark. Cables Unlimited's trademark is included in the Custom Cabling Manufacturing and Assembly segment.

No other instances of impairment were identified as of October 31, 2016 and no instances of impairment were identified as of October 31, 2015.

### **Earn-out liability**

The purchase agreements for the Comnet and Rel-Tech acquisitions provide for earn-out payments of up to \$1,360,000 and \$800,000, respectively. The initial earn-out liability was valued at its fair value using the Monte Carlo simulation and is included as a component of the total purchase price. The earn-outs were 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 assumed timing and amount of the probability of payment 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. 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. The Comnet and Rel-Tech acquisitions are more fully described in Note 2.



## Intangible assets

Intangible assets consist of the following as of October 31 (in thousands):

	<u>2016</u>	<u>2015</u>
Amortizable intangible assets:		
Non-compete agreements (estimated lives 3 - 5 years)	\$ 310	\$ 310
Accumulated amortization	(273)	(212)
	<u>37</u>	<u>98</u>
Customer relationships (estimated lives 7 - 15 years)	5,099	5,099
Accumulated amortization	(1,644)	(1,101)
	<u>3,455</u>	<u>3,998</u>
Backlog (estimated life 1 year)	134	134
Accumulated amortization	(134)	(100)
	<u>-</u>	<u>34</u>
Patents (estimated life 14 year)	142	142
Accumulated amortization	(15)	(4)
Totals	<u>127</u>	<u>138</u>
Non-amortizable intangible assets:	\$ 3,619	\$ 4,268
Trademarks	<u>\$ 1,237</u>	<u>\$ 1,387</u>

Amortization expense for the years ended October 31, 2016 and 2015 was \$649,000 and \$598,000, respectively.

Impairment to trademarks for the years ended October 31, 2016 and 2015 was \$150,000 and \$0, respectively.

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

<u>Year ending October 31,</u>	<u>Amount</u>
2017	\$ 589
2018	553
2019	553
2020	553
2021	413
Thereafter	958
Total	<u>\$ 3,619</u>

## Advertising

The Company expenses the cost of advertising and promotions as incurred. Advertising costs charged to operations were approximately \$156,000 and \$152,000 in 2016 and 2015, respectively.

## Research and development

Research and development costs are expensed as incurred. The Company's research and development expenses relate to its engineering activities, which consist of the design and development of new products for specific customers, as well as the design and engineering of new or redesigned products for the industry in general. During the years ended October 31, 2016 and 2015, the Company recognized \$747,000 and \$775,000 in engineering expenses, respectively.

## Income taxes

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

The Company recognizes accrued interest and penalties related to unrecognized tax benefits as a component of income tax expense.

## Stock options

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

For the fiscal years ended October 31, 2016 and 2015, charges related to stock-based compensation amounted to approximately \$206,000 and \$232,000, respectively. For the fiscal years ended October 31, 2016 and 2015, stock-based compensation classified in cost of sales amounted to \$28,000 and \$53,000 and stock-based compensation classified in selling and general and engineering expense amounted to \$178,000 and \$179,000, respectively.

## Earnings (loss) per share

Basic earnings (loss) per share is calculated by dividing net income (loss) applicable to common stockholders by the weighted average number of common shares outstanding during the period. The calculation of diluted earnings (loss) per share is similar to that of basic earnings (loss) per share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if all potentially dilutive common shares, principally those issuable upon the exercise of stock options, were issued and the treasury stock method had been applied during the period. The greatest number of shares potentially issuable by the Company upon the exercise of stock options in any period for the years ended October 31, 2016 and 2015, that were not included in the computation because they were anti-dilutive, totaled 824,441 and 792,386, respectively.

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

	<u>2016</u>	<u>2015</u>
Numerators:		
Consolidated net income (loss) (A)	\$ (4,089,000)	\$ 994,000
Denominators:		
Weighted average shares outstanding for basic earnings (loss) per share (B)	8,786,510	8,494,111
Add effects of potentially dilutive securities - assumed exercise of stock options	-	368,106
Weighted average shares outstanding for diluted earnings per share (C)	<u>8,786,510</u>	<u>8,862,217</u>
Basic earnings (loss) per share (A)/(B)	<u>\$ (0.47)</u>	<u>\$ 0.12</u>
Diluted earnings (loss) per share (A)/(C)	<u>\$ (0.47)</u>	<u>\$ 0.11</u>

## Recent accounting standards

In August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-15, Classification of Certain Cash Receipts and Cash Payments. The new standard will change the classification of certain cash payments and receipts within the cash flow statement. Specifically, payments for debt prepayment or debt extinguishment costs, including third-party costs, premiums paid, and other fees paid to lenders that are directly related to the debt prepayment or debt extinguishment, excluding accrued interest, will now be classified as financing activities. Previously, these payments were classified as operating expenses. The guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019, with early adoption permitted, and will be applied retrospectively. The Company does not expect that the adoption of this new standard will have a material impact on its Consolidated Financial Statements.

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

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, Compensation – Stock Compensation. The new standard will modify several aspects of the accounting and reporting for employee share-based payments and related tax accounting impacts, including the presentation in the statements of operations and cash flows of certain tax benefits or deficiencies and employee tax withholdings, as well as the accounting for award forfeitures over the vesting period. The new standard is effective for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact the adoption of this new standard will have on its Consolidated Financial Statements.

In November 2015, the FASB issued Accounting Standards Update No. 2015-17, Income Taxes. Current GAAP requires an entity to separate deferred income tax liabilities and assets into current and noncurrent amounts in a classified balance sheet. The new standard simplifies the presentation of deferred tax assets and liabilities and requires that deferred tax assets and liabilities be classified as noncurrent in a classified balance sheet. This ASU is effective for financial statements issued for fiscal years beginning after December 15, 2015, with early adoption permitted. This ASU affected our disclosures relating to deferred tax assets and liabilities. The Company has applied this guidance prospectively and it did not have a material impact on the consolidated balance sheets.

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

## NOTE 2 - BUSINESS ACQUISITIONS

### Rel-Tech Electronics, Inc.

On June 5, 2015, the Company purchased 100% of the issued and outstanding shares of Rel-Tech pursuant to a Stock Purchase Agreement. Rel-Tech was wholly-owned by Wilfred D. LeBlanc Jr., Ralph Palumbo and their respective wives. Rel-Tech is a Milford, Connecticut based manufacturer and supplier of custom cable assemblies and wiring harnesses. At the closing, RF Industries, Ltd. paid the sellers \$3,100,000, which consisted of \$2,100,000 in cash and 50,467 shares of the Company's unregistered common stock valued at \$200,000 based on a per share price of \$3.96 (the volume weighted average price of the Company's common stock during the five trading days before the closing date) and, if certain financial targets are met by Rel-Tech over a three-year period, agreed to pay additional cash earn-out payments of up to \$800,000. Rel-Tech will operate as a stand-alone subsidiary for at least the next two years. Mr. Palumbo will serve as President of Rel-Tech at a base salary of \$150,000 per year. Mr. Palumbo will also be entitled to earn an annual bonus of up to 50% of his base salary. Rel-Tech has also entered into employment agreements to retain five key managers.

The acquisition was accounted for in accordance with the acquisition method of accounting. The acquired assets and assumed liabilities were recorded by the Company at their estimated fair values. The Company determined the estimated fair values with the assistance of appraisals or valuations performed by an independent third party specialist. Rel-Tech offers a full range of value-added services including product design, prototyping, stocking, bill of materials management, consignment and fulfillment programs. Rel-Tech provides engineered solutions to many leasing OEMs and markets its products to customers in commercial as well as military arenas. All assembly is performed at the Rel-Tech's facilities. These products and services supplement and enhance the existing markets of RF Industries without incurring substantially more costs than incurred in the purchase of Rel-Tech. These factors, among others, contributed to a purchase price in excess of the estimated fair value of Rel-Tech's net identifiable assets acquired and, as a result, we have recorded goodwill in connection with this acquisition. We do not expect the goodwill recorded to be deductible for income tax purposes.

Although the closing occurred on June 5, 2015, the acquisition of Rel-Tech is deemed to have become effective for financial accounting purposes as of June 1, 2015. Accordingly, Rel-Tech's financial results have been included in the results of the Custom Cabling Manufacturing and Assembly segment since June 1, 2015.

The following table summarizes the components of the estimated purchase price at fair value at June 1, 2015:

Cash consideration paid	\$ 2,100,000
RF Industries, Ltd. common shares issued (50,467 shares)	200,000
Earn-out	610,000
Total purchase price	<u>\$ 2,910,000</u>

The following table summarizes the final allocation of the estimated purchase price at fair value at June 1, 2015:

Current assets	\$ 1,637,000
Fixed assets	68,000
Other assets	17,000
Intangible assets	1,425,000
Goodwill	833,000
Deferred tax liabilities	(489,000)
Non-interest bearing liabilities	(581,000)
Net assets	<u>\$ 2,910,000</u>

The results of Rel-Tech's operations subsequent to June 1, 2015 have been included in the Company's consolidated results of operations. All costs related to the acquisition of Rel-Tech have been expensed as incurred. For the periods ended October 31, 2016 and 2015, Rel-Tech contributed \$6.8 million and \$3.1 million of revenue, respectively.

The Company recognized a \$154,000 charge to selling and general expenses as a result of the revaluation of the earn-out liability as it relates to the acquisition of Rel-Tech as of October 31, 2016. As of October 31, 2016, the Company has accrued \$450,000 in earn-out accrual, of which \$322,000 is in current liabilities and \$128,000 is in long-term liabilities.

The following unaudited pro forma financial information presents the combined operating results of the Company and Rel-Tech as if the acquisition 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.

Pro forma financial information is presented in the following table:

	<u>October 31, 2015</u>
Revenue	\$ 34,714,000
Net income	958,000
Earnings per share	
Basic	<u>\$ 0.11</u>
Diluted	<u>\$ 0.11</u>

#### CompPro Product Line

On May 19, 2015, the Company purchased the CompPro braided product line ("CompPro"), including the intellectual property rights to that product line, for a total purchase price of \$700,000 cash. CompPro utilizes a patented compression technology that offers revolutionary advantages for a water-tight connection, 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. Included in the purchase is inventory, designs, intellectual property rights and the rights to manufacture and sell CompPro products. Financial results for sales of the CompPro products are included in the results of the RF Connector and Cable Assembly segment beginning in the Company's fiscal quarter ended October 31, 2015.

The acquisition was accounted for in accordance with the acquisition method of accounting. The acquired assets were recorded by the Company at their estimated fair values. The Company determined the estimated fair values with the assistance of appraisals or valuations performed by an independent third party specialist. These above factors, among others, contributed to a purchase price in excess of the estimated fair value of CompPro's net identifiable assets acquired and, as a result, the Company recorded goodwill in connection with this transaction.

Goodwill acquired was allocated to the Company's Connector and Cable Assembly segment as part of the purchase price allocation. The Company expects the goodwill recorded to be deductible for income tax purposes. Acquired amortizable intangible assets are being amortized on a straight-line basis over their estimated useful lives ranging from seven to fourteen years.

The following table summarizes the components of the estimated purchase price at fair value at May 19, 2015:

Cash consideration paid	<u>\$ 700,000</u>
Total purchase price	<u>\$ 700,000</u>



The following table summarizes the final allocation of the estimated purchase price at fair value at May 19, 2015:

Current assets	\$	186,300
Fixed assets		67,500
Intangible assets		321,200
Goodwill		125,000
Net assets	\$	<u>700,000</u>

The results of CompPro's operations subsequent to May 19, 2015 have been included in the Company's consolidated results of operations. All costs related to the acquisition of CompPro have been expensed as incurred.

#### **Comnet Telecom Supply, Inc.**

The Company purchased 100% of the issued and outstanding shares of Comnet from Robert Portera, the sole shareholder of Comnet. Comnet is a New Jersey based manufacturer and supplier of telecommunications and data products, including fiber optic cables, cabling technologies, custom patch cord assemblies, data center consoles and other data center equipment. Comnet is a New York corporation that was formed in 1993. For income tax purposes, both parties have agreed to make an election under Internal Revenue Code 338(h) (10). At the closing, RF Industries, Ltd. paid Mr. Portera \$4,150,000 in cash and stock, and agreed to pay him up to an additional \$1,360,000 in cash as an earn-out over the next two years if Comnet meets certain financial milestones. The purchase price paid at the closing consisted of \$3,090,000 in cash (of which \$300,000 was deposited into a bank escrow account for one year, which has since been subsequently released, as security for the seller's indemnification obligations under the stock purchase agreement) and 252,381 shares of RF Industries, Ltd.'s unregistered common stock, which shares were valued at \$1,060,000 based on a per share price of \$4.20 (the volume weighted average price of the common stock during the five trading days before the closing date). Comnet will be operated as a stand-alone subsidiary for at least the next two years from the date of acquisition. The Company entered into a two-year employment agreement with Mr. Portera pursuant to which Mr. Portera has acted as the President of Comnet. Under the employment agreement, which expired on January 20, 2017, Mr. Portera received a base salary of \$210,000 per year. Under the employment agreement, Mr. Portera was entitled to earn an annual bonus of up to 50% of his base salary. Since the acquisition of Comnet was effective for financial accounting purposes as of November 1, 2014 with an effective closing date of January 20, 2015, Comnet's financial results have been included in the results of the Custom Cabling Manufacturing and Assembly segment since November 1, 2014.

The acquisition was accounted for in accordance with the acquisition method of accounting. The acquired assets and assumed liabilities were recorded by the Company at their estimated fair values. The Company determined the estimated fair values with the assistance of appraisals or valuations performed by an independent third party specialist. The products manufactured and supplied by Comnet include fiber optic cables, cabling technologies, custom patch cord assemblies, data center consoles and other data center equipment. These products supplement and enhance the existing markets of RF Industries as well as tap into new data center markets that the Company would not have been able to enter without incurring substantially more costs than incurred in the purchase of Comnet. The capital and other resources required to enhance the Company's fiber optics market and enter the data center market would have greatly exceeded the purchase price of \$4,150,000 (excluding the potential earn-out). These factors, among others, contributed to a purchase price in excess of the estimated fair value of Comnet's net identifiable assets acquired and, as a result, the Company recorded goodwill in connection with this transaction.

Goodwill acquired was allocated to the Company's operating segment and Comnet reporting unit as part of the purchase price allocation. The Company expects the goodwill recorded to be deductible for income tax purposes. Acquired amortizable intangible assets are being amortized on a straight-line basis over their estimated useful lives ranging from three to eight years.

The following table summarizes the components of the estimated purchase price at fair value at November 1, 2014:

Cash consideration paid	\$ 3,090,000
RF Industries, Ltd. common shares issued (252,381 shares)	1,060,000
Earn-out	<u>1,235,000</u>
Total purchase price	<u><u>\$ 5,385,000</u></u>

The following table summarizes the final allocation of the purchase price at fair value at November 1, 2014:

Current assets	\$ 1,875,000
Fixed assets	150,000
Intangible assets	2,910,000
Goodwill	1,879,000
Non-interest bearing liabilities	<u>(1,429,000)</u>
Net assets	<u><u>\$ 5,385,000</u></u>

The results of Comnet's operations subsequent to November 1, 2014 have been included in the Company's consolidated results of operations. All costs related to the acquisition of Comnet have been expensed as incurred. For the periods ended October 31, 2016 and 2015, Comnet contributed \$9.1 million and \$10.3 million of revenue, respectively.

The Company recognized a \$56,000 and \$318,000 credit to selling and general expenses as a result of the revaluation of the earn-out liability as it relates to the acquisition of Comnet as of October 31, 2016 and 2015, respectively. As of October 31, 2016, the Company has accrued \$385,000 in earn-out accrual, which is included in current liabilities.

### Note 3 - Discontinued operations

During 2013, the Company sold its RF Neulink and RadioMobile divisions, which together had comprised the Company's RF Wireless segment. The divisions were sold pursuant to asset purchase agreements, whereby no purchase price was paid at the closing. Rather, the agreements stipulated royalty payments from each of the purchasers over a three-year period. For the years ended October 31, 2016 and 2015, the Company recognized approximately \$57,000 and \$93,000, respectively, of aggregate royalty income for RF Neulink and RadioMobile, which amounts have been included within discontinued operations.

During March 2016, the Company announced the shutdown of its Bioconnect division, which comprised the entire operations of the Medical Cabling and Interconnect segment. The closure is part of the Company's ongoing plan to close or dispose of underperforming divisions that are not part of the Company's core operations. For the year ended October 31, 2016, the Company recognized approximately \$148,000 of loss for the Bioconnect division, which amounts have been included within discontinued operations. Included in the fiscal year 2016 loss, the Company recognized a \$148,000 pretax write-down on Bioconnect division's inventory and fixed assets. For the year ended October 31, 2015, the Company recognized approximately \$419,000 of income for the Bioconnect division.

The following summarized financial information related to the RF Neulink, RadioMobile and Bioconnect divisions is segregated from continuing operations and reported as discontinued operations for the years ended October 31, 2016 and 2015 (in thousands):

	<u>2016</u>	<u>2015</u>
Royalties	\$ 57	\$ 93
Bioconnect	(148)	419
Provision (benefit) for income taxes	<u>(33)</u>	<u>212</u>
Income (loss) from discontinued operations, net of tax	<u><u>\$ (58)</u></u>	<u><u>\$ 300</u></u>

#### Note 4 - Concentrations of credit risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. The Company maintains its cash and cash equivalents with high-credit quality financial institutions. At October 31, 2016, the Company had cash and cash equivalent balances in excess of federally insured limits in the amount of approximately \$3.9 million.

One customer accounted for approximately 15% and 18% of the Company's net sales for the fiscal year ended October 31, 2016 and 2015, respectively. At October 31, 2016 and 2015, this customer's accounts receivable balance accounted for approximately 20% and 17%, respectively, of the Company's total net accounts receivable balances. Although this customer has been an on-going major customer of the Company continuously during the past 15 years, the written agreements with this customer do not have any minimum purchase obligations and the customer could stop buying the Company's products at any time and for any reason. A reduction, delay or cancellation of orders from this customer or the loss of this customer could significantly reduce the Company's future revenues and profits.

There was no product line that was significant for the fiscal years ended October 31, 2016 and 2015.

#### Note 5 - Inventories and major vendors

Inventories, consisting of materials, labor and manufacturing overhead, are stated at the lower of cost or market. Cost has been determined using the weighted average cost method. In June 2015, the Company acquired Rel-Tech, a company that valued its inventories using specific identification (last purchase price) on a FIFO basis. As of July 31, 2016, Rel-Tech values its inventory cost using the weighted average cost of accounting. Inventories consist of the following (in thousands):

	<u>2016</u>	<u>2015</u>
Raw materials and supplies	\$ 2,642	\$ 2,671
Work in process	279	270
Finished goods	<u>3,101</u>	<u>3,987</u>
Totals	<u>\$ 6,022</u>	<u>\$ 6,928</u>

Purchases of inventory from two major vendors during fiscal 2016 represented 9% and 6%, respectively, of total inventory purchases compared to two major vendors who represented 12% and 8%, respectively, of total inventory purchases in fiscal 2015. The Company has arrangements with these vendors to purchase product based on purchase orders periodically issued by the Company.

#### Note 6 - Other current assets

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

	<u>2016</u>	<u>2015</u>
Prepaid taxes	\$ 871	\$ 408
Prepaid expense	347	140
Notes receivable, current portion	83	-
Other	<u>135</u>	<u>180</u>
Totals	<u>\$ 1,436</u>	<u>\$ 728</u>

Long-term portion of notes receivable of \$104,000 is recorded in other assets as of October 31, 2016.

## Note 7 - Accrued expenses and other long-term liabilities

Accrued expenses consist of the following (in thousands):

	<u>2016</u>	<u>2015</u>
Wages payable	\$ 941	\$ 978
Accrued receipts	578	438
Earn-out liability	707	1,150
Other current liabilities	544	302
Totals	<u>\$ 2,770</u>	<u>\$ 2,868</u>

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

Non-current portion of earn-out liability of \$128,000 is recorded in other long-term liabilities as of October 31, 2016.

## Note 8 - Segment information

The Company aggregates operating divisions into operating segments which have similar economic characteristics primarily in the following areas: (1) the nature of the product and services; (2) the nature of the production process; (3) the type or class of customer for their products and services; (4) the methods used to distribute their products or services; and (5) if applicable, the nature of the regulatory environment. As of October 31, 2016, the Company had two segments - RF Connector and Cable Assembly and Custom Cabling Manufacturing based upon this evaluation.

The RF Connector and Cable Assembly segment is comprised of one division, while the Custom Cabling Manufacturing and Assembly segment comprised of three divisions. The four divisions that met the quantitative thresholds for segment reporting are Connector and Cable Assembly, Cables Unlimited, Comnet and Rel-Tech. The specific customers are different for each division; however, there is some overlapping of product sales to them. The methods used to distribute products are similar within each division aggregated.

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

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

Substantially all of the Company's operations are conducted in the United States; however, the Company derives a portion of its revenue from export sales. The Company attributes sales to geographic areas based on the location of the customers. The following table presents the sales of the Company by geographic area for the years ended October 31, 2016 and 2015 (in thousands):

	<u>2016</u>	<u>2015</u>
United States	\$ 29,257	\$ 29,732
Foreign Countries:		
Canada	509	362
Israel	63	296
Mexico	234	395
All Other	178	123
	<u>984</u>	<u>1,176</u>
Totals	<u>\$ 30,241</u>	<u>\$ 30,908</u>

Net sales, income (loss) from continuing operations before provision (benefit) for income taxes and other related segment information for the years ended October 31, 2016 and 2015 are as follows (in thousands):

	<u>RF Connector and Cable Assembly</u>	<u>Custom Cabling Manufacturing and Assembly</u>	<u>Corporate</u>	<u>Total</u>
<b>2016</b>				
Net sales	\$ 9,352	\$ 20,889	\$ -	\$ 30,241
Loss from continuing operations before provision (benefit) for income taxes	(1,358)	(3,232)	(93)	(4,683)
Depreciation and amortization	194	842	-	1,036
Total assets	5,902	13,100	6,835	25,837
<b>2015</b>				
Net sales	\$ 11,710	\$ 19,198	\$ -	\$ 30,908
Income (loss) from continuing operations before provision for income taxes	711	(234)	357	834
Depreciation and amortization	201	795	-	996
Total assets	7,248	16,150	8,854	32,252

#### Note 9 - Income tax provision

The provision (benefit) for income taxes for the fiscal years ended October 31, 2016 and 2015 consists of the following (in thousands):

	<u>2016</u>	<u>2015</u>
Current:		
Federal	\$ (332)	\$ 300
State	(12)	4
	<u>(344)</u>	<u>304</u>
Deferred:		
Federal	(179)	(126)
State	(129)	(38)
	<u>(308)</u>	<u>(164)</u>
	<u>\$ (652)</u>	<u>\$ 140</u>

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



	2016		2015	
	Amount	% of Pretax Income	Amount	% of Pretax Income
Income taxes at federal statutory rate	\$ (1,592)	34.0%	\$ 287	34.0%
State tax provision, net of federal tax benefit	(53)	1.1%	38	4.5%
Nondeductible differences:				
Goodwill and other intangible asset impairment	916	-19.6%	-	0.0%
Rel-Tech earn-out	52	-1.1%	-	0.0%
Qualified domestic production activities deduction	46	-1.0%	(36)	-4.3%
ISO stock options	43	-0.9%	50	6.0%
Meals and entertainment	29	-0.6%	31	3.7%
Comnet book income	-	0.0%	(46)	-5.5%
Transaction costs	-	0.0%	28	3.4%
Temporary true-ups	(3)	0.1%	(89)	-10.6%
State tax refunds, net of federal expense	(38)	0.8%	(66)	-7.9%
R&D credit	(46)	1.0%	(44)	-5.2%
Other	(6)	0.1%	(13)	-1.3%
	<u>\$ (652)</u>	<u>13.9%</u>	<u>\$ 140</u>	<u>16.8%</u>

The Company's total deferred tax assets and deferred tax liabilities at October 31, 2016 and 2015 are as follows (in thousands):

	2016	2015
<u>Deferred Tax Assets:</u>		
Reserves	\$ 216	\$ 171
Accrued vacation	134	143
Stock-based compensation awards	159	-
Uniform capitalization	148	97
Other	43	15
Total current assets	<u>700</u>	<u>426</u>
<u>Deferred Tax Liabilities:</u>		
Stock-based compensation awards	-	136
Amortization / intangible assets	(864)	(1,036)
Depreciation / equipment and furnishings	(211)	(247)
Other	(34)	4
Total deferred tax liabilities	<u>(1,109)</u>	<u>(1,143)</u>
Total net deferred tax assets (liabilities)	<u>\$ (409)</u>	<u>\$ (717)</u>

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

The Company had adopted the provisions of ASC 740-10, which clarifies the accounting for uncertain tax positions. ASC 740-10 requires that the Company recognize the impact of a tax position in the financial statements if the position is not more likely than not to be sustained upon examination based on the technical merits of the position. The Company's practice is to recognize interest and penalties related to income tax matters in income from continuing operations. The Company has no material unrecognized tax benefits as of October 31, 2016.

The Company is subject to taxation in the United States and state jurisdictions. The Company's tax years for October 31, 2013 and forward are subject to examination by the United States and October 31, 2012 and forward with state tax authorities.

In November 2015, the FASB issued Accounting Standards Update 2015-17 (ASU 2015-17) Balance Sheet Classification of Deferred Taxes, which requires that deferred tax assets and deferred tax liabilities be classified as noncurrent in the balance sheet. ASU 2015-17 is effective for annual periods ending after December 15, 2017. Early adoption is permitted, and the Company has adopted the provisions of ASU 2015-17 prospectively as of October 31, 2016 and is not retrospectively adjusting prior periods.

## Note 10 - Stock options

### Incentive and non-qualified stock option plans

In May 2000, the Board of Directors adopted the Company's 2000 Stock Option Plan (the "2000 Option Plan"). Under the 2000 Option Plan, the Company was authorized to grant options to purchase shares of common stock to officers, directors, key employees and others providing services to the Company. The 2000 Option Plan expired in May 2010. At the time of expiration, the 2000 Plan had authorized the Company to grant options to purchase a total of 1,320,000 shares. Upon the expiration of the 2000 Plan, the Company was no longer able to grant any stock options to its employees, officers and directors. Accordingly, as of October 31, 2016, no shares are available for future grant under the 2000 Option Plan.

On March 9, 2010, the Company's Board of Directors adopted the RF Industries, Ltd. 2010 Stock Incentive Plan (the "2010 Plan"). In June 2010, the Company's stockholders approved the 2010 Plan by vote as required by NASDAQ. An aggregate of 1,000,000 shares of common stock was set aside and reserved for issuance under the 2010 Plan. The Company's shareholders approved the issuance of an additional 500,000 shares of common stock at its annual meeting held on September 5, 2014 and another 500,000 shares of common stock at its annual meeting held September 4, 2015. As of October 31, 2016, 914,821 shares of common stock were remaining for future grants of stock options under the 2010 Plan.

### Additional disclosures related to stock option plans

The fair value of each option granted in 2016 and 2015 was estimated on the grant date using the Black-Scholes option pricing model with the following assumptions:

	<u>2016</u>	<u>2015</u>
Weighted average volatility	28.7%	52.2%
Expected dividends	2.4%	6.7%
Expected term (in years)	3.0	5.4
Risk-free interest rate	0.70%	1.17%
Weighted average fair value of options granted during the year	\$ 0.66	\$ 1.09
Weighted average fair value of options vested during the year	\$ 4.36	\$ 4.78

Expected volatilities are based on historical volatility of the Company's stock price and other factors. The Company used the historical method to calculate the expected life of the 2016 option grants. The expected life represents the period of time that options granted are expected to be outstanding. The risk-free rate is based on the U.S. Treasury rate with a maturity date corresponding to the options' expected life. The dividend yield is based upon the historical dividend yield.

Additional information regarding all of the Company's outstanding stock options at October 31, 2016 and 2015 and changes in outstanding stock options in 2016 and 2015 follows:

	2016		2015	
	Shares or Price Per Share	Weighted Average Exercise Price	Shares or Price Per Share	Weighted Average Exercise Price
Options outstanding at beginning of year	1,240,100	\$ 3.64	1,044,932	\$ 3.27
Options granted	104,936	\$ 3.36	396,039	\$ 4.21
Options exercised	(180,067)	\$ 0.27	(153,837)	\$ 2.12
Options forfeited	(157,118)	\$ 4.53	(47,034)	\$ 5.11
Options outstanding at end of year	<u>1,007,851</u>	\$ 4.07	<u>1,240,100</u>	\$ 3.27
Options exercisable at end of year	<u>724,457</u>	\$ 3.93	<u>782,648</u>	\$ 3.02
Options vested and expected to vest at end of year	<u>1,002,522</u>	\$ 4.07	<u>1,233,543</u>	\$ 3.63
Option price range at end of year	<u>\$2.30 - \$6.91</u>		<u>\$0.05 - \$6.91</u>	
Aggregate intrinsic value of options exercised during year	<u>\$ 456,000</u>		<u>\$ 363,300</u>	

Weighted average remaining contractual life of options outstanding as of October 31, 2016: 4.51 years

Weighted average remaining contractual life of options exercisable as of October 31, 2016: 3.25 years

Weighted average remaining contractual life of options vested and expected to vest as of October 31, 2016: 4.50 years

Aggregate intrinsic value of options outstanding at October 31, 2016: \$99,000

Aggregate intrinsic value of options exercisable at October 31, 2016: \$99,000

Aggregate intrinsic value of options vested and expected to vest at October 31, 2016: \$99,000

As of October 31, 2016, \$396,000 of expense with respect to nonvested share-based arrangements has yet to be recognized which is expected to be recognized over a weighted average period of 5.37 years.

For serving on the Board of Directors during the fiscal year ended October 31, 2016, non-employee directors received an annual fee of \$30,000, which amount was paid one-half in cash and one-half through the grant of non-qualified stock options to purchase shares of the Company's common stock. For the year ended October 31, 2016, the Company granted each of its three non-employee directors options to purchase 17,064 shares. The number of stock option shares granted to each director was determined by dividing \$15,000 by the fair value of a stock option grant using the Black-Scholes model (\$0.87 per share). These options vest ratably over fiscal year 2016.

On April 6, 2016, Howard Hill, the Company's Chief Operating Officer, retired from the Company. On becoming a non-employee member of the Board on April 7, 2016, Mr. Hill was granted 33,744 options, representing the director compensation payable to him for his services for the remainder of the 2016 fiscal year. The number of stock options granted was determined by dividing his pro-rata portion of his stock based compensation for serving on the Board of \$8,750 by the fair value of a stock option grant using the Black-Scholes model (\$0.26). These options vested ratably over fiscal 2016.

#### Note 11 - Retirement plan

The Company has a 401(K) plan available to its employees. For the years ended October 31, 2016 and 2015, the Company contributed and recognized as an expense \$182,000 and \$160,000, respectively, which amount represented 3% of eligible employee earnings under its Safe Harbor Non-elective Employer Contribution Plan

## Note 12 - Related party transactions

The note receivable from stockholder of \$67,000 at October 31, 2015 was due from a former Chief Executive Officer of the Company, earned interest at 6% per annum (which interest was payable annually), and had no specific due date. The note was collateralized by property owned by the former Chief Executive Officer. During fiscal 2016, the former Chief Executive Officer resigned as an employee of the Company and, in connection with his resignation, was required to repay the foregoing promissory note in full.

On June 15, 2011, the Company purchased Cables Unlimited, Inc., a New York corporation, from Darren Clark, the sole shareholder of Cables Unlimited, Inc. In connection with the purchase of Cables Unlimited, the Company entered into a lease for the New York facilities from which Cables Unlimited conducts its operations. Cables Unlimited's monthly rent expense under the lease is \$13,000 per month, plus payments of all utilities, janitorial expenses, routine maintenance costs, and costs of insurance for Cables Unlimited's business operations and equipment. During the fiscal year ended October 31, 2016, the Company paid the landlord a total of \$156,000 under the lease. The owner and landlord of the facility is a company controlled by Darren Clark, the former owner of Cables Unlimited and the current President of this subsidiary of the Company.

A former director of the Company is an employee of a public relations firm currently used by the Company. For the fiscal years ended October 31, 2016 and 2015, the Company paid the firm \$25,000 and \$41,000, respectively, for services rendered by that firm.

## Note 13 - Cash dividend and declared dividends

The Company paid dividends of \$0.02, \$0.02, \$0.02 and \$0.07 per share during the three months ended October 31, 2016, July 31, 2016, April 30, 2016 and January 31, 2016, respectively, for a total of \$1.1 million. The Company paid dividends of \$0.07 per share during the three months ended October 31, 2015, July 31, 2015, April 30, 2015 and January 31, 2015 for a total of \$2.4 million.

## Note 14 - Commitments

As of October 31, 2016, the Company leases its facilities in San Diego, California, Yaphank, New York, Milford, Connecticut and East Brunswick, New Jersey under non-cancelable operating leases. Deferred rents, included in accrued expenses and other long-term liabilities, were \$3,000 as of October 31, 2016 and \$7,000 as of October 31, 2015. The San Diego lease also requires the payment of the Company's pro rata share of the real estate taxes and insurance, maintenance and other operating expenses related to the facilities.

Rent expense under all operating leases totaled approximately \$628,000 and \$685,000 in 2016 and 2015, respectively.

Minimum lease payments under these non-cancelable operating leases in each of the years subsequent to October 31, 2016 are as follows (in thousands):

<u>Year ending October 31,</u>	<u>Amount</u>
2017	\$ 443
2018	20
2019	20
2020	15
2021	2
Total	<u>\$ 500</u>

**Note 15 - Line of credit**

From May 2015 until September 2016, the Company had a \$5 million line of credit available to it from a bank. The Company did not use the line of credit and, effective September 8, 2016, the Company has terminated the line of credit. As of October 31, 2016, no amounts were outstanding under the line of credit.

**Note 16 - Stock repurchase program**

During April 2014, the Company announced that its Board of Directors authorized the repurchase of up to 500,000 shares of its common stock. The share repurchase program could be suspended or terminated at any time without prior notice. No shares were repurchased during the fiscal year October 31, 2016, and the repurchase program was terminated in September 2016.

**Note 17 - Subsequent events**

On December 8, 2016, the Board of Directors of the Company declared a quarterly dividend of \$0.02 per share to be paid on January 17, 2017 to shareholders of record on December 31, 2016.

The lease for the Company's headquarters in San Diego, California, was scheduled to expire on March 31, 2017, however, on January 26, 2017 the term of the lease was extended until July 31, 2022, and the rental payments increased \$2,596 per month, from \$20,125 to \$22,721 per month.

**Board of Directors**

Marvin H. Fink  
Chairman

Howard F. Hill  
Director

William L. Reynolds  
Director

Joseph Benoit  
Director

Gerald Garland  
Director

**Executive Officers**

Robert Dawson  
President and CEO

Mark Turfler  
CFO and Corporate Secretary

**Corporate Staff**

Darren Clark  
President of Cables  
Unlimited Division

Robert Portera  
President of Comnet  
Telecom Division

Ralph Palumbo  
President of Rel-Tech  
Electronics Division

Richard “Joe” LaFay  
President/General Manager  
RF Connectors Division

Conrad Neri  
VP Operations  
RF Connectors Division

Manny Gutsche  
VP Marketing  
RF Industries

Angela Sutton  
VP Human Resources  
RF Industries

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**Common Stock**

NASDAQ Global Market  
Exchange Symbol: RFIL

**Annual Meeting**

September 8, 2017  
10 a.m. PDST  
Offices of TroyGould PC  
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Los Angeles, CA 90067

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or by contacting Mark Turfler at (858) 549-6340 or (800) 233-1728





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