

2021 Annual Report



Interconnect Solutions for a Connected World™



July 26, 2022

Fellow Shareholders:

When concluding my internal messages or external posts, I frequently use phrases like “we’re just getting started” or “this is only the beginning.” I gravitate to these comments based on my general feeling that we are truly going through a reinvention of the Company. Every new customer win, or quarterly earnings release, or new fiscal year is a great time to celebrate what we’ve accomplished over the last few years, but more importantly, to also recognize that all of that great work has laid the foundation for success ahead. We continue to build a stronger and more stable platform from which to jump to our next phase of growth.

Fiscal year 2021 was a year of recovery after a challenging fiscal 2020 where we saw both inconsistent market demand and supply chain which made for a tough operating environment due to the global health crisis. We proved that we had built a solid run-rate of base business that sustained us through a period of little to no projects and through it all we stayed focused on stability for our team, servicing our customers, and successfully executing on our long-term strategic growth plan. What resulted was another year of record revenue for the Company. That platform for growth that we have built was key to our success in fiscal 2021, as through each quarter we showed improvement as the general market recovered and some projects began to return. Sequentially, quarter by quarter, sales were \$10.0 million, \$11.1 million, \$15.2 million, and we ended the year strong with fourth quarter sales of \$21.1 million.

For the fiscal 2021 full year, sales were up 33% over the prior fiscal year to \$57.4 million, and we generated net income of \$6.2 million, non-GAAP net income of \$7.1 million and adjusted EBITDA of \$2.7 million, all up solidly year over year.

We saw strong growth in all of our markets and channels for the year, reflecting a healthy recovery in our entire business. We were pleased to be getting back to the growth we laid out in our long-term plan. While we had to pause briefly in fiscal 2020 and early in fiscal 2021 under the operational challenges we encountered around the COVID pandemic, we got back to it and felt good about our solid performance to finish the year. We expect more growth in fiscal 2022 as we execute our plan to scale our business both organically and through M&A.

We continued to see signs of recovery in all markets as the year went on, and especially in the spending from the wireless carrier ecosystem. As the year ended, we announced several multi-million-dollar orders for our Optiflex hybrid fiber solution from a new Tier-1 wireless carrier customer. These orders helped to bring our backlog to \$33.3 million at the end of our fiscal year on October 31st. Optiflex continues to be a big driver of our significant growth in project wins to layer on top of the steady growth of our core business.

During fiscal 2021, we invested, increased, enhanced, added, and integrated. In particular, we:

- Invested even further in our already strong go-to-market capabilities;
- Increased and significantly broadened our relationships in the carrier ecosystem including wireless carriers, OEMs, neutral hosts, tower companies, and integrators;
- Enhanced our distribution focus, which helped us through some challenging quarters in fiscal 2020 and enabled us to show solid growth in fiscal 2021;
- Added to our already strong product offering; and
- Integrated more of the key functions and processes within our overall organization.

All of this points to the continued execution by the team on our long-term organic and inorganic growth plan. Going forward, we remain squarely focused on delivering shareholder value and, as we have consistently said, consolidation makes sense in our industry. Like any responsible company, we are always looking at value-enhancing acquisition opportunities and we believe that we can be a driver of some key consolidation in our markets.

As we began fiscal 2022, we announced and then closed on our acquisition of Microlab. Microlab designs and manufactures high-performance RF and microwave products enabling signal distribution and deployment of in-building Distributed Antenna Systems (DAS), wireless base stations and small cell networks. Their products are known worldwide for their superior quality and performance and are considered the gold standard in RF and microwave distribution systems.

This acquisition is in line with our strategic plan that we’ve been working on to drive revenue growth both organically and through the acquisition of good quality companies with passive components that give us access to new products that we can sell through our growing distribution channel. With our focus on the significant growth opportunities we expect to see in servicing the small cell and DAS markets, we believe Microlab’s products will provide additional scale and opportunity for further revenue and profitability growth.

In fiscal 2022 we remain focused on successfully executing on our long-term growth plan to not only grow through acquisitions, but also organically. As a result of the investments we have made in our go-to-market capabilities, we are now actively engaged with every top tier

company in the carrier ecosystem. Ahead of us we have the promise of 5G and the related CapEx spend that should benefit us. And our large backlog gave us a nice tailwind as we started the new fiscal year.

Fiscal 2021 was a solid return to the growth that we believe we are earning in the market with our hard work. Looking ahead, we are pleased with the continued increases in our organic business, and the significant opportunities we are seeing from the Microlab acquisition for additional scale, overall margin and profitability improvement, and further revenue growth. We are excited about the possibilities in front of us and we appreciate the partnerships with our customers, distributors and suppliers, the hard work of our employees, and the support of our shareholders.

We're still just getting started.

Sincerely,

A handwritten signature in black ink, appearing to read 'RD', with a horizontal line extending to the right.

Robert Dawson, President and CEO

Abridged and Edited Copy of Annual Report

Form 10-K

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

For the fiscal year ended October 31, 2021

Commission File Number 0-13301

RF INDUSTRIES, LTD.
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(858) 549-6340

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold as of the last business day of the registrant's most recently completed second fiscal quarter was approximately \$59.9 million.

On January 4, 2022, the Registrant had 10,058,571 outstanding shares of Common Stock, \$.01 par value.

Forward-Looking Statements:

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

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

PART I

ITEM 1. BUSINESS

General

RF Industries, Ltd. (together with subsidiaries, the “Company”, “we”, “us”, or “our”) is a national manufacturer and marketer of interconnect products and systems, including coaxial and specialty cables and connectors, fiber optic cables and connectors, and electrical and electronic specialty cables and components. Through our manufacturing and production facilities, we provide a wide selection of interconnect products and solutions primarily to telecommunications carriers and equipment manufacturers, wireless and network infrastructure carriers and manufacturers and to various original equipment manufacturers (“OEMs”) in several market segments. We also manufacture and sell energy-efficient cooling systems and integrated small cell solutions and related components.

We operate through two reporting segments: (i) the RF Connector and Cable Assembly (“RF Connector”) segment, and (ii) the Custom Cabling Manufacturing and Assembly (“Custom Cabling”) segment. The RF Connector segment primarily designs, manufactures, markets and distributes a broad range of connector and cable products, including coaxial connectors and cable assemblies that are integrated with coaxial connectors, used in telecommunications and information technology OEM markets and other end markets. The Custom Cabling segment designs, manufactures, markets and distributes custom copper and fiber cable assemblies, complex hybrid fiber optic and power solution cables, electromechanical wiring harnesses, wiring harnesses for a broad range of applications in a diverse set of end markets, energy-efficient cooling systems for wireless base stations and remote equipment shelters and custom designed, pole-ready 5G small cell integrated enclosures.

Recent Events

On December 16, 2021, the Company entered into a Membership Interest Purchase Agreement (the “Purchase Agreement”) with Wireless Telecom Group, Inc, a New Jersey corporation (“Seller”), and its wholly-owned subsidiary Microlab/FXR LLC., a New Jersey limited liability company (“Microlab”). Under the Purchase Agreement, the Company has agreed to purchase 100% of the issued and outstanding membership interests of Microlab (the “Interests”) from Seller (the “Transaction”). The purchase price for Microlab is estimated to be \$24,250,000, subject to certain closing adjustments as set forth in the Purchase Agreement. The Company intends to pay the purchase price using a combination of cash on hand and borrowings from a credit facility. The Company has received a non-binding commitment letter from a major commercial bank pursuant to which the Company is seeking to obtain a credit facility for up to \$20,000,000, a portion of which will be used to fund the purchase of Microlab. The purchase of Microlab is subject to customary closing conditions and to the approval by the holders of a majority of the voting shares of Seller. The acquisition currently is expected to be completed by the end of April 2022, subject to a 30-day extension under certain circumstances. See, “Item 1. Business—Acquisition of Microlab/FXR LLC,” below.

Microlab designs and manufactures a wide selection of RF components and integrated subsystems for signal conditioning and distribution in the wireless infrastructure markets as well as for use in medical devices. Microlab products are used in small cell deployments, distributed antenna systems, in-building wireless solutions and cellular base-stations. Microlab’s portfolio includes RF components for ultra-wideband frequency ranges deployed in commercial wireless networks utilizing mid-band spectrum allocations for 5G mobile broadband. We believe Microlab components possess unique capabilities in the area of broadband frequency coverage, minimal loss and low passive intermodulation (“PIM”). Microlab’s high performance components – such as power combiners, directional couplers, attenuators, terminators and filters – are used in broadband applications to support commercial in-building wireless networks, public safety networks, rail and transportation deployments, and global positioning system (“GPS”) signal distribution. Microlab also produces and sells various other products, including a portfolio of GPS digital repeaters and splitters for cellular timing synchronization as well as a passive systems monitor for real-time diagnostics of an in-building distributed antenna system (“DAS”). Following the acquisition, we intend to operate the Microlab business for up to one year at Seller’s facilities in Hanover Township, Parsippany, New Jersey, pursuant to a sublease. This acquisition is in line with our previously announced strategy for driving revenue growth both organically and through the acquisition of companies that offer access to new products that can be sold to a growing customer base, including through an extensive distribution channel. Microlab’s products are known worldwide for their superior quality and performance and are considered the gold standard in RF and microwave distribution systems. We believe that there are significant growth opportunities in the small cell and DAS markets, and that Microlab’s products will provide the Company with additional scale and opportunity for further revenue growth.

Strategy

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

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

Competitive pricing. Our manufacturing and distribution arrangements have been designed to lower costs and enable us to offer prices on both our standard and custom manufactured products that are competitive with the marketplace, all while keeping quality as a priority.

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

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

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

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

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

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

Operations

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

RF Connector and Cable Assembly Segment.

Our RF Connector and Cable Assembly segment (“RF Connector segment”) consists of the RF Connector and Cable Assembly division (“RF Connector division”) that is based at our headquarters in San Diego, California. The RF Connector division is engaged in the design, manufacture and distribution of coaxial connector solutions for companies that design, build, operate, maintain and use a variety of connectivity/communication applications. Coaxial connector products consist primarily of connectors which, when attached to a coaxial cable, facilitate the transmission of analog and digital signals in various frequencies. Although most of the connectors are designed to fit standard cable products, the RF Connector division also sells custom connectors specifically designed and manufactured to suit its customers’ requirements.

The RF Connector division typically carries over 1,500 different types of connectors, adapters, tools, and test and measurements kits. This division’s RF connectors are used in thousands of different devices, products and types of equipment. Since the RF Connector division’s standard connectors can be used in a number of different products and devices, the discontinuation of one product typically does not make our connectors obsolete. Accordingly, most connectors that we carry can be marketed for a number of years. Furthermore, because our connector products are not dependent on any single line of products or any market segment, our overall sales of connectors tend to fluctuate less when there are material changes or disruption to a single product line or market segment.

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

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

Custom Cabling Manufacturing and Assembly Segment.

The Custom Cabling segment currently consists of four wholly-owned subsidiaries – three located in the Northeastern United States and one located in Southern California. Our plan is to integrate certain aspects of the manufacturing, sales and marketing functions of these divisions so as to better address overlapping market opportunities and to more efficiently manufacture, market, and ship products to our customers.

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

Cables Unlimited, Inc. Cables Unlimited, Inc. (“Cables Unlimited”) is a custom cable manufacturer located in Yaphank, New York, that we acquired in 2011. Cables Unlimited is a Corning Cable Systems CAH ConnectionsSM Gold Program member, authorized to manufacture fiber optic products that are backed by Corning Cable Systems’ extended warranty. Cables Unlimited designs, develops and manufactures custom connectivity solutions for the industrial, defense, telecommunications and wireless markets. The products sold by Cables Unlimited include custom and standard copper and fiber optic cable assemblies, adapters and electromechanical wiring harnesses for communications, computer, LAN, automotive fiber optic and medical equipment.

Rel-Tech Electronics, Inc. Rel-Tech Electronics, Inc. (“Rel-Tech”) was acquired in June 2015. Rel-Tech’s offices and manufacturing facilities are located in Milford, Connecticut. Rel-Tech is a designer and manufacturer of cable assemblies and wiring harnesses for blue chip industrial, oilfield, instrumentation, medical and military customers. Wire and cable assembly products include custom wire harnesses, ribbon cable, electromechanical and kitted assemblies, and networking and communications cabling.

C Enterprises, Inc. C Enterprises, Inc. (“C Enterprises”) is a fiber optic and copper cable manufacturer located in Vista, California. This subsidiary acquired the business and assets of C Enterprises, L.P. on March 15, 2019. C Enterprises is a Corning Cable Systems CAH ConnectionsSM Gold Program member, authorized to manufacture fiber optic products that are backed by Corning Cable Systems’ extended warranty. C Enterprises designs, develops and manufactures connectivity solutions to telecommunications and data communications distributors.

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

Product Description

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

Connector and Cable Products

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

There are numerous applications for these connectors, some of which include digital applications, 2.5G, 3G, 4G, 5G, LTE, Wi-Fi and other broadband wireless infrastructure, GPS, mobile radio products, aircraft, video surveillance systems, cable assemblies and test equipment. Users of our connectors include telecommunications companies, circuit board manufacturers, OEMs, consumer electronics manufacturers, audio and video product manufacturers and installers, and satellite companies. We market over 1,500 types of connectors, adapters, tools, assembly, test and measurement kits, which range in price from under \$1 to over \$1,000 per unit. The kits satisfy a variety of applications including, but not limited to, lab operations, site requirements and adapter needs.

We also design and sell a variety of connector tools and hand tools that are assembled into kits used by lab and field technicians, research and development technicians and engineers. These tools are manufactured for us by outside contractors. Tool products are carried as an accommodation to our customers and have not materially contributed to our revenues.

We market and manufacture cable assemblies in a variety of sizes and combinations of RF coaxial connectors and coaxial cabling. Cabling is purchased from a variety of major unaffiliated suppliers and is assembled predominately with our connectors as complete cable assemblies. Coaxial cable assemblies have numerous applications including low PIM, Wi-Fi and wireless local area networks, wide area networks, internet systems, cellular systems including 2.5G, 3G, 4G, 5G, LTE, DAS and Small Cell installations, TV/dish network systems, test

equipment, military/aerospace (mil-standard and COTS (Commercial Off-The-Shelf)) and entertainment systems. Cable assemblies are manufactured to customer requirements.

We carry thousands of separate types of connectors, most of which are available in standard sizes and configurations and that are also offered by other companies. However, we also have some proprietary products, including the CompPro product line, OptiFlex cables, and the Schrofftech telecom shelter cooling and control system products. CompPro is a patented compression technology that offers advantages for a water-tight, ruggedized connection, providing easier installation, and improved system reliability on braided cables. CompPro is used by wireless network operators, installers and distributors in North America and other parts of the world. OptiFlex is a hybrid fiber optic and DC power cabling solution that we designed and manufactured, and the Schrofftech products are energy efficient cooling/temperature control and filtration systems for use in telecom shelters, outdoor enclosures and battery/power rooms.

Fiber Optic Products

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

C Enterprises is a Corning Cable Systems CAH Connections SM Gold Program member, authorized to manufacture fiber optic products that are backed by Corning Cable Systems' extended warranty. C Enterprises designs, develops and manufactures connectivity solutions to telecommunications and data communications distributors.

Other Cabling Products

We design, manufacture, and sell cable assemblies and wiring harnesses for industrial, oilfield, instrumentation, medical, and military customers. Wire and cable assembly products include custom wire harnesses, ribbon cable, electromechanical and kitted assemblies, networking and communications cabling. DIN and Mini DIN connector assemblies include power cord, coaxial, Mil-spec and testing.

Telecommunications Thermal Control Systems and Shrouds

We manufacture and sell intelligent thermal control systems for outdoor telecommunications equipment through our Schrofftech division. The thermal control systems, which can be controlled offsite using networked software at the telecommunication company's own data center, maintain the interior temperature of telecommunications and other networking equipment. Schrofftech also designs and sells shrouds for small cell deployments that reduce installation time and improve aesthetics by eliminating the exterior cabling used with current configurations.

Foreign Sales

Net sales to foreign customers accounted for \$2,464,000 (or approximately 4%) of our net sales, and \$1,411,000 (or approximately 3%) of our net sales for the fiscal years ended October 31, 2021 and 2020, respectively. The majority of the export sales during these periods were to Canada.

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

Distribution and Marketing

We currently sell our products through independent warehousing distributors and through our in-house marketing and sales team. Sales through independent distributors accounted for approximately 39% of our net sales for the fiscal year ended October 31, 2021. Our agreements with most of the distributors are nonexclusive and generally may be terminated by either party upon 30-60 days' written notice. The Company directly sells certain of its products to large, national telecommunication equipment and solution providers who include the Company's products in their own product offerings.

Manufacturing

We contract with outside third parties for the manufacture of a significant portion of our coaxial connectors. However, virtually all of the RF cable assemblies sold during the fiscal year ended October 31, 2021 were assembled at the International Organization for Standardization ("ISO") approved factory in San Diego, California. We procure our raw cable from manufacturers with ISO approved factories in the United States, China, and Taiwan. The Company primarily relies on several third-party partners for the manufacture of its coaxial connectors, tools and

other passive components and receives bulk cable from multiple manufacturing plants. Although we do not have manufacturing contracts with these manufacturers for our connectors and cable products, we do have long-term purchasing relationships. There are certain risks associated with our dependence on third-party manufacturers for some of our products. See “Risk Factors” below. We have in-house design engineers who create the engineering drawings for fabrication and assembly of connectors and cable assemblies. Accordingly, the third-party manufacturers are not primarily responsible for design work related to the manufacture of our connectors and cable assemblies. Although our current facilities are set up to manufacture certain lines of products, manufacturing of certain products is often shifted to other facilities to alleviate capacity limitations or to address a customer’s product manufacturing schedule requirements.

We manufacture custom cable assemblies, adapters and electromechanical wiring harnesses and other products through Cables Unlimited at its Yaphank, New York manufacturing facility. The Yaphank facility is an ISO approved factory. Cables Unlimited is a Corning Cable Systems CAH ConnectionsSM Gold Program member, authorized to manufacture fiber optic products and assemblies that are backed by Corning Cable Systems’ extended warranty.

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

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

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

Raw Materials

Connector materials are typically made of commodity metals such as copper, brass and zinc and include small applications of precious materials, including silver and gold. The RF Connector division purchases most of its connector products from contract manufacturers located in Asia and the United States. We believe that the raw materials used in our products are readily available and that we are not currently dependent on any supplier for our raw materials. We do not currently have any long-term purchase or supply agreements with our connector suppliers. The Custom Cabling divisions obtain coaxial connectors from the RF Connector division. We believe there are numerous domestic and international suppliers of other coaxial connectors that we may utilize for any of our cabling products.

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

Backlog

As of October 31, 2021, our estimated backlog of unfilled firm orders was approximately \$33.3 million compared with backlog of approximately \$6.3 million as of October 31, 2020. Orders typically fluctuate from quarter to quarter based on customer demand, general business conditions and, in particular, for project-based orders from wireless carrier customers for custom cable assemblies at our Cables Unlimited division. Since purchase orders are submitted from customers based on the estimated timing of their requirements, our ability to predict orders in future periods or trends in future periods is limited. Furthermore, purchase orders may be subject to shipment delays and to cancellation from customers, although we have not historically experienced material cancellations of purchase orders.

It is expected that a substantial portion of the backlog will be filled within the next 12 months. Most of the orders that we receive, particularly in the RF Connector and Cable Assembly segment, generally have short lead times. Therefore, backlog may not be indicative of future demand.

Acquisition of Microlab/FXR LLC

On December 16, 2021, the Company entered into the Purchase Agreement with Wireless Telecom Group, Inc. (“Seller”), and its wholly-owned subsidiary Microlab/FXR LLC (“Microlab”) pursuant to which the Company agreed to purchase Microlab. Microlab is a New Jersey based company that designs and manufactures high-performance RF and microwave products such as dividers, directional couplers and filters enabling signal distribution and deployment of in-building DAS (distributed antenna systems), wireless base stations and small cell networks. The boards of directors of both the Company and Seller have unanimously approved the Purchase Agreement and the transactions contemplated thereby. The purchase price for the Interests is estimated to be \$24,250,000, subject to certain closing adjustments as set forth in

the Purchase Agreement. The Company intends to pay the purchase price using a combination of cash on hand and borrowings from a credit facility.

The closing of the acquisition is subject to customary closing conditions, including, without limitation, the absence of certain legal impediments, and approval by the holders of a majority of the voting shares of Seller. The Purchase Agreement contains customary restrictions on Seller's ability to solicit alternative acquisition proposals from third parties and to provide non-public information to, and participate in discussions and engage in negotiations with, third parties regarding alternative acquisition proposals. The Purchase Agreement also contains customary covenants requiring the board of directors of Seller, subject to certain exceptions, to recommend that Seller's shareholders approve the transaction. Concurrently with the execution of the Purchase Agreement, Seller delivered voting and support agreements for the holders of approximately 11% of the outstanding shares of Seller's common stock. Prior to the vote on the sale by Seller's shareholders, the board of directors of Seller may (i) withhold, withdraw, qualify, or modify its recommendation that Seller's shareholders approve the transaction because of a material intervening event or (ii) adopt, approve or recommend an alternative transaction if such alternative transaction is materially superior, subject to complying with notice and other specified conditions. Seller is expected to solicit the consent of its shareholders at a shareholder meeting to be held during the first calendar quarter of 2022.

The Purchase Agreement contains certain termination rights for both the Company and Seller, including that, subject to certain limitations, (i) the Company or Seller may terminate the Purchase Agreement if the transaction is not consummated by April 30, 2022, subject to a 30-day extension in the event certain customary conditions are satisfied, (ii) the Company and Seller may mutually agree to terminate the Purchase Agreement, (iii) Seller may terminate the Purchase Agreement to accept a materially superior proposal, (iv) the Company or Seller may terminate the Purchase Agreement if requisite approval of the shareholders of Seller has not been obtained upon a vote taken at the shareholder meeting, (v) the Company or Seller may terminate the Purchase Agreement if certain other closing conditions are not met or waived, and (vi) the Company may terminate the Purchase Agreement if Seller changes its recommendation to its shareholders with respect to approval of the transaction.

If Seller terminates the Purchase Agreement to accept a superior proposal, then Seller is required to pay the Company a termination fee of \$900,000. If the Company terminates the Purchase Agreement because Seller fails to include Seller's board recommendation in its proxy statement or Seller's board has effected an adverse recommendation change, among other reasons described in the Purchase Agreement, then Seller will pay the Company \$900,000. If the Purchase Agreement is terminated by either party because Seller shareholder approval is not obtained at Seller's shareholder meeting, then Seller will pay the Company its reasonable fees and expenses up to a maximum of \$500,000. In addition, if Seller terminates the Purchase Agreement because (i) the closing has not occurred by April 30, 2022 (or the end of the extension period) due to no fault of Seller, or (ii) due to the Company's breach of its representations or covenants, the closing conditions would not be satisfied and the Company will be required to pay Seller its reasonable fees and expenses up to a maximum of \$500,000.

The Company has obtained representation and warranty insurance to cover any breach of Seller's representations.

Seller also agreed not to, directly or indirectly, (i) engage in any activities that compete with Microlab's business and (ii) hire or solicit any employee, independent contractor, or consultant of Microlab's business for a period of five years from the closing date, subject to certain carve-outs.

Human Capital

As of October 31, 2021, we employed 300 full-time employees, of whom 61 were in accounting, administration, sales and management, 235 were in manufacturing, distribution and assembly, and four were engineers engaged in design, engineering and research and development. The employees were based at our facilities in San Diego, California (89 employees), Yaphank, New York (63 employees), Milford, Connecticut (60 employees), Vista, California (74 employees), and North Kingstown, Rhode Island (14 employees). We also occasionally hire part-time employees. We believe that we have a good relationship with our employees.

Patents, Trademarks and Licenses

We own ten U.S. patents related to CompPro Product Line that we acquired in May 2015. The CompPro Product Line utilizes a patented compression technology that offers revolutionary advantages for a water-tight connection, easier installation, and improved system reliability on braided cables. The CompPro Product Line is used by wireless network operators, installers and distributors in North America and other parts of the world.

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

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

Because the RF Connectors division carries thousands of separate types of connectors and other products, most of which are available in standard sizes and configurations and are also offered by our competitors, we do not believe that our cables and connector business or competitive position is dependent on patent protection.

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

Warranties and Terms

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

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

Under their agreements with Corning Cables Systems LLC, Cables Unlimited and C Enterprises are authorized to manufacture optic cable assemblies that are backed by Corning Cables Systems’ extended warranty (referred to as the “Gold Certified Warranty”).

Competition

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

Government Regulations

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

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

Environmental Regulations

We are subject to various laws and governmental regulations concerning environmental matters and employee safety and health matters in the United States. Compliance with these federal, state, and local laws and regulations related to protection of the environment and employee safety and health has had no material effect on our business. There were no material capital expenditures for environmental projects in fiscal year 2021, and there are no material expenditures planned for such purposes in fiscal year 2022.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. DESCRIPTION OF PROPERTY

We currently lease our corporate headquarters and RF connector and cable assembly manufacturing facilities in San Diego, California. At that location, we lease three buildings, with a total of approximately 21,908 square feet of office, warehouse and manufacturing space, that house our corporate administration, sales and marketing, and engineering departments. The buildings are also used for production and

warehousing by our RF Connector segment. Additionally, we lease spaces in four other locations in the United States that house the administration offices and manufacturing facilities for our Custom Cabling segment. The table below shows a summary of the square footage of these locations as of October 31, 2021:

	<u>Leased</u>
Milford, CT	13,750
North Kingstown, RI	10,700
Vista, CA	24,014
Yaphank, NY	24,500

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

None.

PART II

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

Market Information. RF Industries, Ltd.’s common stock is listed on The Nasdaq Global Market and is traded under the “RFIL” trading symbol.

Stockholders. As of October 31, 2021, there were 266 holders of our common stock according to the records of our transfer agent, Continental Stock Transfer & Trust Company, New York, New York, not including holders who hold their stock in “street name.”

Repurchase of Securities. The following table sets forth information regarding the shares of common stock cancelled, and deemed to have been repurchased during the three months ended October 31, 2021 in connection with employee tax withholding for shares of restricted stock that vested under our 2020 Equity Incentive Plan.

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Approximate dollar value of shares that may yet be purchased under the plans or programs
August 2021	-	\$ -	-	\$ -
September 2021	-	\$ -	-	\$ -
October 2021	294	\$ 7.79	-	\$ -

Recent Sales of Unregistered Securities. There were no previously unreported sales of equity securities by us that were not registered under the Securities Act during fiscal 2021.

Dividend Policy. Due to the current economic uncertainty, the COVID-19 pandemic, and other financial considerations, our Board terminated dividend payments. No assurance can be given if, or when the Board will resume dividend payments. The declaration and amount of any actual cash dividend are in the sole discretion of the our Board of Directors and are subject to numerous factors that ordinarily affect dividend policy, including the results of our operations and financial position, as well as general economic and business conditions. Accordingly, if and when any dividends will be declared in the future will be determined by our Board based on the Company’s future operations and on the Board’s decision regarding the use of any future earnings.

EQUITY COMPENSATION PLAN INFORMATION

The following table provides information as of October 31, 2021 with respect to the shares of Company common stock that may be issued under the Company’s existing equity compensation plans:

Plan Category	A Number of Securities to be Issued Upon Exercise of Outstanding Options	B Weighted Average Exercise Price of Outstanding Options (\$)	C Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column A)
2010 Stock Incentive Plan	501,522	\$ 5.05	- (1)
2020 Equity Incentive Plan	117,000	\$ 6.57	1,123,232
Total	618,522	\$ 5.33	1,123,232

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

ITEM 6. SELECTED FINANCIAL DATA

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

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The consolidated financial statements and related disclosures have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). The preparation of these consolidated financial statements requires us to make significant estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosure of contingent assets and liabilities. We evaluate our estimates, including those related to bad debts, inventory reserves and contingencies, on an ongoing basis. We base our estimates on historical experience and on various other assumptions that are believed to be appropriate under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Revenue Recognition

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

Inventories

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

Allowance for Doubtful Accounts

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

Long-Lived Assets Including Goodwill

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

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

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

Income Taxes

We record a tax provision for the anticipated tax consequences of the reported results of operations. Income taxes are accounted for under the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and for operating losses and tax credit carryforwards.

Deferred tax assets and liabilities are measured using the currently enacted tax rates as of the date of the financial statements that apply to taxable income in effect for the years in which those tax assets are expected to be realized or settled. We record a valuation allowance to reduce deferred tax assets to the amount that is believed more likely than not to be realized.

We account for uncertain tax positions by determining if it is “more likely than not” that a tax position will be sustained by the appropriate taxing authorities upon examination based on the technical merits of the position. An uncertain income tax position is not recognized if it has less than a 50% likelihood of being sustained. We recognize interest and penalties related to certain uncertain tax positions as a component of income tax expense and the accrued interest and penalties are included in deferred and income taxes payable in our consolidated balance sheets. See Note 8 to the Consolidated Financial Statements included in this Report for more information on our accounting for uncertain tax positions.

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

Stock-based Compensation

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

OVERVIEW

During the periods covered by this Annual Report, we marketed a variety of connector products, including connectors and cables, standard and custom cable assemblies, wiring harnesses and fiber optic cable products to numerous industries for use in thousands of products. We aggregate our operating divisions into segments that have similar economic characteristics and are similar in the majority of the following areas: (1) the nature of the product and services; (2) the nature of the production process; (3) the type or class of customer for their products and services; (4) the methods used to distribute their products or services; and (5) if applicable, the nature of the regulatory environment. We have two reportable segments – the RF Connector and Cable Assembly (“RF Connector”) segment and the Custom Cabling Manufacturing and Assembly (“Custom Cabling”) segment – based upon this evaluation.

In the fiscal years covered by this Annual Report, the RF Connector segment was comprised of one division, while the Custom Cabling segment was comprised of four divisions. The five divisions that met the quantitative thresholds for segment reporting in the fiscal year ended October 31, 2021 were the RF Connector and Cable Assembly division, Cables Unlimited, Rel-Tech, C Enterprises and Schrofftech subsidiaries.

For the year ended October 31, 2021, most of our revenues were generated from the Custom Cabling segment from its sale of fiber optic cable, copper cabling, custom patch cord assemblies and wiring harnesses. This segment sells customized cable assemblies and wiring harnesses that are integrated into customers’ products, as well as fiber optic cables used in the build out of wireless carrier 4G and 5G networks. In fiscal 2021, Custom Cabling sales increased due to increased sales to wireless carriers, including sales of fiber optic cables used in the build out of 4G and 5G networks. The percentage of our revenues generated by the Custom Cabling segment increased from 66% of our total sales in fiscal 2020 to 73% for the fiscal year ended October 31, 2021.

Revenues from the RF Connector segment were generated from the sales of RF connector products and connector cable assemblies and accounted for 27% of our total sales for the fiscal year ended October 31, 2021. This segment, which historically produces amongst the highest margins of the five production sites, is known for its quick turnaround of high-quality customized solutions in the form of cable assemblies.

In March 2020, the World Health Organization (the “WHO”) declared coronavirus (“COVID-19”) a pandemic emergency. The COVID-19 pandemic has negatively impacted regional and global economies, disrupted global supply chains, and created significant volatility and disruption of financial markets. The global impact of the outbreak has been rapidly evolving and certain jurisdictions, including in regions where we or third parties on which we rely have manufacturing facilities, have also reacted by instituting quarantines, restrictions on travel, social distancing protocols and restrictions on types of business that may continue to operate. While we have continued our operations during the pandemic, the impact of the COVID-19 pandemic has affected both our operations and those of our vendors and customers. Our operations in both fiscal 2020 and 2021 were negatively affected by partial shutdowns of our facilities (particularly in the Northeast), by changes that we had to make on our operating methods and procedures, and by a fluctuating workforce as at times, some of our employees stayed at home. Many of our customers and vendors have likewise had temporary closures of their facilities and have otherwise been impacted by changes in their industries. As a result, there has been some volatility in the overall demand for our products, and certain costs have increased. We have taken

measures to protect the health and safety of our employees, and we continue to work with our customers and vendors to minimize potential disruptions in addressing the challenges posed by this global pandemic.

The extent of the impact of the COVID-19 pandemic on our operational and financial performance will depend on future developments, including the duration and spread of the pandemic and related actions taken by domestic and international jurisdictions to prevent disease spread, all of which are uncertain and cannot be predicted. The outbreak impacted our performance for the fiscal year ended October 31, 2021. Because of the impact that COVID-19 has on our operations, in May 2020 we applied for and received loans under the Paycheck Protection Program (“PPP”) of the CARES Act totaling approximately \$2.8 million (“PPP Loans”). The funds from the PPP Loans were used to retain employees, maintain payroll and benefits, and make lease and utility payments. Without the PPP Loans, we would have made material reductions in our workforce (particularly at Cables Unlimited). In February 2021, all of the \$2.8 million of PPP Loans were forgiven and considered paid in full (including applicable interest) by the Small Business Administration (“SBA”).

In March 2021, the Internal Revenue Service (“IRS”) released Notice 2021-20, which retroactively eliminated the restriction that prevented employers who received a PPP loan from qualifying for the Employee Retention Credit (“ERC”). This action enabled us to apply for the ERC. The ERC is a refundable tax credit against certain employment wages. Upon determination that the employer has complied with all of the conditions required to receive the credit, a receivable is recognized and the credit reduces salaries and wages. For the year ended October 31, 2021, we qualified and filed to claim the ERC and have recorded this as an other receivable classified in other current assets, which is \$1.8 million.

The COVID-19 pandemic and the financial assistance that the U.S. government provided to U.S. businesses in response to the pandemic significantly affected the Company’s operations and its financial results for the fiscal year ended October 31, 2021. The COVID-19 pandemic negatively impacted the Company’s sales as customers curtailed their wireless infrastructure capital expenditures in response to the economic uncertainty created by the pandemic. Throughout the latter part of the prior fiscal year, and continuing into the first two quarters of fiscal 2021, net sales remained low and the Company experienced operating losses. As the COVID-19 pandemic seemed to be easing in early 2021, and as capital infrastructure project expenditures increased, so did the Company’s net sales. During the third quarter of fiscal 2021, net sales increased by \$5.7 million (or 60%) from the third quarter of fiscal 2020 and further increased by an additional 38% from the third to the fourth quarter of fiscal 2021. During the Company’s fourth quarter, the Company’s operations returned to profitability. Because the Company experienced net losses from its operations in the first three quarters of fiscal 2021, the Company would have experienced net losses for the fiscal year ended October 31, 2021. However, because the impact of the ERC on the Company’s labor costs during the second and third quarters of fiscal 2021, and because of the PPP Loan forgiveness during those quarters, the Company realized net income for the fiscal year.

Financial Condition

The following table presents certain key measures of financial condition as of October 31, 2021 and 2020 (in thousands, except percentages):

	2021		2020	
	Amount	% Total Assets	Amount	% Total Assets
Cash and cash equivalents	\$ 13,053	26.3%	\$ 15,797	38.7%
Current assets	40,648	81.9%	30,865	75.6%
Current liabilities	9,370	18.9%	6,664	16.3%
Working capital	31,278	63.0%	24,201	59.3%
Property and equipment, net	708	1.4%	810	2.0%
Total assets	49,648	100.0%	40,822	100.0%
Stockholders' equity	39,603	79.8%	32,064	78.5%

Liquidity and Capital Resources

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

As of October 31, 2021, we had a total of \$13.1 million of cash and cash equivalents compared to a total of \$15.8 million of cash and cash equivalents as of October 31, 2020. As of October 31, 2021, we had working capital of \$31.2 million and a current ratio of approximately 4.3:1 with current assets of \$40.6 million and current liabilities of \$9.4 million.

As of October 31, 2021, our backlog was \$33.3 million compared to a backlog of \$6.3 million as of October 31, 2020. Since purchase orders are submitted from customers based on the timing of their requirements, our ability to predict orders in future periods or trends in future periods is limited. Furthermore, purchase orders may be subject to shipment delays and to cancellation from customers, although we have not historically experienced material cancellations of purchase orders.

As of October 31, 2021, we used \$3.1 million of cash in our operating activities despite our net income of \$6.1 million. The net outflow of cash was due in part to increased inventory purchases (which increased our inventory balance by \$2.6 million), and cash used for our trade accounts receivable (\$7.9 million) due to the increase in sales and timing of collections. The foregoing cash usage was partially offset by an increase in noncash credits of \$0.5 million from deferred income taxes and \$0.7 million from stock-based compensation expense.

Our goal to expand and grow our business both organically and through acquisitions may require material additional capital equipment. In the past, we have purchased all additional equipment, or financed some of our equipment and furnishings requirements through capital leases. Currently, no additional capital equipment purchases have been identified that would require significant additional leasing or capital expenditures during the next twelve months. We also believe that based on our current financial condition, our current backlog of unfulfilled orders and our anticipated future operations, we would be able to finance our expansion, if necessary.

We have entered into the Purchase Agreement pursuant to which we expect to acquire Microlab by approximately April 2022. The acquisition may materially impact the Company's liquidity in the future if the acquisition is consummated and financed on the terms currently anticipated. Under the Purchase Agreement, the Company has agreed to pay the \$24,250,000 purchase price of Microlab in cash. This cash purchase price will be paid in part from the Company's cash on hand and from borrowings the Company expects to obtain under a credit facility. The Company has received a non-binding commitment letter from a major commercial bank pursuant to which the Company is seeking to obtain an up to \$20,000,000 credit facility. The credit facility has not yet been completed and is subject to certain conditions. Therefore, no assurance can be given that commercial bank will, in fact, extend the credit facility to the Company. By using some of its cash on hand to pay a portion of the Microlab purchase price, the Company will reduce the amount of cash it has available to fund its anticipated working capital and other needs. The monthly debt service obligations under the credit facility will require the Company to make significant monthly payments of principal and interest, which could negatively impact the Company's liquidity. The credit facility, if obtained, will contain financial and other covenants, such as a limit on the ratio of debt to earnings before interest, taxes, depreciation and amortization. A breach of any of the covenants could result in a default under the credit facility. Upon the occurrence of an event of default under any the credit facility, the commercial bank could terminate all commitments to extend further credit and elect to declare amounts outstanding thereunder to be immediately due and payable. The credit facility will be secured by a lien on substantially all of the Company's assets.

Results of Operations

The following summarizes the key components of our consolidated results of operations for the fiscal years ended October 31, 2021 and 2020 (in thousands, except percentages):

	2021		2020	
	Amount	% of Net Sales	Amount	% of Net Sales
Net sales	\$ 57,424	100.0%	\$ 43,044	100.0%
Cost of sales	39,656	69.1%	31,478	73.1%
Gross profit	17,768	30.9%	11,566	26.9%
Engineering expenses	1,479	2.6%	1,989	4.6%
Selling and general expenses	11,874	20.7%	9,980	23.2%
Operating income (loss)	4,415	7.7%	(403)	-0.9%
Other income (loss)	2,802	4.9%	(45)	-0.1%
Income (loss) before provision for income taxes	7,217	12.6%	(448)	-1.0%
Provision (benefit) for income taxes	1,036	1.8%	(367)	-0.9%
Consolidated net income (loss)	6,181	10.8%	(81)	-0.2%

Net sales for the year ended October 31, 2021 ("fiscal 2021") increased by \$14.4 million (or 33%) to \$57.4 million, as compared to net sales of \$43.0 million for the year ended October 31, 2020 ("fiscal 2020"). Most of the net sales for the year (\$36.3 million of the \$57.4 million) were realized in the second half of the fiscal year that is primarily attributable to the increase at the Custom Cabling segment. Net sales in the Custom Cabling segment increased by \$13.3 million, or 47%, to \$41.8 million compared to \$28.5 million in fiscal 2020. The increase reflects the increase in sales to wireless carriers, primarily related to the sales of fiber optic cables used in the build out of 4G and 5G networks. Net sales for fiscal 2021 at the RF Connector segment increased by \$1.0 million, or 7%, to \$15.6 million compared to \$14.6 million in fiscal 2020.

Gross profit for fiscal 2021 increased by \$6.2 million to \$17.8 million, and gross margins increased to 30.9% of sales from 26.9% of sales in fiscal 2020. The increase in gross profit and gross margins was due to the ERC that the Company was eligible to claim for production employees. The ERC reduced our labor costs and thereby increased our gross profits. Excluding the benefit of the ERC, our gross profits for fiscal 2021 would have been \$15.2 million, which is an increase of \$3.6 million compared to fiscal 2020, and gross margins would have been 26.4%.

Engineering expenses decreased \$0.5 million to \$1.5 million for fiscal 2021 compared to \$2.0 million in fiscal 2020. The decrease was primarily due to the ERC the Company was eligible to claim for engineering employees. Excluding the benefit of the ERC, engineering expenses would have been \$1.8 million, which is a decrease of \$0.2 million compared to fiscal 2020. This decrease is due to a reduction in engineering marketing personnel, which costs are included in the engineering costs. Engineering expenses represent costs incurred relating to the ongoing development of new products.

Selling and general expenses increased by \$1.9 million to \$11.9 million (to 20.7% of sales) in fiscal 2021 compared to \$10.0 million (23.2% of sales) in fiscal 2020 largely due to (i) increase in bonuses of (\$0.8 million) due to the increase in sales and business performance, (ii) increase in commissions due to the increase in sales (\$0.3 million), and (iii) acquisition related charges (\$0.1 million). The increase is also due in part to the hiring of additional sales people in the last half of the 2020 fiscal year and in the first quarter of fiscal 2021. Excluding the benefit of the ERC, selling and general expenses would have been \$12.4 million (22% of sales), which is a increase of \$2.4 million compared to fiscal 2020

In February 2021, all of the \$2.8 million of PPP Loans were forgiven and considered paid in full (including applicable interest), which debt forgiveness is reflected as "Other Income".

For fiscal 2021, pretax (loss) income for the Custom Cabling segment and the RF Connector segment was \$1.9 million and \$2.5 million, respectively, as compared to \$(2.4) million and \$2.0 million for fiscal 2020. The pretax income at both the Custom Cabling and RF Connector segments in fiscal 2021 was primarily due to the ERC the Company was eligible to claim and the PPP Loan forgiveness.

The provision (benefit) for income taxes was \$1.0 million or 14.4% and \$(0.4) million or 82.0% of income before income taxes for fiscal 2021 and 2020, respectively. The change in effective tax rate for fiscal 2021 and 2020 was primarily driven by the disproportionate impact of various permanent book-tax differences with respect to our forecasted book income or loss in each period.

For fiscal 2021, net income was \$6.2 million and fully diluted earnings per share was \$0.61 per share as compared to a net loss of \$(0.1) million and fully diluted earnings per share of \$0.01 per share for fiscal 2020.

Inflation and Rising Costs

The cost to manufacture the Company's products is influenced by the cost of raw materials and labor. The Company has recently experienced higher costs as a result of the increasing cost of labor and the increasing cost of raw materials. The cost of raw materials is due in part to a shortage in the availability of certain products, the higher cost of shipping, and inflation. Labor costs have risen recently as a result of increases in the minimum wage laws and an increased demand for workers. The Company may, from time to time, try to offset these cost increases by increasing the prices of its products. However, because the prices of certain of the Company's products, particularly those under longer-term manufacturing contracts for communications related products, are fixed until the goods are manufactured and delivered, implementing price increases often is often not feasible.

RF INDUSTRIES, LTD. AND SUBSIDIARIES

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of RF Industries, Ltd. and Subsidiaries (the “Company”) as of October 31, 2021 and 2020, and the related consolidated statements of operations, stockholders’ equity and cash flows for each of the two years in the period ended October 31, 2021, and the related consolidated notes (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of October 31, 2021 and 2020, and the results of its operations and its cash flows for each of the years in the two-year period ended October 31, 2021, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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

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

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that (i) related to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgements. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing a separate opinion on the critical audit matters or on the accounts or disclosures to which they relate.

Evaluation of Goodwill and Tradename with indefinite life arising from the acquisition of Schroff Technologies International, Inc. (“Schrofftech”) (Notes 1 and 2 to the Consolidated Financial Statements)

Critical Audit Matter

As disclosed in the consolidated financial statements, the Company has goodwill and indefinite lived intangible assets of \$2.47 million and \$1.17 million, respectively as of October 31, 2021. Approximately 44.1% of goodwill and 45.7% of indefinite lived intangibles relate to the acquisition of Schrofftech. Goodwill is tested for impairment at least annually at the reporting unit level using either a qualitative or quantitative approach. Under the quantitative approach to test for goodwill impairment, the Company compares the fair value of a reporting unit to its carrying amount, including goodwill. Generally, the Company estimates the fair value of its reporting units using a combination of a discounted cash flows analysis and market-based valuation methodologies. Similarly, the indefinite lived intangible assets are not amortized but rather are tested by management for impairment at least annually using a relief from royalty model to estimate the fair value as compared to its carrying value.

Significant judgment is exercised by the Company in estimating the fair value of the reporting units for goodwill and the fair value of indefinite lived intangible assets, specifically:

- The fair value estimate of the Schrofftech reporting unit is sensitive to assumptions such as the discount rate, revenue growth rates, and the projected cash flow terminal growth rate.

- The fair value estimates for Schrofftech indefinite lived intangible assets are sensitive to assumptions such as discount rates, revenue growth rates, royalty rates and projected cash flow terminal growth rates.

These assumptions are affected by such factors as expected future market or economic conditions.

Given these factors, auditing management's quantitative impairment tests for goodwill and indefinite lived intangible assets involved especially challenging, subjective, and complex auditor judgment and increased audit effort.

How Our Audit Addressed the Critical Audit Matter

Our audit procedures related to the fair value of goodwill for the Schrofftech Reporting Unit and the Schrofftech indefinite-lived intangible assets included the following, among others:

- We gained an understanding of and evaluated the design and implementation of the Company's controls that address the risk of material misstatement related to potential impairment;
- We gained an understanding of the process to estimate future cashflows, including methods, data, and significant assumptions used, in developing the discounted cashflow analysis as well as tested the completeness and accuracy of the underlying data used by the Company in its analyses;
- We evaluated management's significant accounting policies related to impairment of goodwill and indefinite lived intangible assets for reasonableness;
- We evaluated significant judgments made by management, including the identification of reporting units along with a separate unit to capture the corporate overhead;
- We evaluated management's ability to estimate future cash flows, including projected revenues, by performing a retrospective review of select Company historical cash flow forecasts;
- We evaluated management's projected revenues and cash flows by comparing the projections to the underlying business strategies and growth plans and performed a sensitivity analysis related to the key inputs to projected cash flows, including revenue growth rates, to evaluate the changes in the fair value of the reporting unit that would result from changes in assumptions; and
- With the assistance of our firm's valuation professionals with specialized skills and knowledge in valuation methods and models, we tested the Company's discounted cash flow models, including certain assumptions including the terminal value and discount rates.

/s/ CohnReznick LLP

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

Tysons, Virginia

January 14, 2022

RF INDUSTRIES, LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
OCTOBER 31, 2021 AND 2020
(In thousands, except share and per share amounts)

	2021	2020
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 13,053	\$ 15,797
Trade accounts receivable, net of allowance for doubtful accounts of \$87 and \$66, respectively	13,523	5,669
Inventories	11,179	8,586
Other current assets	2,893	813
TOTAL CURRENT ASSETS	40,648	30,865
Property and equipment:		
Equipment and tooling	3,986	3,819
Furniture and office equipment	1,086	1,073
	5,072	4,892
Less accumulated depreciation	4,364	4,082
Total property and equipment	708	810
Operating lease right of use assets, net	1,453	1,421
Goodwill	2,467	2,467
Amortizable intangible assets, net	2,739	3,181
Non-amortizable intangible assets	1,174	1,174
Deferred tax assets	389	834
Other assets	70	70
TOTAL ASSETS	\$ 49,648	\$ 40,822

RF INDUSTRIES, LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
OCTOBER 31, 2021 AND 2020
(In thousands, except share and per share amounts)

	2021	2020
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 3,504	\$ 1,475
Accrued expenses	5,034	2,573
Current portion of PPP Loan	-	1,699
Income taxes payable	-	43
Other current liabilities	832	874
TOTAL CURRENT LIABILITIES	9,370	6,664
Operating lease liabilities	675	635
PPP Loan	-	1,089
Other long-term liabilities	-	370
TOTAL LIABILITIES	10,045	8,758
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common stock - authorized 20,000,000 shares of \$0.01 par value; 10,058,571 and 9,814,118 shares issued and outstanding at October 31, 2021 and October 31, 2020, respectively	101	98
Additional paid-in capital	24,301	22,946
Retained earnings	15,201	9,020
TOTAL STOCKHOLDERS' EQUITY	39,603	32,064
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 49,648	\$ 40,822

See Notes to Consolidated Financial Statements.

RF INDUSTRIES, LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED OCTOBER 31, 2021 AND 2020
(In thousands, except share and per share amounts)

	<u>2021</u>	<u>2020</u>
Net sales	\$ 57,424	\$ 43,044
Cost of sales	39,656	31,478
Gross profit	<u>17,768</u>	<u>11,566</u>
Operating expenses:		
Engineering	1,479	1,989
Selling and general	11,874	9,980
Total operating expense	<u>13,353</u>	<u>11,969</u>
Operating income (loss)	4,415	(403)
Other income (loss)	<u>2,802</u>	<u>(45)</u>
Income (loss) before provision (benefit) for income taxes	7,217	(448)
Provision (benefit) for income taxes	<u>1,036</u>	<u>(367)</u>
Consolidated net income (loss)	<u>\$ 6,181</u>	<u>\$ (81)</u>
Earnings (loss) per share		
Basic	\$ 0.62	\$ (0.01)
Diluted	\$ 0.61	\$ (0.01)
Weighted average shares outstanding		
Basic	<u>9,978,683</u>	<u>9,678,822</u>
Diluted	<u>10,154,239</u>	<u>9,678,822</u>

See Notes to Consolidated Financial Statements.

RF INDUSTRIES, LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED OCTOBER 31, 2021 AND 2020
(In thousands, except share amounts)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Total
	Shares	Amount			
Balance, November 1, 2019	9,462,267	\$ 95	\$ 21,949	\$ 9,489	\$ 31,533
Exercise of stock options	241,209	2	443	-	445
Stock-based compensation expense	-	-	473	-	473
Issuance of restricted stock	97,451	1	(1)	-	-
Issuance of common shares	13,191	-	82	-	82
Dividends	-	-	-	(388)	(388)
Net loss	-	-	-	(81)	(81)
Balance, October 31, 2020	9,814,118	\$ 98	\$ 22,946	\$ 9,020	\$ 32,064
Exercise of stock options	195,528	2	603	-	605
Stock-based compensation expense	-	-	769	-	769
Issuance of restricted stock	56,941	1	(1)	-	-
Forfeiture of restricted stock	(5,182)	-	-	-	-
Tax withholding related to vesting of restricted stock	(2,834)	-	(16)	-	(16)
Net income	-	-	-	6,181	6,181
Balance, October 31, 2021	10,058,571	\$ 101	\$ 24,301	\$ 15,201	\$ 39,603

See Notes to Consolidated Financial Statements.

RF INDUSTRIES, LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED OCTOBER 31, 2021 AND 2020
(In thousands)

	<u>2021</u>	<u>2020</u>
OPERATING ACTIVITIES:		
Consolidated net income (loss)	\$ 6,181	\$ (81)
Adjustments to reconcile consolidated net income (loss) to net cash (used in) provided by operating activities:		
Bad debt expense	29	16
Depreciation and amortization	770	1,014
Stock-based compensation expense	769	556
Deferred income taxes	445	(790)
Tax payments related to shares cancelled for vested restricted stock awards	(16)	-
PPP Loan forgiveness	(2,807)	-
Changes in operating assets and liabilities:		
Trade accounts receivable	(7,882)	6,775
Inventories	(2,592)	442
Other current assets	(2,079)	(113)
Right of use asset	(35)	88
Other long-term assets	(1)	(2)
Accounts payable	2,030	(1,040)
Accrued expenses	2,479	(1,374)
Income tax payable	(43)	22
Other long-term liabilities	(370)	(966)
Net cash (used in) provided by operating activities	<u>(3,122)</u>	<u>4,547</u>
INVESTING ACTIVITIES:		
Capital expenditures	(227)	(235)
Purchase of Schrofftech, net of cash acquired (\$99)	-	(3,901)
Net cash used in investing activities	<u>(227)</u>	<u>(4,136)</u>
FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	605	445
Dividends paid	-	(388)
Proceeds from PPP Loan	-	2,789
Net cash provided by financing activities	<u>605</u>	<u>2,846</u>
Net (decrease) increase in cash and cash equivalents	<u>(2,744)</u>	<u>3,257</u>
Cash and cash equivalents, beginning of year	15,797	12,540
Cash and cash equivalents, end of year	<u>\$ 13,053</u>	<u>\$ 15,797</u>
Supplemental cash flow information – income taxes paid	<u>\$ 949</u>	<u>\$ 415</u>

See Notes to Consolidated Financial Statements.

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

Note 1 – Business activities and summary of significant accounting policies

Business activities

RF Industries, Ltd., together with its four wholly-owned subsidiaries (collectively, hereinafter the “Company”, “we”, “us”, or “our”), primarily engages in the design, manufacture, and marketing of interconnect products and systems, including coaxial and specialty cables, fiber optic cables and connectors, and electrical and electronic specialty cables. For internal operating and reporting purposes, and for marketing purposes, as of the end of the fiscal year ended October 31, 2021, we classified our operations into the following five divisions/subsidiaries: (i) The RF Connector and Cable Assembly division designs, manufactures and distributes coaxial connectors and cable assemblies that are integrated with coaxial connectors; (ii) Cables Unlimited, Inc., the subsidiary that manufactures custom and standard cable assemblies, complex hybrid fiber optic power solution cables, adapters, and electromechanical wiring harnesses for communication, computer, LAN, automotive and medical equipment; (iii) Rel-Tech Electronics, Inc., the subsidiary that designs and manufactures cable assemblies and wiring harnesses for blue chip industrial, oilfield, instrumentation and military customers; (iv) C Enterprises, Inc., the subsidiary that designs and manufactures quality connectivity solutions to telecommunications and data communications distributors; and (v) Schroff Technologies International, Ltd., the subsidiary that manufactures and markets intelligent thermal control systems used by telecommunications companies across the U.S. and Canada, and shrouds for small cell integration and installation. The Cables Unlimited and C Enterprises divisions are Corning Cables Systems CAH ConnectionsSM Gold Program members that are authorized to manufacture fiber optic cable assemblies that are backed by Corning Cables Systems’ extended warranty.

Use of estimates

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

Principles of consolidation

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

Cash equivalents

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

Revenue recognition

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

Inventories

Inventories are stated at the lower of cost or net realizable value, with cost determined using the weighted average cost of accounting. Cost includes materials, labor, and manufacturing overhead related to the purchase and production of inventories. We regularly review inventory quantities on hand, future purchase commitments with our suppliers, and the estimated utility of our inventory. If our review indicates a reduction in utility below carrying value due to damage, physical deterioration, obsolescence, changes in price levels, or other causes, we reduce our

inventory to a new cost basis through a charge to cost of sales in the period in which it occurs. The determination of market value and the estimated volume of demand used in the lower of cost or market analysis requires significant judgment.

Property and equipment

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

Goodwill

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

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

Under the amendments of this update, the goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss should be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit.

No instances of goodwill impairment were identified as of October 31, 2021 and 2020. We considered the impact of the COVID-19 related economic slowdown on our evaluation of goodwill impairment indicators as of October 31, 2021 as well as consideration of positive factors including backlog and sell-through subsequent to October 31, 2021. Although no goodwill impairment indicators were identified, it is possible that impairments could emerge as the impact of the crisis becomes clearer, and those impairment losses could be material.

On June 15, 2011, we completed the acquisition of Cables Unlimited. Goodwill related to this acquisition is included within the Cables Unlimited reporting unit. As of May 19, 2015, we completed the acquisition of the CompPro product line. Goodwill related to this acquisition is included within the RF Connector and Cable Assembly Division. Effective June 1, 2015, we completed the acquisition of Rel-Tech. Goodwill related to this acquisition is included within the Rel-Tech reporting unit. On March 15, 2019, we completed the acquisition of C Enterprises; however, no goodwill resulted from this transaction. On November 4, 2019, we completed the acquisition of Schrofftech. Goodwill related to this acquisition is included within the Schrofftech reporting unit.

Long-lived assets

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

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

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

No instances of impairment were identified as of October 31, 2021 or 2020.

Fair value measurement

We measure at fair value certain financial assets and liabilities. Fair value is defined as the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. GAAP specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market assumptions. These *two* types of inputs have created the following fair-value hierarchy:

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

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

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

As of October 31, 2021 and 2020, the carrying amounts reflected in the accompanying consolidated balance sheets for cash and cash equivalents, accounts receivable, and accounts payable approximated their carrying value due to their short-term nature.

Intangible assets

Intangible assets consist of the following as of October 31, 2021 and 2020 (in thousands):

	2021	2020
Amortizable intangible assets:		
Non-compete agreement (estimated life 5 years)	\$ 423	\$ 423
Accumulated amortization	(289)	(245)
	134	178
Customer relationships (estimated lives 7 - 15 years)	5,058	5,058
Accumulated amortization	(2,711)	(2,367)
	2,347	2,691
Backlog (estimated life 1 - 2 years)	287	287
Accumulated amortization	(287)	(266)
	-	21
Patents (estimated life 14 years)	368	368
Accumulated amortization	(110)	(77)
	258	291
Totals	\$ 2,739	\$ 3,181
Non-amortizable intangible assets:		
Trademarks	\$ 1,174	\$ 1,174

Amortization expense was \$442,000 and \$692,000 for the years ended October 31, 2021 and 2020. The weighted-average amortization period for the amortizable intangible assets is 7.85 years.

There was no impairment to trademarks for the years ended October 31, 2021 and 2020.

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

Year ending October 31,	Amount
2022	\$ 374
2023	364
2024	364
2025	320
2026	320
Thereafter	997
Total	\$ 2,739

Advertising

We expense the cost of advertising and promotions as incurred. Advertising costs charged to operations were approximately \$314,000 and \$295,000 in 2021 and 2020, respectively.

Research and development

Research and development costs are expensed as incurred. Our research and development expenses relate to its engineering activities, which consist of the design and development of new products for specific customers, as well as the design and engineering of new or redesigned products for the industry in general. During the years ended October 31, 2021 and 2020, we recognized \$1,479,000 and \$1,989,000 in engineering expenses, respectively.

Income taxes

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

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

Stock options

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

For the fiscal years ended October 31, 2021 and 2020, charges related to stock-based compensation amounted to approximately \$769,000 and \$556,000, respectively. For the fiscal years ended October 31, 2021 and 2020, all stock-based compensation is classified in selling and general and engineering expense.

Earnings per share

Basic earnings per share is calculated by dividing net income applicable to common stockholders by the weighted average number of common shares outstanding during the period. The calculation of diluted earnings per share is similar to that of basic earnings per share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if all potentially dilutive common shares, principally those issuable upon the exercise of stock options, were issued and the treasury stock method had been applied during the period. The greatest number of shares potentially issuable upon the exercise of stock options in any period for the years ended October 31, 2021 and 2020, that were not included in the computation because they were anti-dilutive, totaled 386,364 and 402,838, respectively.

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

	2021	2020
Numerators:		
Consolidated net income (A)	\$ 6,181,000	\$ (81,000)
Denominators:		
Weighted average shares outstanding for basic earnings per share (B)	9,978,683	9,678,822
Add effects of potentially dilutive securities - assumed exercise of stock options	175,556	-
Weighted average shares outstanding for diluted earnings per share (C)	10,154,239	9,678,822
Basic earnings per share (A)/(B)	\$ 0.62	\$ (0.01)
Diluted earnings per share (A)/(C)	\$ 0.61	\$ (0.01)

Recent accounting standards

Recently issued accounting pronouncements not yet adopted:

In *June 2016*, the Financial Accounting Standards Board (“FASB”) issued ASU 2016-13, Financial Instruments—Credit Losses, which requires a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. The guidance is effective for fiscal years beginning after *December 15, 2019*. In *November 2019*, the FASB issued ASU 2019-10, Financial Instruments—Credit Losses (Topic 326), which pushes back the effective date for public business entities that are smaller reporting companies, as defined by the SEC, to fiscal years beginning after *December 15, 2022*. Early adoption is permitted. We are currently evaluating the impact the adoption of this new standard will have on our consolidated financial statements.

Recently issued accounting pronouncements adopted:

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

In *January 2017*, the FASB issued ASU No. 2017-04, Intangibles—Goodwill and Other, which simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. Under the amendments of this update, the goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss should be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. The guidance also still gives entities the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. We adopted the standard as of *November 1, 2020*, the beginning of our fiscal 2021, applying this prospectively. The adoption of the standard did *not* result in an impairment charge as of *October 31, 2021*.

Note 2 – Business Acquisition

Schroff Technologies International, Inc.

On November 4, 2019, we purchased the business of Schroff Technologies International, Inc. (“Schrofftech”), a Rhode Island-based manufacturer and marketer of intelligent thermal control systems used by telecommunications companies across the U.S. and Canada, and shrouds for small cell integration and installation. At the closing, in consideration for the Schrofftech business, we paid the sellers \$4 million in cash, and, if certain financial targets are met by Schrofftech over a two-year period, agreed to pay additional cash earn-out payments of up to \$2.4 million. See, “*Note 6 – Accrued expenses and other long-term liabilities*,” for details related to the change in the fair value overtime.

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

Although the closing occurred on November 4, 2019, the acquisition of Schrofftech is deemed to have become effective for financial accounting purposes as of November 1, 2019. Accordingly, Schrofftech’s financial results have been included in the results of the Custom Cabling segment as well as in the consolidated statements of operations. Total costs related to the acquisition of Schrofftech were approximately \$151,000, of which \$108,000 was incurred in fiscal 2019, \$43,000 was incurred in fiscal 2020, and none in fiscal 2021. All acquisition-related costs have been expensed as incurred and categorized in selling and general expenses. For the year ended October 31, 2021, Schrofftech contributed revenue of \$5.95 million.

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

Cash consideration paid	\$	4,000,000
Earn-out liability		1,249,000
Total purchase price	\$	<u>5,249,000</u>

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

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

Note 3 – Concentrations of credit risk

Financial instruments which potentially subject us to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. We maintain our cash and cash equivalents with high-credit quality financial institutions. At October 31, 2021, we had cash and cash equivalent balances in excess of federally insured limits in the amount of approximately \$12.3 million.

Two customers, a wireless carrier, and a distributor, accounted for approximately 21% and 11%, respectively, of net sales for the year ended October 31, 2021. These same two customers had accounts receivable balances that accounted for 28% and 8%, respectively, of the total net accounts receivable balance at October 31, 2021. For the year ended October 31, 2020, the same distributor accounted for approximately 14% of net sales, and another distributor accounted for 12% of net sales whilst the wireless carrier was not a customer yet. These two distributors' accounts receivable balances each accounted for approximately 12% of the total net accounts receivable balance at October 31, 2020. Although the distributors have been on-going major customers of the Company and the wireless carrier is a new customer to the Company, the written agreements with these customers do not have any minimum purchase obligations and they could stop buying our products at any time and for any reason. A reduction, delay, or cancellation of orders from these customers or the loss of these customers could significantly reduce our future revenues and profits.

Note 4 – Inventories and major vendors

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

	<u>2021</u>	<u>2020</u>
Raw materials and supplies	\$ 6,422	\$ 4,410
Work in process	381	196
Finished goods	<u>4,376</u>	<u>3,980</u>
Totals	<u>\$ 11,179</u>	<u>\$ 8,586</u>

One vendor accounted for 26% of inventory purchases during the fiscal year ended October 31, 2021, and no vendor accounted for more than 10% of inventory purchases for the fiscal year ended October 31, 2020. We have arrangements with our vendors to purchase products based on purchase orders that we periodically issue.

Note 5 – Other current assets

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

	<u>2021</u>	<u>2020</u>
Employee retention credit ("ERC")	\$ 1,774	\$ -
Prepaid taxes	314	-
Prepaid expense	439	393
Other	366	420
Totals	<u>\$ 2,893</u>	<u>\$ 813</u>

Pursuant to the CARES Act, eligible employers are able to claim an ERC, which is a refundable tax credit against certain employment taxes. If the employer's employment tax deposits are not sufficient to cover the credit, the employer may get an advance payment from the IRS. The period assessed for eligibility of the ERC is on a calendar year basis. For the first and second quarter of calendar year 2021, we were eligible to claim the ERC. As of October 31, 2021, the remaining portion of the ERC that we have not yet received is included as other receivables in other current assets.

Note 6 – Accrued expenses and other long-term liabilities

Accrued expenses consist of the following (in thousands):

	<u>2021</u>	<u>2020</u>
Wages payable	\$ 2,607	\$ 1,506
Accrued receipts	1,711	518
Other current liabilities	716	549
Totals	<u>\$ 5,034</u>	<u>\$ 2,573</u>

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

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

We estimated the fair value of the earn-out liability using an option pricing based approach with a risk-neutral framework using Black Scholes related to Schrofftech calculated at net present value (Level 3 of the fair value hierarchy).

The following table summarizes our financial assets and liabilities measured at fair value on a recurring basis as of October 31, 2021 (in thousands):

<u>Description</u>	<u>Level 3</u>
Earn-out liability	\$ -

The following table summarizes our financial assets and liabilities measured at fair value on a recurring basis as of October 31, 2021 (in thousands):

Description	Level 3
Earn-out liability	\$ 370

The following table summarizes the changes to the Level 3 liabilities measured at fair value for the three months ended October 31, 2021, July 31, 2021, April 30, 2021, and January 31, 2021 (in thousands):

	Level 3				
	October 31, 2021	July 31, 2021	April 30, 2021	January 31, 2021	October 31, 2020
Beginning balance	\$ -	\$ -	\$ 296	\$ 370	\$ 1,249
Change in value	-	-	(296)	(74)	(879)
Ending balance	\$ -	\$ -	\$ -	\$ 296	\$ 370

Note 7 – Segment information

We aggregate operating divisions into operating segments which have similar economic characteristics primarily in the following areas: (1) the nature of the product and services; (2) the nature of the production process; (3) the type or class of customer for their products and services; (4) the methods used to distribute their products or services; and (5) if applicable, the nature of the regulatory environment. Based upon this evaluation, as of October 31, 2021, we had two reportable segments – RF Connector and Cable Assembly (“RF Connector”) and Custom Cabling Manufacturing and Assembly (“Custom Cabling”).

During fiscal 2021, the RF Connector segment was comprised of one division, while the Custom Cabling segment was comprised of four divisions. The five divisions that met the quantitative thresholds for segment reporting were RF Connector and Cable Assembly division, Cables Unlimited, Rel-Tech, C Enterprises, and Schrofftech. While each segment has similar products and services, there was little overlapping of these services to their customer base. The biggest difference in segments is in the channels of sales; sales of product and services for the RF Connector segment were primarily through the distribution channel, while the Custom Cabling segment sales were through a combination of distribution and direct to the end customer.

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

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

All of our operations are conducted in the United States; however, we derive a portion of our revenue from export sales. We attribute sales to geographic areas based on the location of the customers. The following table presents the sales by geographic area for the years ended October 31, 2021 and 2020 (in thousands):

	2021	2020
United States	\$ 54,960	\$ 41,633
Foreign Countries:		
Canada	1,856	933
Mexico	130	12
All Other	478	466
	2,464	1,411
Totals	\$ 57,424	\$ 43,044

Net sales, income (loss) before provision (benefit) for income taxes and other related segment information for the years ended October 31, 2021 and 2020 are as follows (in thousands):

	RF Connector and Cable Assembly	Custom Cabling Manufacturing and Assembly	Corporate	Total	Check
2021					
Net sales	\$ 15,622	\$ 41,802	\$ -	\$ 57,424	\$ 57,424
Income (loss) before benefit for income taxes	2,494	1,921	2,802*	7,217	7,217
Depreciation and amortization	141	629	-	770	770
Total assets	7,367	25,875	16,406	49,648	49,648
2020					
Net sales	\$ 14,554	\$ 28,490	\$ -	\$ 43,044	\$ 43,044
Income before provision for income taxes	2,019	(2,423)	(44)	(448)	(448)
Depreciation and amortization	159	855	-	1,014	1,014
Total assets	7,822	15,486	17,514	40,822	40,822

* For the 12 months ended October 31, 2021, other income consists of the \$2.8M PPP loans that were forgiven.

Note 8 – Income tax provision

The provision (benefit) for income taxes for the fiscal years ended October 31, 2021 and 2020 consists of the following (in thousands):

	2021	2020
Current:		
Federal	\$ 401	\$ 279
State	189	143
	<u>590</u>	<u>422</u>
Deferred:		
Federal	323	(593)
State	123	(196)
	<u>446</u>	<u>(789)</u>
	<u>\$ 1,036</u>	<u>\$ (367)</u>

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

	2021		2020	
	Amount	% of Pretax Income	Amount	% of Pretax Income
Income taxes at federal statutory rate	\$ 1,516	21.0%	\$ (94)	21.0%
State tax provision, net of federal tax benefit	246	3.4%	(41)	9.2%
Nondeductible differences:				
Stock options	(86)	-1.2%	(123)	27.5%
PPP loan forgiveness	(588)	-8.1%	-	0.0%
Meals and entertainment	1	0.0%	2	-0.4%
Parking disallowance	4	0.1%	5	-1.1%
R&D credits	(51)	-0.7%	(152)	33.9%
Foreign derived intangible income	(15)	-0.2%	(5)	1.1%
ASC 740-10 Liability	29	0.4%	27	-6.0%
Penalties	-	0.0%	11	-2.5%
Other	(20)	-0.3%	3	-0.7%
	<u>\$ 1,036</u>	<u>14.4%</u>	<u>\$ (367)</u>	<u>82.0%</u>

Our total deferred tax assets and deferred tax liabilities at October 31, 2021 and 2020 are as follows (in thousands):

	2021	2020
Deferred Tax Assets:		
Deferred deduction of expenses related to PPP Loan	\$ -	\$ 706
Reserves	383	344
Accrued vacation	241	149
Stock-based compensation awards	144	100
Uniform capitalization	134	92
Lease liability	366	381
Other	77	35
Total deferred tax assets	<u>1,345</u>	<u>1,807</u>
Deferred Tax Liabilities:		
Amortization / intangible assets	(487)	(479)
Change in ROU assets	(357)	(359)
Depreciation / equipment and furnishings	(112)	(135)
Total deferred tax liabilities	<u>(956)</u>	<u>(973)</u>
Total net deferred tax assets (liabilities)	<u>\$ 389</u>	<u>\$ 834</u>

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

The provision (benefit) for income taxes was \$1.0 million or 14.4% and \$(0.4) million or 82.0% of income before income taxes for fiscal 2021 and 2020, respectively. The fiscal 2021 effective tax rate differed from the statutory federal rate of 21% primarily as a result of the benefit from non-taxable PPP Loan forgiveness income, research and development tax credits and tax benefits associated with share-based compensation.

The Company recognizes the benefit of tax positions taken or expected to be taken in its tax returns in the consolidated financial statements when it is more likely than not that the position will be sustained upon examination by authorities. Recognized tax positions are measured at the largest amount of benefit that is greater than 50% likely of being realized upon settlement.

A reconciliation of the beginning and ending balance to total uncertain tax positions in fiscal years ended October 31, 2021 and 2020 are as follows:

	2021	2020
Balance, at beginning of year	\$ 107	\$ 80
Increase for tax positions related to the current year	44	32
Increase for tax positions related to prior years	(1)	-
Increase for interest and penalties	2	6
Statute of limited expirations	(11)	(11)
Balance, at end of year	<u>\$ 141</u>	<u>\$ 107</u>

We had gross unrecognized tax benefits of \$102,000 and \$96,000 attributable to U.S. federal and California research tax credits as of October 31, 2021 and 2020, respectively. During fiscal 2021, the increase in our gross unrecognized tax benefit was primarily related to claiming additional federal and California research tax credits. The uncertain tax benefit is recorded as income taxes payable in our consolidated balance sheet. We recognize interest and penalties related to uncertain tax positions in income tax expense. We recognized expense of approximately \$13,000 and \$11,000 during the years ended October 31, 2021 and 2020, respectively. We believe that an adequate provision has been made for any adjustments that may result from tax examinations. However, it is possible that certain changes may occur within the next twelve months, but we do not anticipate that our accrual for uncertain tax positions will change by a material amount over the next twelve-month period.

We are subject to taxation in the United States and state jurisdictions. Our tax years for October 31, 2018 and forward are subject to examination by the United States and October 31, 2017 and forward with state tax authorities.

On March 27, 2020, the CARES Act was signed into law in the United States. The CARES Act includes modifications to Internal Revenue Code and provides for relief to U.S. Corporations through programs such as employee retention credit, payroll tax deferral and modifications to certain income tax provisions such as temporary five-year net operating loss carryback provisions and a modification of interest deduction limitations. The Company carried back its net operating loss for the fiscal year ended October 31, 2020, resulting in a \$35,000 income tax benefit.

Note 9 – Stock options

Incentive and non-qualified stock option plans

On July 22, 2020, the Company’s Board of Directors adopted the 2020 Equity Incentive Plan (the “2020 Plan”). In September 2020, the Company’s stockholders approved the 2020 Plan by vote as required by NASDAQ. An aggregate of 1,250,000 shares of common stock was set aside and reserved for issuance under the 2020 Plan. As of October 31, 2021, 1,123,232 shares of common stock were remaining for future grants of stock options under the 2020 Plan.

Additional disclosures related to stock option plans

On December 6, 2019, one employee was granted 50,000 incentive stock options. These options vested 10,000 on the date of grant, and the balance vests as to 10,000 shares per year thereafter on each of the next four anniversaries of December 6, 2019, and expire ten years from the date of grant.

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

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

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

On January 12, 2021, we granted a total of 33,500 shares of restricted stock and 67,000 incentive stock options to one manager and three officers. The shares of restricted stock and incentive stock options vest over four years as follows: (i) one-quarter of the restricted shares and options shall vest on January 12, 2022; and (ii) the remaining restricted shares and options shall vest in twelve equal quarterly installments over the next three years. All incentive stock options expire ten years from the date of grant.

On July 16, 2021, our Chief Executive Officer was granted incentive stock options to purchase 50,000 shares. These options immediately vested on the date of grant, and expire ten years from the date of grant.

No other shares or options were granted to Company employees during fiscal 2021.

The fair value of each option granted in 2021 and 2020 was estimated on the grant date using the Black-Scholes option pricing model with the following assumptions:

	<u>2021</u>	<u>2020</u>
Weighted average volatility	52.34%	52.68%
Expected dividends	0.00%	0.63%
Expected term (in years)	7.0	7.0
Risk-free interest rate	0.58%	1.58%
Weighted average fair value of options granted during the year	\$ 3.38	\$ 3.06
Weighted average fair value of options vested during the year	\$ 3.41	\$ 2.38

Expected volatilities are based on historical volatility of our stock price and other factors. We used the historical method to calculate the expected life of the 2021 and 2020 option grants. The expected life represents the period of time that options granted are expected to be outstanding. The risk-free rate is based on the U.S. Treasury rate with a maturity date corresponding to the options' expected life. The dividend yield is based upon the historical dividend yield.

Additional information regarding all of our outstanding stock options at October 31, 2021 and 2020 and changes in outstanding stock options in 2021 and 2020 follows:

	<u>2021</u>		<u>2020</u>	
	<u>Shares or Price Per Share</u>	<u>Weighted Average Exercise Price</u>	<u>Shares or Price Per Share</u>	<u>Weighted Average Exercise Price</u>
Outstanding at beginning of year	789,179	\$ 4.66	890,147	\$ 3.62
Options granted	117,000	\$ 6.57	140,241	\$ 6.40
Options exercised	(195,528)	\$ 3.10	(241,209)	\$ 1.85
Options canceled or expired	(91,793)	\$ 5.88	-	\$ -
Options outstanding at end of year	<u>618,858</u>	<u>\$ 5.33</u>	<u>789,179</u>	<u>\$ 4.66</u>
Options exercisable at end of year	<u>313,381</u>	<u>\$ 5.95</u>	<u>459,513</u>	<u>\$ 4.48</u>
Options vested and expected to vest at end of year	<u>618,522</u>	<u>\$ 5.35</u>	<u>788,143</u>	<u>\$ 4.67</u>
Option price range at end of year	<u>\$1.90 - \$8.69</u>		<u>\$1.90 - \$8.69</u>	
Aggregate intrinsic value of options exercised during year	<u>\$ 642,181</u>		<u>\$ 975,638</u>	

Weighted average remaining contractual life of options outstanding as of October 31, 2021: 6.36 years

Weighted average remaining contractual life of options exercisable as of October 31, 2021: 5.59 years

Weighted average remaining contractual life of options vested and expected to vest as of October 31, 2021: 6.36 years

Aggregate intrinsic value of options outstanding at October 31, 2021: \$1,544,000

Aggregate intrinsic value of options exercisable at October 31, 2021: \$628,000

Aggregate intrinsic value of options vested and expected to vest at October 31, 2021: \$1,533,000

As of October 31, 2021, \$527,000 and \$393,000 of expense with respect to nonvested stock options and restricted shares, respectively, has yet to be recognized but is expected to be recognized over a weighted average period of 2.64 and 1.12 years, respectively.

Under the compensation policies adopted by the Compensation Committee, directors who also are officers and/or employees of the Company do not receive any compensation for serving on the Board. For their service as directors beginning in 2020 until the annual meeting of stockholders held in 2021, non-employee directors (i.e., directors who are not employed by the Company as officers or employees) were awarded \$50,000 as Board fees, which amount was paid (a) one-half in cash (\$25,000), with payments made on a quarterly basis, and (b) one-half through the grant of restricted shares that vest on a quarterly basis. In addition, the Chairman of the Board of Directors and the Chair of each committee of the Board of Directors received an annual retainer of \$15,000, also payable in restricted shares that vest in four equal quarterly installments commencing on September 15, 2020 and ending on the earlier of September 15, 2021 or the next annual meeting of stockholders. In each case, the equity portion of the award was calculated based on the 20-day average trailing closing price of the Company's common stock from the date of grant (\$4.34); and payments were pro-rated for Board members who served less than the entire service period during fiscal 2021.

Note 10 – Retirement plan

We have a 401(k) plan available to our employees. For the years ended October 31, 2021 and 2020, we contributed and recognized as an expense \$413,000 and \$394,000, respectively, which amounts represented 3% of eligible employee earnings under the Company's Safe Harbor Non-elective Employer Contribution Plan.

Note 11 – Line of credit and PPP Loan

Line of credit

In November 2019, we entered into an agreement for a revolving line of credit (“LOC”) in the amount of \$5.0 million. Amounts outstanding under the LOC shall bear interest at a rate of 2.0% plus LIBOR Daily Floating Rate (“base interest rate”), with interest payable on the first day of each month. Borrowings under the LOC are secured by a security interest in certain assets of the Company. As of October 31, 2020, no amounts were outstanding under the line of credit. On December 30, 2020, we closed the LOC with no amounts outstanding.

PPP Loan

In May 2020, we applied for and received loans under the Paycheck Protection Program (“PPP”) of the CARES Act totaling approximately \$2.8 million (“PPP Loans”). The funds from the PPP Loans were used to retain employees, maintain payroll and benefits, and make lease and utility payments. Without the PPP Loans, we would have made material reductions in our workforce (particularly at our New York facility). As of April 30, 2021, the full amount of the PPP Loans has been forgiven and considered paid in full (including applicable interest).

Note 12 – Related party transactions

A portion of our operating leases are leased from K&K Unlimited, a company controlled by Darren Clark, the former owner and current President of Cables Unlimited. Cables Unlimited's monthly rent expense under the lease is \$16,000 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, 2021, we paid a total of \$164,000 under the leases.

During fiscal 2021, we paid royalties to Elmec Ltd. (“Elmec”), a European-based company that owns the intellectual property that is used in Schrofftech's products. One third of Elmec is jointly owned by David Therrien and Richard DeFelice, two of the former owners and current President and Vice President, respectively, of Schrofftech. For the year ended October 31, 2021, we paid a total of \$17,000 of royalty payments to Elmec, and have accrued an additional \$2,000 as of October 31, 2021. The expenses related to these transactions are included in cost of goods sold.

Note 13 – Cash dividend and declared dividends

We did not pay any dividends during fiscal year 2021; we paid dividends of \$0.02 per share for a total of \$388,000 during fiscal year 2020.

Note 14 – Commitments

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

the proper classification into operating leases. The rate implicit in the leases was undeterminable and, therefore, the discount rate used in all lease contracts is our incremental borrowing rate.

We have operating leases for corporate offices, manufacturing facilities, and certain storage units. Our leases have remaining lease terms of one year to five years. A portion of our operating leases are leased from K&K Unlimited, a company controlled by Darren Clark, the former owner and current President of Cables Unlimited, to whom we make rent payments totaling \$16,000 per month.

We also have other operating leases for certain equipment. The components of our facilities and equipment operating lease expenses for the period ended October 31, 2021 were as follows (in thousands):

	Fiscal Year Ended October 31, 2021
Operating lease cost	\$ 1,019
Short-term lease cost	1

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

	October 31, 2021
Supplemental Cash Flows Information	
Right of use assets obtained in exchange for lease obligations:	
Operating leases	\$ 1,453
Weighted Average Remaining Lease Term	
Operating leases (in months)	25.26
Weighted Average Discount Rate	
Operating leases	3.54%

Future minimum lease payments under non-cancellable leases as of October 31, 2021 were as follows (in thousands):

Year ended October 31,	Operating Leases
2022	\$ 891
2023	478
2024	234
2025	13
Thereafter	7
Total future minimum lease payments	1,623
Less imputed interest	(116)
Total	\$ 1,507
Reported as of October 31, 2021	
Other current liabilities	\$ 832
Operating lease liabilities	675
Finance lease liabilities	-
Total	\$ 1,507

As of October 31, 2021, operating lease ROU asset was \$1.5 million and operating lease liability totaled \$1.5 million, of which \$832,000 is classified as current. There were no finance leases as of October 31, 2021.

Note 15 – Subsequent event

On December 16, 2021, the Company entered into a Membership Interest Purchase Agreement (the “Purchase Agreement”) with Wireless Telecom Group, Inc, a New Jersey corporation (“Seller”), and its wholly-owned subsidiary Microlab/FXR LLC, a New Jersey limited liability company (“Microlab”). Under the Purchase Agreement, the Company has agreed to purchase 100% of the issued and outstanding membership interests of Microlab from Seller. The purchase price for Microlab is estimated to be \$24,250,000, subject to certain closing

adjustments as set forth in the Purchase Agreement. The Company intends to pay the purchase price using a combination of cash on hand and borrowings from a credit facility. The Company has received a non-binding commitment letter from a major commercial bank pursuant to which the Company is seeking to obtain an up to \$20,000,000 credit facility, a portion of which will be used to fund the purchase of Microlab. The purchase of Microlab is subject to customary closing conditions and to the approval by the holders of a majority of the voting shares of Seller. The acquisition currently is expected to be completed by the end of April 2022, subject to a 30-day extension under certain circumstances.

Leadership

Directors

Mark K. Holdsworth
Chairman
Managing Partner
The Holdsworth Group

Marvin H. Fink
Retired Executive

Gerald Garland
Retired Executive

Sheryl Cefali
Managing Director
Duff & Phelps

Robert Dawson
President and
Chief Executive Officer

Officers

Robert Dawson
President and
Chief Executive Officer

Peter Yin
Chief Financial Officer,
Corporate Secretary
and Treasurer

Ray Bibisi
Chief Operating Officer

Stockholder Information

Annual Meeting

The Annual Meeting of Stockholder of RF Industries is scheduled to be held at 11:00 a.m. PDT, Wednesday, September 8, 2022, at Kroll, LLC, 10100 Santa Monica Blvd. Suite 1100, Los Angeles, CA 90067.

Investor Relations

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

Todd Kehrli
MKR Group, In.
12198 Ventura Blvd Ste 200
Los Angeles, CA 91604
Telephone: 323-468-2300
Email: RFIL@mkr-group.com

A copy of the Company's Annual Report on Form 10-K as filed with the United States Securities and Exchange Commission is available without charge on the SEC website, www.sec.gov, or upon request RF Industries, Ltd., 7610 Miramar Road, Suite 6000, San Diego, California 92126

RF Industries on NASDAQ

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

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Email: cstmail@continentalstock.com

Corporate Counsel

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