RFI

CONNECTING THE NEXT GENERATION

2023

RF INDUSTRIES

ANNUAL REPORT

LETTER FROM THE CEO

July 26, 2024

Fellow Shareholders,

Looking back at fiscal 2023, it was an unexpectedly challenging year that derailed our multi-year track record of strong financial performance. Like other companies operating in the wireless ecosystem, we did not anticipate the sharp decline in capex spending from the Tier 1 wireless carriers that pressured our results throughout the year. At the time of this letter, we are finally starting to see some signs of improvement from the carrier capex downturn and the outlook for fiscal 2024, especially the second half of the year, appears to have improved significantly. I'll cover more on our outlook later, but first I want to share how proud I am of what our team accomplished in fiscal 2023 to position our company for future success.

Positioning RFI for the Inevitable Capex Recovery

At RFI, each time we confront obstacles, we have been able to fight our way through and get better. While we had no control over our customers' spending decisions, we had confidence in two things: the environment would inevitably improve, and we would be ready for it.

Our management team and Board have deep knowledge and insight gained from past experiences that gives us a bias for action. So, we started with what we knew to be true — telecom is here to stay and continued investment in wireless infrastructure is mandatory not optional. Second, we believe there is pent-up demand to improve telecom infrastructure across the US, especially in the 4G and 5G buildouts. Third, we believe the next phase of the telecom buildout is network densification, which is critical to telecom companies staying competitive by delivering faster connections with uninterrupted coverage to customers everywhere.

To meet both new and expected demand in the telecom market, we made significant investments in our integrated systems product line and now offer a broad selection of high-quality interconnect products and next-generation integrated systems. This positions us to gain a larger percentage of our customers' bill of materials by having the leading-edge products they need for key applications.

During 2023, we redefined our value proposition in the market by rebranding the company to better connect RFI's well-established reputation to the current market. After 45 years in operation, we now have a new logo and fresh brand identity that embraces both our history and the significant evolution of our company and our product offerings.

We also continued to execute our plan to streamline our cost structure and drive further synergies by consolidating our facilities. While the work we did in 2023 reduced our annual expenses by $2.5 million, we have other initiatives underway to potentially cut another $3 million in annual expense by the end of fiscal 2024. As telecom capital expenditures increase, we see significant leverage in our P&L that can have a favorable impact on gross margins, either from improved sales or a higher value product mix or both. Furthermore, as we reduce expenses, any incremental sales should flow to the bottom line.

In 2023, we accomplished a great deal through the hard work and dedication of our outstanding team, and Ray Bibisi, as Chief Operating Officer, was very instrumental in achieving this progress. Recognizing Ray's leadership, in February 2024, we promoted him to President and Chief Operating Officer. Going forward, I am confident that Ray will play an even greater role in shaping our business strategy, go-to-market and operations in the next phase of our growth plan.

The Right Products at the Right Time

RF Industries is now a leaner and more efficient operation with tremendous operating leverage that positions us to reap future benefits of our transformation. At the time of this letter, we have won large projects deploying our higher value offering including small cell and Direct Air Cooling (DAC) solutions. With our lower cost structure, even a slight shift to a higher margin product mix should generate improved results—especially on a year-over-year comparable basis. We see momentum building in 2024 and beyond for several reasons.

- Densification continues to be a significant need in wireless infrastructure build-outs, and wireless carriers are recognizing our next generation solutions for their advanced technology, reliability and ease-of-use.
- Our product and solutions offering has broadened our reach both in current markets and in new customer opportunities. Using this expanded offer, we continue to execute on our plan to both expand our account penetration with existing customers, while we also diversify our customer base.
- I am confident that we have the right agreements in place with the right customers. We have worked hard to build out a more complete offer of the bills of materials in key customer applications, and we have put customer agreements in place where our products are included in many of these builds, which brings RFI into the planning and budgeting discussion with our customers earlier in the process.
- Multiple product solutions that we offer are tied to operating budgets versus capital expenditures. This broadens our funding sources and generates more recurring revenues that allows us to more efficiently manage inventory, logistics and internal operating expenses.
- Finally, I want to highlight the steady resilience of our core standard and custom interconnect products whose quality and fast-turnaround times continue to build RFI's strong reputation with our channel partners. In 2023, our core business was the workhorse that helped pull us through the downturn of delayed capex projects.

When you combine our cutting-edge products and capabilities with our core coaxial and fiber interconnect solutions, our custom cabling products, and our integrated systems for thermal cooling and small cell solutions, we have carefully and strategically developed a pretty amazing portfolio of leading-edge products and solutions for the communications industry.

Our Focus on Strategic Execution is Bearing Fruit

At the time of this letter, we recently announced several large orders totaling approximately $4 million across multiple product areas including a nearly $2 million win for small cell solutions from one key customer in the Tier 1 wireless carrier ecosystem. These opportunities are for higher value solutions that can drive higher margins than our historical average. With these orders, our backlog grew to approximately $21.1 million, a 30% increase from $16.2 million at the end of the fiscal first quarter of 2024.

These orders are providing momentum and visibility that we have not seen over the last 18 months. While many telecom companies have been on the sidelines for the last several quarters, they seem to be moving forward on upgrading their infrastructure with cost-effective and technology-forward products.

While we are pleased to see early signs of a recovery in our core markets, we also appreciate that our customers trust us to deliver critical solutions for their key applications. We have worked hard to strategically transform into a growth company by offering a broader mix of technologically advanced, next-generation, higher-value products and solutions. Now we finally feel some momentum building in these areas and see this as another significant step in our long-term transformation. Our work is not done, but we are excited to see the first real indication of what our business could look like with some wind to our back.

As I look at the big picture, I am very excited about our future. While 2023 results did not meet our expectations, the decline in carrier capex spending was beyond our control. However, continuing to invest in product development and reducing operating expenses was within our control.

We now have an impressive list of logos for a company of any size including all the tier 1 wireless carriers and multiple large providers of communications infrastructure, among others. We continue to build on our reputation for being customer-centric, great to work with and committed to on-time delivery. Satisfying customers is part of our DNA and is foundational to leveraging our existing customer relationships as well as attracting new ones. Finally, we take pride in our reputation for delivering quality products. We have gone to great lengths to ensure our products are top quality and that means producing finished goods right here in the USA.

Heading into 2024, we are focused on generating profitable, solid organic growth. We are positioned to enter a new phase of growth and I am excited and optimistic about our opportunity to expand margins and cash flow that will create long-term value for our shareholders.

In Closing

I would like to express my sincere appreciation to every member of our team for their efforts and contributions in serving our customers and building our company as we continue to execute our long-term growth plan.

I also want to acknowledge the ongoing support of our shareholders. 2023 was a rough year for RFI and for microcap investors overall, but we are starting to hear more positive sentiment for 2024.

To paraphrase the late, great Charlie Munger, "Basically, all investment is value investment in the sense that you're always trying to get better prospects than what you're paying for them." I am proud of the work our team did this year in managing through a challenging year and significantly improving our future prospects for profitable growth and value creation. I remain confident that we have the right business model, the right products, and the right team to capitalize on momentum in the telecom sector.

Sincerely,

Robert Dawson, Chief Executive Officer

We continue to build on our reputation for being customer-centric, great to work with and committed to on-time delivery. Satisfying customers is part of our DNA and is foundational to leveraging our existing customer relationships as well as attracting new ones. Finally, we take pride in our reputation for delivering quality products. We have gone to great lengths to ensure our products are top quality and that means producing finished goods right here in the USA.

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, 2023
Commission File Number 0-13301

RF INDUSTRIES, LTD.
16868 Via Del Campo Court, Suite 200, San Diego, California 92127
(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 $37.1 million.

On January 23, 2024, the Registrant had 10,343,223 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 meet customer demand through pricing and product offerings and efficient inventory and distribution channel management, to continue to source our raw materials and products from our suppliers and manufacturers, particularly those in Asia, the market demand for our products, which market demand is dependent in large part on the state of the telecommunications industry and whether plans to develop 4G and 5G networks accelerate as expected, as well as our ability to meet any such demand, the effect of future business acquisitions and dispositions, the incurrence of impairment charges, and competition.

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

PART I

ITEM 1. BUSINESS

General

RF Industries, Ltd. (together with subsidiaries, the "Company", "we", "us", or "our") is a national manufacturer and marketer of interconnect products and systems, including high-performance components such as RF connectors and adapters, dividers, directional couplers and filters, coaxial cables, data cables, wire harnesses, fiber optic cables, custom cabling, energy-efficient cooling systems and integrated small cell enclosures. 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 design, engineer, 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 RF connector, adapter, coupler, divider, and cable products, including coaxial passives and cable assemblies that are 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 March 1, 2022, we purchased 100% of the issued and outstanding membership interests of Microlab/FXR LLC, a New Jersey limited liability company ("Microlab") from Wireless Telecom Group, Inc, a New Jersey corporation (the "Seller") pursuant to the Membership Interest Purchase Agreement (the "Purchase Agreement") dated December 16, 2021. The consideration for the acquisition was $24,250,000, subject to certain post-closing adjustments as set forth in the Purchase Agreement. The purchase price was paid in cash at the closing. The Company funded $17 million of the cash purchase price from the funds obtained under a $17 million term loan (the "Term Loan") with Bank of America, N.A. ("BofA") and paid the remaining amount of the cash purchase price with cash on hand. The Term Loan was issued as part of a loan agreement with BofA (the "Loan Agreement") which also provided the Company with a $3 million revolving credit facility (the "Revolving Credit Facility" and together with the Term Loan, the "Credit Facility").

The primary interest rate for the Revolving Credit Facility is based on the Bloomberg Short-Term Bank Yield Index Rate plus a margin of 2.00%. The maturity date of the Revolving Credit Facility is March 1, 2024. The Term Loan may be drawn in one disbursement, at the election of the Company. As described above, we drew down the entire amount of the Term Loan on March 1, 2022. The primary interest rate for Term Loan is 3.76% per annum. The maturity date of the Term Loan is March 1, 2027. Borrowings under the Revolving Credit Facility are available for general working capital purposes and Borrowings under the Term Loan are available for the acquisition of Microlab.

On September 12, 2023, we entered into Amendment No. 1 and Waiver to the Loan Agreement ("Loan Amendment No. 1") with BofA. Loan Amendment No. 1, among other matters, provided for a one-time waiver of our failure to maintain (i) consolidated debt to EBITDA ratio not exceeding 3.00 to 1.00 (the "Debt Test") for the period ended July 31, 2023; and (ii) consolidated fixed charge coverage ratio of at least 1.25 to 1.00 (the "FCCR Test") for the period ended July 31, 2023. Loan Amendment No. 1 also waived testing for compliance with the Debt Test and FCCR Test for the quarterly periods ending October 31, 2023, January 31, 2024, April 30, 2024, and July 31, 2024, with the Debt Test and FCCR Test to resume with the period ending October 31, 2024, and to continue thereafter on a trailing 12-month basis. Further, Loan Amendment No. 1 required that we maintain (i) (a) until September 21, 2023, minimum liquidity of $4.0 million, and (b) from September 22, 2023 and thereafter, liquidity equal to the greater of (1) $4.0 million or (2) 80% of the liquidity that was forecast for this date at the fourth week of the forecast; and (ii) minimum EBITDA of ($400,000), $500,000, $1.0 million, and $1.0 million for the quarters ending October 31, 2023, January 31, 2024, April 30, 2024, and July 31, 2024, respectively. In connection with Loan Amendment No. 1, we also paid BofA a waiver fee of $50,000.

On January 26, 2024, we entered into Amendment No. 2 to the Loan Agreement ("Loan Amendment No. 2") with BofA. Loan Amendment No. 2, among other matters, eliminated the requirement to maintain minimum EBITDA of $500,000 for the quarter ending January 31, 2024. Under Loan Amendment No. 2, the line of credit available to the Company under the Revolving Credit Facility was lowered from $3.0 million to $500,000. Further, Loan Amendment No. 2 requires that we maintain from September 22, 2023 and thereafter, liquidity of at least $2.0 million, rather than the greater of $4.0 million or 80% of the forecast liquidity as was required under Loan Amendment No. 1. Under Loan Amendment No. 2, the Company will be charged an additional fee equal to 1% of the collective outstanding principal balances of the Revolving Credit Facility and Term Loan if the Credit Facility is not repaid in full on or before March 1, 2024. This additional fee, if applicable, will be due on March 2, 2024. Further, Loan Amendment No. 2 requires that the Company make an additional principal payment of $1.0 million on the Term Loan on March 1, 2024, in addition to the existing monthly payments due on the Term Loan. In connection with Loan Amendment No. 2, we paid BofA a $500,000 paydown on the Revolving Credit Facility, thereby reducing the outstanding balance from $1.0 million to $500,000. 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 for 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"). We have operated the Microlab business at Seller's facilities in Hanover Township, Parsippany, New Jersey, pursuant to a sublease since closing of the acquisition. On October 19, 2022, we entered into two lease agreements for contiguous office and production space in Parsippany, New Jersey and moved the Microlab operations in July 2023 after certain improvements were completed, as negotiated under the lease agreements. The Microlab 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 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 production and distribution locations and allocate our resources based on each location's production specialization capabilities, its proximity to the shipment destination, and other factors. Using this "one-company" approach, our goal is to leverage available capacity and shorten delivery times, while potentially providing lower shipping costs. We operate manufacturing and distribution locations in California, and in the Northeastern United States.

Integrate marketing and selling efforts. Our strategy is to integrate and cross-sell our various historical and acquired product lines. We have been integrating our marketing and sales efforts, thereby expanding the number and type of products we can offer to our existing client base, while also using this cross-sell approach to win new customers.

Broad range of immediately available products. Our strategy is to provide a high level of availability where we stock a large selection of standard products that are available for immediate delivery, including availability from multiple distributors. Additionally, we augment this "on-the-shelf" availability of several cable assembly and interconnect products with fast-turn production and assembly providing better lead times for our customers.

Targeted focus of product lines. Our strategy is to focus on passive products rather than manufacturing and selling operating or active components or products. Our product line focus remains on supporting and leveraging our distribution channels with our core passive interconnect and cable assemblies offering, while in parallel we continue to expand our portfolio of integrated solutions to address key end customer and market applications. As we have grown in recent years, we have placed a specific emphasis on expanding our product lines to offer more of the bill of materials required to deploy specific connectivity systems and applications in key markets, such as wireless and public safety communications.

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 account management teams, we have invested in targeted business development efforts to assist in getting more closely aligned with the requirements of strategic end customer

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 six divisions with our product areas divided into two reporting segments.

RF Connector and Cable Assembly Segment.

Our 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 with expansion in New Jersey through our acquisition of Microlab. The RF Connector division is primarily 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. Additionally, during fiscal year 2023 the Company integrated the former C Enterprises division into the RF Connector division and San Diego headquarters. The business and assets of C Enterprises, L.P. were acquired on March 15, 2019, bringing to the Company the Corning Cable Systems CAH Connections℠ Gold Program member as an authorized manufacturer of fiber optic products that are backed by Corning Cable Systems' extended warranty. This acquisition added the capabilities to design, develop and manufacture connectivity solutions including custom copper and fiber cable assemblies sold to telecommunications and data communications distributors.

The Microlab division is included in the RF Connector segment. Microlab was acquired in March 2022, and is based in Parsippany, New Jersey. Microlab designs and manufactures high-performance RF and Microwave products enabling signal distribution and deployment of in-building DAS (distributed antenna systems), wireless base stations and small cell networks. Manufacturing operations are performed at Microlab's facilities in New Jersey.

The RF Connector division typically carries over 1,500 different types of connectors, adapters, tools, and test and measurements kits. This division's 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, and Microlab designs and manufactures a wide selection of components and integrated subsystems for signal conditioning and distribution in the wireless infrastructure markets as well as for use in medical devices. However, most of the 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 three wholly owned subsidiaries located in the Northeastern United States. 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 three divisions that comprise the current Custom Cabling segment consist of the following:

Cables Unlimited, Inc. Cables Unlimited, Inc. ("Cables Unlimited") is a custom cable manufacturer located in Yaphank, New York, that we acquired in 2011. Cables Unlimited is a Corning Cable Systems CAH Connections℠ 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.

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 fornumerous 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.

Passive RF Products

We design and manufacture high-performance RF and microwave high-performance components 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.

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.

The former C Enterprises, now integrated into the RF Connector division, 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 engineer, design, manufacture and sell intelligent thermal control systems for outdoor telecommunications equipment. The thermal control systems, which can be controlled offsite using networked software at the telecommunication company's own data center, maintain the interior temperature of telecommunications and other networking equipment. We also design and sell integrated shrouds and enclosures 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 $6,387,000 (or approximately 9%) of our net sales, and $10,335,000 (or approximately 12%) of our net sales for the fiscal years ended October 31, 2023 and 2022, 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 52% of our net sales for the fiscal year ended October 31, 2023. 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, 2023 were assembled at the International Organization for Standardization ("ISO") approved factories in San Diego, California and Parsippany, New Jersey. 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 Connections℠ 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 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.

Microlab designs and manufactures a wide selection of RF components and integrated subsystems in our design and manufacturing facility in Parsippany, New Jersey.

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, Schrofftech, and former C Enterprises 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, 2023, our estimated backlog of unfilled firm orders was approximately $16.1 million compared with backlog of approximately $27.8 million as of October 31, 2022. Orders typically fluctuate from quarter to quarter based on customer demand and 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 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 Seller (Wireless Telecom Group, Inc.), and its wholly owned subsidiary Microlab, pursuant to which we purchased 100% of the issued and outstanding membership interests of Microlab from the Seller on March 1, 2022. The consideration for the acquisition was $24,250,000, subject to certain post-closing adjustments as set forth in the Purchase Agreement. The purchase price was paid in cash at the closing. We funded most of the cash purchase price from the funds obtained under the $17 million Term Loan with Bank of America, N.A. and paid the remaining amount of the cash purchase price with $7.3 million of cash on hand. The Term Loan was issued as part of a loan agreement with Bank of America, N.A. which also provided the Company with the $3 million Revolving Credit Facility. 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.

We 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, 2023, we employed 321 full-time employees, of whom 67 were in accounting, administration, sales and management, 241 were in manufacturing, distribution and assembly, and 13 were engineers engaged in design, engineering and research and development. The employees were based at our facilities in San Diego, California (162 employees), Yaphank, New York (62 employees), Milford, Connecticut (47 employees), Parsippany, New Jersey (42 employees), and North Kingstown, Rhode Island (8 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 the 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 eight issued patents on its proprietary telecom shelter cooling and control system technology and its equipment room ventilation controls. Schrofftech has also filed one pending patent application 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 Connector 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 Connections℠ Gold Program members.

With the acquisition of Microlab, three additional relevant patents were added to our portfolio regarding GPS signal repeaters, RF System Monitoring, and RF Tappers. Additional filings are also pending for RF system conditioning.

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 to 60-day terms pursuant to invoices and do not generally grant extended payment terms. Generally, 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 2023, and there are no material expenditures planned for such purposes in fiscal year 2024.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 1C. CYBERSECURITY

Not applicable.

ITEM 2. DESCRIPTION OF PROPERTY

We currently lease 86,952 square feet of space for our corporate headquarters and RF connector and cable assembly manufacturing facilities in San Diego, California. On June 27, 2023, we entered into a Managed Client Agreement with RGN-MCA San Diego II, LLC ("IWG") pursuant to which IWG agreed to provide managed services for flexible workspaces under the "Regus" brand for 39,979 square feet on the 1st and 2nd floor(s) of the adjacent and vacant office spaces of our corporate headquarters. We occupy 46,973 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. We also lease 38,200 square feet of office and commercial lab space in Parsippany, New Jersey, where we operate the Micolab division. Additionally, we lease spaces in three 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, 2023:

Lease Location	Square Footage
Milford, CT	13,750
North Kingstown, RI	10,700
Parsippany, NJ	38,200
San Diego, CA	86,953
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, 2023, there were 251 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."

Issuer Purchases of Equity Securities. We did not repurchase any of our equity securities during the fourth quarter of fiscal 2023.

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 2023.

Dividend Policy. Due to the current economic uncertainty and other financial considerations, our Board did not issue any dividend payments in fiscal year 2023. In the past our Board has approved dividend payments, but 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 Board 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, 2023 with respect to the shares of Company common stock that may be issued under the Company's existing equity compensation plans:

	A	B	C
Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options	Weighted Average Exercise Price of Outstanding Options ($)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column A)
2010 Stock Incentive Plan	145,001	$6.94	- (1)
2020 Equity Incentive Plan	541,961	$5.58	916,369
Total	**686,962**	**$5.05**	**916,369**

(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 ("Accounting Standards Codification") 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 review 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.

As of October 31, 2023, we performed an impairment test analysis for Microlab and as of July 31, 2023, we performed an impairment test analysis for Schrofftech. As noted above, we test our goodwill, trademarks, and indefinite-lived intangible assets for impairment at least annually, which we have traditionally done in the fourth quarter, or on an interim basis when events or changes in circumstances suggest these assets may be impaired. Impairment is measured as the excess of the carrying value of the goodwill or indefinite-lived intangible asset over its fair value.

Impairment may result from a number of factors, including performance deterioration, negative cash flows from operations and/or changes in anticipated future cash flows, changes in business plans, adverse economic or market conditions, or other factors beyond our control. The amount of any impairment must be expensed as a charge to operations. Microlab's results for the fiscal year ended October 31, 2023 triggered an impairment analysis. Schrofftech's three and nine-month results ended July 31, 2023 triggered an impairment analysis. Microlab was acquired in March 1, 2022 for a total purchase price of $24.5 million. Schrofftech was acquired on November 4, 2019 for a total purchase price of $5.3 million, consisting of cash consideration of $4.0 million and $1.3 million in earn-out, of which none was earned.

As of October 31, 2023, Microlab has a carrying value of $17.2 million, of which includes $5.6 million in goodwill, $11.6 million in net amortizable intangible assets. As of October 31, 2023, Schrofftech has a carrying value of $3.1 million, of which includes $1.1 million in goodwill, $0.5 million in non-amortizable intangible assets and $1.5 million in net amortizable intangible assets. The analyses performed included a blend of the income approach (discounted cash flow method) and market approach (guideline public company method) to reach a fair value of equity in excess of the fair value to the carrying amount.

The analysis performed in blending the income approach and the market approach incorporates several significant judgments and assumptions about projected revenue growth, future operating margins and discount rates. There are inherent uncertainties related to these assumptions and our judgment in applying them to the impairment analysis. Changes in certain events or circumstances could result in changes to our estimated fair values and may result in future write-downs to the carrying values of these assets. Impairment charges could adversely affect our financial results, financial ratios and could limit our ability to obtain financing in the future.

Income Taxes

We record a tax provision (benefit) 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 our 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.

The RF Connector segment was comprised of three divisions while the Custom Cabling segment was comprised of three divisions. The six divisions that met the quantitative thresholds for segment reporting in the fiscal year ended October 31, 2022 were the RF Connector and Cable Assembly division, Cables Unlimited, Rel-Tech, C Enterprises, Schrofftech, and Microlab.

Revenues generated from the Custom Cabling segment were from the sale of fiber optics cable, copper cabling, custom patch cord assemblies, and wiring harnesses, which collectively accounted for 64% of the Company's total sales, and revenues from the RF Connector segment were generated from the sales of RF connector products and cable assemblies and accounted for 36% of total sales for fiscal 2023. The RF Connector segment mostly sells standardized products regularly used by customers and, therefore, has a more stable revenue stream when compared to the Custom Cabling segment. The Custom Cabling segment mostly designs, manufactures, and sells customized cabling and wireless-related equipment under larger project-based purchase orders. Accordingly, the Custom Cabling segment is more dependent upon larger project orders, and its revenues, therefore, may be more volatile than the revenues of the RF Connector segment.

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. During the periods covered by this report, we generally saw a recovery to a more normal environment though the operations at all locations were affected intermittently as some of our employee schedules were impacted, and as certain macro-economic conditions persisted. Because of the impact that COVID-19 had on our operations, in May 2020 we applied for and received loans under the Paycheck Protection Program ("PPP") of the Coronavirus Aid, Relief, and Economic Security Act, H.R. 748 ("CARES Act") totaling approximately $2.8 million ("PPP Loans"). All of our PPP Loans have been forgiven and are considered paid in full (including applicable interest).

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"), which is a refundable tax credit against certain employment taxes. 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 fiscal year ended October 31, 2022, we qualified and filed to claim the ERC and have recorded the credit as a receivable in Other Current Assets. As of October 31, 2023, we carried a $0.1 million ERC receivable in Other Current Assets.

Financial Condition

The following table presents certain key measures of financial condition as of October 31, 2023 and 2022 (in thousands, except percentages):

	2023		2022	
	Amount	% Total Assets	Amount	% Total Assets
Cash and cash equivalents	$4,897	6.0%	$4,532	5.1%
Current assets	$36,040	43.8%	$46,247	51.6%
Current liabilities	$12,511	15.2%	$19,536	21.8%
Working capital	$23,529	28.6%	$26,711	29.8%
Property and equipment, net	$4,924	6.0%	$3,173	3.5%
Total assets	$82,278	100.0%	$89,566	100.0%
Stockholders' equity	$39,762	48.3%	$41,869	46.7%

Liquidity and Capital Resources

Historically, we have been able to fund our liquidity and other capital requirements from funds we generated from operations. However, we have incurred operating losses in fiscal 2023. During this period, we have implemented certain cost-cutting measures to reduce our operating expenses and to help drive positive operating cash flow and increase liquidity. Our plan includes consolidating facilities and recognizing the related operating efficiencies and synergies in our production operations. We intend to continue to pursue additional improvement and cost reduction measures, as well as organic growth in revenue and profitability.

As of October 31, 2023, we had a total of $4.9 million of cash and cash equivalents compared to a total of $4.5 million of cash and cash equivalents as of October 31, 2022. As of October 31, 2023, we had working capital of $23.5 million and a current ratio of approximately 2.9:1 with current assets of $36.0 million and current liabilities of $12.5 million. We believe that the amount of cash remaining will be sufficient to fund our anticipated liquidity needs.

As of October 31, 2023, we had $16.1 million of backlog, compared to $27.8 million as of October 31, 2022. The decrease in backlog relates primarily to shipments made against orders for our hybrid fiber cables. Since purchase orders are submitted from customers based on the timing of their requirements, our ability to predict orders in future periods or trends in future periods is limited. Furthermore, purchase orders may be subject to cancellation from customers, although we have not historically experienced material cancellations of purchase orders.

As of October 31, 2023, we generated $4.2 million of cash in our operating activities. This net inflow of cash is primarily related to an increase in other current assets of $3.7 million, the collections of accounts receivable of $4.4 million, $2.4 million from depreciation and amortization, $2.3 million from inventories, $1.5 million from right of use assets, $0.9 million from stock-based compensation expense, and $0.1 million from bad debt expense. The cash usage was primarily due to accrued expenses of $4.2 million, payments on accounts payable of $2.5 million, income tax payable $0.8 million, deferred income taxes $0.7 million and our net loss of $3.1 million. The cash generated by other current assets represents $3.7 million, which primarily consists of $2.8 million of reimbursement for tenant improvements and $1.5 million received from ERC, offset by $0.6 million of prepaid taxes.

As of October 31, 2023, we also spent $2.5 million on capital expenditures, and $2.4 million in Term Loan payments. The cash used in operating activities and the amounts spent on capital expenditures were partially offset by $0.1 million of proceeds received from the exercise of stock options. As noted above, we also drew $1.0 million from the Revolving Credit Facility in fiscal 2023, primarily to fund leasehold improvements to the new corporate headquarters.

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. At this time, we have not identified any additional capital equipment purchases that would require significant additional leasing or capital expenditures during the next 12 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.

From time to time, we may undertake acquisitions of other companies or product lines in order to diversify our product and solutions offerings and customer base. Conversely, we may undertake the disposition of a division or product line due to changes in our business strategy or market conditions. Acquisitions may require the outlay of cash, which may reduce our liquidity and capital resources while dispositions may increase our cash position, liquidity and capital resources. Since our goal is to continue to expand our operations and accelerate our growth through future acquisitions, we may use some of our current capital resources to fund acquisitions we may undertake in the future.

Results of Operations

The following summarizes the key components of our consolidated results of operations for the fiscal years ended October 31, 2023 and 2022 (in thousands, except percentages):

	2023		2022	
	Amount	% of Net Sales	Amount	% of Net Sales
Net sales	$72,168	100.0%	$85,254	100.0%
Cost of sales	$52,631	72.9%	$60,705	71.2%
Gross profit	$19,537	27.1%	$24,549	28.8%
Engineering expenses	$3,151	4.4%	$2,913	3.4%
Selling and general expenses	$20,183	28.0%	$19,448	22.8%
Operating income	($3,797)	-5.3%	$2,188	2.6%
Other (loss) income	($453)	-0.6%	($601)	-0.7%
Income before provision for income taxes	($4,250)	-5.9%	$1,587	1.9%
Provision for income taxes	($1,172)	-1.6%	$139	0.2%
Consolidated net income	($3,078)	-4.3%	$1,448	1.7%

Net sales for the year ended October 31, 2023 ("fiscal 2023") of $72.2 million decreased by 15.4%, or $13.1 million, compared to the year ended October 31, 2022 ("fiscal 2022"). The decrease in net sales is attributable to the Custom Cabling segment, which decreased by $15.5 million, or 37.2%, to $26.2 million compared to $41.7 million in fiscal 2022, primarily related to wireless carrier network deployment slowdowns across the industry in fiscal 2023 impacting both our hybrid fiber sales and our small cell and direct air cooling products. Net sales for fiscal 2023 at the RF Connector segment increased by $2.4 million, or 5.5%, to $45.9 million compared to $43.5 million in fiscal 2022. The increase was primarily the result of the Microlab acquisition on March 1, 2022.

Gross profit for fiscal 2023 decreased by $5.0 million to $19.5 million and gross margins decreased to 27.1% of sales from 28.8% of sales in fiscal 2022. The decreases in gross profit and gross margins were primarily related to the overall decrease in sales and the sales mix.

Engineering expenses increased by $0.3 million to $3.2 million for fiscal 2023 compared to $2.9 million in fiscal 2022. The increase was primarily due to engineering efforts associated with our integrated systems products and a full year of Microlab operations. Engineering expenses represent costs incurred relating to the ongoing research and development of new products.

Selling and general expenses increased by $0.8 million to $20.2 million (28.0% of sales) compared to $19.4 million (22.8% of sales) in fiscal 2022. Microlab, which was acquired on March 1, 2022, accounted for $4.9 million of the selling and general expenses, as compared to $3.3 million in fiscal 2022. The increase at Microlab was offset by decreases in variable compensation related to commissions and bonus as a result of the lower sales overall. We also incurred one-time charges totaling $0.9 million related to an additional rent expense of $444,000 (of which $387,000 was non-cash) related to lease accounting, $252,000 in facility move expenses, severance of $75,000, $63,000 in ERP system implementations, $50,000 in bank waiver amendment fees and $42,000 in bank covenant reviews in fiscal 2023 compared to acquisition related expenses and other one-time charges (including attorney fees, due diligence and broker fees) which accounted for $2.1 million in fiscal 2022.

For fiscal 2023, we recorded a pretax income for the Custom Cabling segment of $0.6 million and a pretax loss for the RF Connector segment of $3.5 million, as compared to $4.1 million and $0.6 million of income, respectively, for fiscal 2022. The pretax loss at the Custom Cabling segment was primarily due to the decrease in sales of hybrid fiber cables to our wireless carrier customers and a decrease in sales of small cell products and systems to customers in the Tier-1 wireless ecosystem. The decrease in the pretax net income at the RF Connector segment was primarily due to the decrease in sales related to carrier projects involving approved RF components.

For fiscal 2023 and 2022, we recorded income tax (benefit) provision of ($1,172,000) and $139,000, respectively. The effective tax rate was 27.6% for fiscal 2023, compared to 8.8% for fiscal 2022. The change in effective tax rate for fiscal 2023 and 2022 was primarily driven by stock-based compensation windfall/shortfalls, change in valuation allowance and the Company's full year financial loss.

For fiscal 2023, net loss was $3.1 million and fully diluted loss per share was $0.30 as compared to a net income of $1.4 million and fully diluted earnings per share of $0.14 for fiscal 2022. For fiscal 2023, the diluted weighted average shares outstanding was 10,283,449 as compared to 10,242,417 for fiscal 2022.

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 frequently 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, 2023 and 2022, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the two years in the period ended October 31, 2023, 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, 2023 and 2022, and the results of its operations and its cash flows for each of the years in the two-year period ended October 31, 2023, 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: (1) related to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. 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 separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Assessment of Going Concern (Note 1 to the Consolidated Financial Statements)

Significant judgment is exercised by the Company in determining whether there is substantial doubt the Company will continue as a going concern. Specifically, the Company's forecasted cash flows are sensitive to significant assumptions such as projected revenue and projected operating results, all of which are affected by the expected future market or economic conditions, including the residual effects of the global pandemic, and inflation. Given these factors, the related audit effort in evaluating management's judgments in determining the Company's ability to continue as a going concern was challenging, subjective, and complex and required a high degree of auditor judgment.

How Our Audit Addressed the Critical Audit Matter

Our audit procedures related to the Company's assessment of going concern included the following:

- 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 the consideration of going concern;
- Obtaining an understanding of and evaluating the Company's process to develop forecasted cash flows, including significant assumptions used in developing forecasted cash flows as well as considering the appropriateness of the underlying data used by the Company in its analyses.
- Evaluating the reasonableness of the Company's forecasted revenue, operating results, and cash flows by comparing those forecasts to underlying business strategies, including customer relationships and the Company's ability to obtain new customers, and to historical results.
- Evaluating management's ability to accurately forecast future cash flows by comparing the Company's historical forecasted sales, operating results and cash flow forecasts to actual results.

Evaluation of Goodwill and Indefinite Life Intangibles (Notes 1 to the Consolidated Financial Statements)

As disclosed in the consolidated financial statements, the Company tests goodwill and indefinite lived intangibles 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 each 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 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 was challenging, subjective, and complex and required a high degree of auditor judgment.

How Our Audit Addressed the Critical Audit Matter

Our audit procedures related to the fair value of goodwill 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 reasonableness 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 projected revenues and cash flows by comparing the projections to the underlying business strategies and growth plans; 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 29, 2024

RF INDUSTRIES, LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
OCTOBER 31, 2023 AND 2022
(In thousands, except share and per share amounts)

ASSETS	October 31, 2023	October 31, 2022
CURRENT ASSETS		
Cash and cash equivalents	$ 4,897	$ 4,532
Trade accounts receivable, net of allowance for doubtful accounts of $244 and $126, respectively	10,277	14,812
Inventories	18,730	21,054
Other current assets	2,136	5,849
TOTAL CURRENT ASSETS	**36,040**	**46,247**
Property and equipment:		
Equipment and tooling	4,796	4,497
Furniture and office equipment	5,631	3,447
	10,427	7,944
Less accumulated depreciation	5,503	4,771
Total property and equipment, net	4,924	3,173
Operating lease right-of-use assets, net	15,689	13,480
Goodwill	8,085	8,085
Amortizable intangible assets, net	13,595	15,296
Non-amortizable intangible assets	1,174	1,174
Deferred tax assets	2,494	1,816
Other assets	277	295
TOTAL ASSETS	**$ 82,278**	**$ 89,566**

RF INDUSTRIES, LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
OCTOBER 31, 2023 AND 2022
(In thousands, except share and per share amounts)

LIABILITIES AND STOCKHOLDERS' EQUITY	October 31, 2023	October 31, 2022
CURRENT LIABILITIES		
Accounts payable	$ 3,201	$ 5,652
Accrued expenses	4,572	8,814
Line of credit	1,000	-
Current portion of Term Loan	2,424	2,424
Current portion of operating lease liabilities	1,314	1,887
Income taxes payable	-	759
TOTAL CURRENT LIABILITIES	**12,511**	**19,536**
Operating lease liabilities	19,284	15,025
Term Loan, net of debt issuance cost	10,721	13,136
TOTAL LIABILITIES	**42,516**	**47,697**
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common stock – authorized 20,000,000 shares of $0.01 par value; 10,343,223 and 10,193,287 shares issued and outstanding at October 31, 2023 and 2022, respectively	104	102
Additional paid-in capital	26,087	25,118
Retained earnings	13,571	16,649
TOTAL STOCKHOLDERS' EQUITY	**39,762**	**41,869**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 82,278**	**$ 89,566**

See Notes to Consolidated Financial Statements.

RF INDUSTRIES, LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED OCTOBER 31, 2023 AND 2022
(In thousands, except share and per share amounts)

	Twelve Months Ended October 31, 2023	2022
Net sales	$ 72,168	$ 85,254
Cost of sales	52,631	60,705
Gross profit	19,537	24,549
Operating expenses:		
Engineering	3,151	2,913
Selling and general	20,183	19,448
Total operating expenses	23,334	22,361
Operating (loss) income	(3,797)	2,188
Other expense	(453)	(601)
(Loss) income before (benefit) provision for income taxes	(4,250)	1,587
(Benefit) provision for income taxes	(1,172)	139
Consolidated net (loss) income	$ (3,078)	$ 1,448
(Loss) earnings per share:		
Basic	$ (0.30)	$ 0.14
Diluted	$ (0.30)	$ 0.14
Weighted average shares outstanding:		
Basic	$ 10,283,449	$ 10,120,254
Diluted	$ 10,283,449	$ 10,242,417

See Notes to Consolidated Financial Statements.

RF INDUSTRIES, LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED OCTOBER 31, 2023 AND 2022
(In thousands, except share amounts)

	Common Stock		Additional	Retained	
	Shares	Amount	Paid-In Capital	Earnings	Total
Balance, November 1, 2021	10,058,571	$ 101	$ 24,301	$ 15,201	$ 39,603
Exercise of stock options	60,854	1	149	-	150
Stock-based compensation expense	-	-	689	-	689
Issuance of restricted stock	77,091	-	-	-	-
Tax withholding related to vesting of restricted stock	(3,229)	-	(21)	-	(21)
Net income	-	-	-	1,448	1,448
Balance, October 31, 2022	10,193,287	102	25,118	16,649	41,869
Exercise of stock options	45,000	-	85	-	85
Stock-based compensation expense	-	-	898	-	898
Issuance of restricted stock	107,424	2	(2)	-	-
Tax withholding related to vesting of restricted stock	(2,488)	-	(12)	-	(12)
Net loss	-	-	-	(3,078)	(3,078)
Balance, October 31, 2023	10,343,223	$ 104	$ 26,087	$ 13,571	$ 39,762

See Notes to Consolidated Financial Statements.

RF INDUSTRIES, LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED OCTOBER 31, 2023 AND 2022
(In thousands)

	Twelve Months Ended October 31,	
	2023	2022
OPERATING ACTIVITIES		
Consolidated net (loss) income	$ (3,078)	$ 1,448
Adjustments to reconcile consolidated net (loss) income to net cash provided by operating activities:		
Bad debt expense	102	15
Depreciation and amortization	2,433	1,690
Stock-based compensation expense	898	689
Amortization of debt issuance cost	9	6
Tax payments related to shares cancelled for vested restricted stock awards	(12)	(21)
Deferred income taxes	(677)	(1,427)
Changes in operating assets and liabilities:		
Trade accounts receivable	4,433	1,496
Inventories	2,323	(6,150)
Other current assets	3,713	(2,894)
Right-of-use assets	1,477	3,378
Other long-term assets	18	(225)
Accounts payable	(2,451)	1,065
Accrued expenses	(4,244)	3,063
Income taxes payable	(759)	759
Net cash provided by operating activities	4,185	2,892
INVESTING ACTIVITIES:		
Capital expenditures	(2,483)	(2,675)
Purchase of Microlab, net of cash acquired ($33)	-	(24,442)
Net cash used in investing activities	(2,483)	(27,117)
FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	87	150
Debt issuance cost	-	(32)
Line of credit payments	(1,000)	-
Line of credit	2,000	-
Term Loan payments	(2,424)	(1,414)
Term Loan	-	17,000
Net cash (used in) provided by financing activities	(1,337)	15,704
Net increase (decrease) in cash and cash equivalents	365	(8,521)
Cash and cash equivalents, beginning of period	4,532	13,053
Cash and cash equivalents, end of period	$ 4,897	$ 4,532
Supplemental cash flow information – income taxes paid (refund)	$ 642	$ (314)

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 five 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, 2023, we classified our operations into the following five divisions/subsidiaries: (i) The RF Connector and Cable Assembly division designs, manufactures and distributes coaxial connectors and cable assemblies that are integrated with coaxial connectors; (ii) Cables Unlimited, Inc., the subsidiary that manufactures custom and standard cable assemblies, complex hybrid fiber optic power solution cables, adapters, and electromechanical wiring harnesses for communication, computer, LAN, automotive and medical equipment; (iii) Rel-Tech Electronics, Inc., the subsidiary that designs and manufacturers cable assemblies and wiring harnesses for blue chip industrial, oilfield, instrumentation and military customers; (iv) C Enterprises, Inc., the subsidiary that designs and manufactures quality connectivity solutions to telecommunications and data communications distributors; (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, and (vi) Microlab, the subsidiary that designs and manufactures high-performance RF and Microwave products enabling signal distribution and deployment of in-building DAS (distributed antenna systems), wireless base stations and small cell networks. The Cables Unlimited and C Enterprises divisions are Corning Cables Systems CAH Connections℠ 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"), Schroff Technologies International, Ltd. ("Schrofftech"), and Microlab/FXR LLC ("Microlab"), wholly owned subsidiaries of RF Industries, Ltd. All intercompany balances and transactions have been eliminated in consolidation.

Liquidity

As of October 31, 2023, the Company was in compliance with the covenants contained in the Loan Agreement. In January 2024, given the economic conditions and the associated impact on earnings, the Company amended the Loan Agreement to modify the financial covenants in order to avoid a potential covenant violation during the fiscal quarter ending January 31, 2024. The amendments effect changes to certain provisions and covenants as noted in Note 11.

As of October 31, 2023, the Company was in compliance with all financial covenants contained in the Loan Agreement. The Company expects to maintain compliance with the financial covenants contained in the Loan Agreement, as amended in January 2024, for at least one year from the issuance of these financial statements based on its current expectations and forecasts. If economic conditions worsen and the Company's earnings and operating cash flows do not start to recover as currently estimated by management, this could impact the Company's ability to maintain compliance with the amended financial covenants and require the Company to seek additional amendments to the Loan Agreement. If the Company is not able to obtain such necessary additional amendments, this would lead to an event of default and, if not cured timely, the lender could require the Company to repay its outstanding debt. In that situation, the Company may not be able to raise sufficient debt or equity capital, or divest assets, to refinance or repay the lenders and may affect our ability to continue as a going concern.

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.

We test our goodwill, 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.

As of October 31, 2023, we performed an impairment test analysis for Microlab and as of July 31, 2023, we performed an impairment test analysis for Schrofftech. As noted, we test our goodwill, trademarks, and indefinite-lived intangible assets for impairment at least annually, which we have traditionally done in the fourth quarter, or on an interim basis when events or changes in circumstances suggest these assets may be impaired. Impairment is measured as the excess of the carrying value of the goodwill or indefinite-lived intangible asset over its fair value.

No instances of goodwill impairment were identified as of October 31, 2023 and 2022.

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. On March 1, 2022, we completed the acquisition of Microlab. Goodwill related to this acquisition is included within the Microlab 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 amortize our intangible assets with definite useful lives over their estimated useful lives and review these assets for impairment.

We test our goodwill, 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.

As of October 31, 2023, we performed an impairment test analysis for Microlab and as of July 31, 2023, we performed an impairment test analysis for Schrofftech. As noted above, we test our goodwill, trademarks, and indefinite-lived intangible assets for impairment at least annually, which we have traditionally done in the fourth quarter, or on an interim basis when events or changes in circumstances suggest these assets may be impaired. Impairment is measured as the excess of the carrying value of the goodwill or indefinite-lived intangible asset over its fair value.

Impairment may result from a number of factors, including performance deterioration, negative cash flows from operations and/or changes in anticipated future cash flows, changes in business plans, adverse economic or market conditions, or other factors beyond our control. The amount of any impairment must be expensed as a charge to operations. Microlab's results for the fiscal year ended October 31, 2023 triggered an impairment analysis. Schrofftech's three and nine-months results ended July 31, 2023 triggered an impairment analysis. Microlab was acquired in March 1, 2022 for a total purchase price of $24.5 million. Schrofftech was acquired on November 4, 2019 for a total purchase price of $5.3 million, consisting of cash consideration of $4.0 million and $1.3 million in earn-out, of which none was earned.

As of October 31, 2023, Microlab has a carrying value of $17.2 million, of which includes $5.6 million in goodwill, $11.6 million in net amortizable intangible assets. As of October 31, 2023, Schrofftech has a carrying value of $3.1 million, of which includes $1.1 million in goodwill, $0.5 million in non-amortizable intangible assets and $1.5 million in net amortizable intangible assets. The analyses performed included a blend of the income approach (discounted cash flow method) and market approach (guideline public company method) to reach a fair value of equity in excess of the fair value to the carrying amount.

The analyses performed in blending the income approach and the market approach incorporates several significant judgments and assumptions about projected revenue growth, future operating margins and discount rates. There are inherent uncertainties related to these assumptions and our judgment in applying them to the impairment analysis. Changes in certain events or circumstances could result in changes to our estimated fair values, and may result in future write-downs to the carrying values of these assets. Impairment charges could adversely affect our financial results, financial ratios and could limit our ability to obtain financing in the future.

No instances of impairment were identified as of October 31, 2023 or 2022.

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, 2023 and 2022, 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, 2023 and 2022 (in thousands):

		2023		2022
Amortizable intangible assets:				
Non-compete agreement (estimated life 5 years)	$	423	$	423
Accumulated amortization		(378)		(334)
		45		**89**
Customer relationships (estimated lives 7 - 15 years)		6,058		6,058
Accumulated amortization		(3,461)		(3,074)
		2,597		**2,984**
Backlog (estimated life 1 - 2 years)		327		327
Accumulated amortization		(327)		(313)
		-		**14**
Patents (estimated life 10 - 14 years)		368		368
Accumulated amortization		(176)		(143)
		192		**225**
Tradename (estimated life 15 years)		1,700		1,700
Accumulated amortization		(189)		(76)
		1,511		**1,624**
Proprietary technology (estimated life 10 years)		11,100		11,100
Accumulated amortization		(1,850)		(740)
		9,250		**10,360**
TOTALS	$	**13,595**	$	**15,296**
Non-amortizable intangible assets:				
Trademarks	$	1,174	$	1,174

Amortization expense was $1,701,000 and $1,282,000 for the years ended October 31, 2023 and 2022, respectively. The weighted-average amortization period for the amortizable intangible assets is 8.55 years.

There was no impairment to trademarks for the years ended October 31, 2023 and 2022.

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

Year ending October 31,	Amount ($)
2024	$1,688
2025	$1,643
2026	$1,643
2027	$1,643
2028	$1,643
Thereafter	$5,335
Total	$13,595

Advertising

We expense the cost of advertising and promotions as incurred. Advertising costs charged to operations were approximately $76,000 and $333,000 in 2023 and 2022, 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, 2023 and 2022, we recognized $3,151,000 and $2,913,000 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, 2023 and 2022, charges related to stock-based compensation amounted to approximately $898,000 and $689,000, respectively. For the fiscal years ended October 31, 2023 and 2022, 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 (loss) 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, 2023 and 2022, that were not included in the computation because they were anti-dilutive, totaled 811,135 and 508,889, respectively.

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

		2023		2022
Numerators:				
Consolidated net (loss) income (A)	$	(3,078,000)	$	1,448,000
Denominators:				
Weighted average shares outstanding for basic earnings per share (B)		10,283,449		10,120,254
Add effects of potentially dilutive securities - assumed exercise of stock options		-		122,163
Weighted average shares outstanding for diluted earnings per share (C)	$	10,283,449	$	10,242,417
Basic (loss) earnings per share (A)/(B)	$	(0.30)	$	0.14
Diluted (loss) earnings per share (A)/(C)	$	(0.30)	$	0.14

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 December 2019, the FASB issued ASU 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes, which simplifies the accounting for income taxes by removing certain exceptions related to the approach for intra-period tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. The new ASU also simplifies aspects of the accounting for franchise taxes and enacted changes in tax laws or rates. These changes aim to improve the overall usefulness of disclosures to financial statement users and reduce unnecessary costs to companies when preparing the disclosures. The guidance was effective for the Company beginning on November 1, 2021 and prescribes different transition methods for the various provisions. The adoption of this standard had no material impact on the Company's consolidated financial statements or related disclosures.

Note 2 – Business Acquisition

On March 1, 2022, the Company completed its purchase (the "Purchase Transaction") of 100% of the issued and outstanding membership interests of Microlab, a New Jersey limited liability company, from Wireless Telecom Group, Inc, a New Jersey corporation (the "Seller") pursuant to the Membership Interest Purchase Agreement (the "Purchase Agreement") dated December 16, 2021, with the Seller. The consideration for the Purchase Transaction was $24,250,000, subject to certain post-closing adjustments as set forth in the Purchase Agreement. The purchase price was paid in cash at the closing. The Company funded $17 million of the cash purchase price from the funds obtained under the Term Loan (as defined in Note 11) and paid the remaining amount of the cash purchase price with cash on hand. During the three months ended July 31, 2022, we paid an additional $225,000 in purchase consideration as a result of certain post-closing adjustments relating to net working capital.

The acquisition was accounted for 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. Microlab designs and manufactures high-performance radio frequency and microwave products enabling signal distribution and deployment of in-building DAS (distributed antenna systems), wireless base stations and small cell networks. The Microlab acquisition further diversifies and strengthens the portfolio of products that we offer to the market and allows us to provide a more complete solution to our customers in key market segments. All manufacturing operations are performed at Microlab's facilities in New Jersey.

The acquisition closed on March 1, 2022, accordingly, subsequent to March 1, 2022, Microlab's financial results have been included in the results of the RF Connector and Cable Assembly ("RF Connector") segment as well as in the condensed consolidated statements of operations. The Company expects the goodwill recorded to be deductible for income tax purposes. Acquired amortizable intangible assets are being amortized on a straight-line basis over their estimated useful lives ranging from one to 15 years. Total costs, as of October 31, 2022, related to the acquisition of Microlab were approximately $1.3 million and have been expensed as incurred and categorized in selling and general expenses.

The following table summarizes the components of the purchase price at fair value at March 1, 2022:

Cash consideration paid at closing	$24,250,000
Post-closing adjustment	$225,000
Total consideration transferred	**$24,475,000**

The following table summarizes the allocation of the preliminary purchase price at fair value at March 1, 2022:

Current assets	$6,620,000
Property and equipment	$198,000
Intangible assets	$13,840,000
Goodwill	$5,617,000
Non-interest bearing liabilities	($1,800,000)
Net assets acquired at fair value	**$24,475,000**

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

Unaudited pro forma financial information assuming the acquisition of Microlab as of November 1, 2021 is presented in the following table:

	October 31, 2023		October 31, 2022	
Revenue	$	72,168	$	91,358
Net (loss) income		(3,078)		1,959
(Loss) earnings per share				
Basic	$	(0.30)	$	0.19
Diluted	$	(0.30)	$	0.19
Basic		10,283,449		10,120,254
Diluted		10,283,449		10,242,417

Note 3 – Concentrations of credit risk

Financial instruments that 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, 2023, we had cash and cash equivalent balances in excess of federally insured limits in the amount of approximately $3.4 million.

Sales from each customer that were 10% or greater of net sales were as follows:

	October 31, 2023	October 31, 2022
Wireless Provider	10%	20%
Distributor A	10%	*

* Less than 10%

For the year ended October 31, 2023, a wireless carrier customer accounted for approximately 10% of total sales and had no accounts receivable. Another distributor customer accounted for approximately 10% of total sales and for 11% of the total net accounts receivable, while another distributor customer accounted for 10% of the total net accounts receivable and less than 10% of total sales. For the year ended October 31, 2022, the same wireless carrier accounted for approximately 20% of total sales, and a distributor accounted for less than 10% of total sales. These two customers' accounts receivable balances each accounted for approximately 14% and 19% of the total net accounts receivable balance at October 31, 2022. Although the distributors have been on-going major customers of the Company and the wireless carrier is a newer 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):

	2023		2022	
Raw materials and supplies	$	12,957	$	15,238
Work in process		439		439
Finished goods		5,334		5,377
Totals	$	18,730	$	21,054

One vendor accounted for 15% of inventory purchases during the fiscal year ended October 31, 2023, and one vendor accounted for 27% of inventory purchases for the fiscal year ended October 31, 2022. 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):

	2023		2022	
Employee retention credit ("ERC")	$	145	$	1636
Prepaid taxes		642		-
Prepaid expense		953		972
Reimbursement for tenant improvements		-		2,810
Other		396		431
Totals	$	2,136	$	5,849

Pursuant to the Coronavirus Aid, Relief, and Economic Security Act, H.R. 748 ("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 Internal Revenue Service. The period assessed for eligibility of the ERC is on a calendar year basis. As of October 31, 2023, 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):

	2023		2022	
Wages payable	$	2,461	$	3,634
Accrued receipts		1,131		2,136
Other accrued expenses		980		1,847
Tenant improvements payable		-		1,197
Totals	$	4,572	$	8,814

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

Note 7 – Segment information

We aggregate operating divisions into two reporting segments that 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, 2023, we had two reportable segments – RF Connector and Cable Assembly ("RF Connector") segment and Custom Cabling Manufacturing and Assembly ("Custom Cabling") segment.

On August 1, 2023, C Enterprises moved and transitioned its physical operations into the RF Connector office in San Diego, CA. Given the synergies in consolidating both the operating divisions into one building, C Enterprises has now been included in the RF Connector segment. Further, since the acquisition of C Enterprises in 2019, the customer base for the division has shifted more towards distribution as opposed to direct to end customer which is more aligned with the RF Connector segment. The segment change of including C Enterprise as part of the RF Connector segment was made retroactive to the beginning of our fiscal year starting November 1, 2022 and reclassified for fiscal 2022 for comparative purposes. Prior to the transition, C Enterprises was included in the Custom Cabling segment.

The RF Connector segment consists of three divisions and the Custom Cabling segment consists of three divisions. The six divisions that met the quantitative thresholds for segment reporting are the RF Connector and Cable Assembly division ("RF Connector division"), Cables Unlimited, Rel-Tech, C Enterprises, Schrofftech, and Microlab. While each segment has similar products and services, there was little overlapping of these services to their customer base. The biggest difference in segments is in the channels of sales: sales or product and services for the RF Connector segment were primarily through the distribution channel, while the Custom Cabling segment sales were through a combination of distribution and direct to the end customer.

Management identifies segments based on strategic business units that are, in turn, based along market lines. These strategic business units offer products and services to different markets in accordance with their customer base and product usage. For segment reporting purposes, the RF Connector, C Enterprises and Microlab divisions constitutes the RF Connector segment, and the Cables Unlimited, Rel-Tech, 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, right-of-use assets, 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, 2023 and 2022 (in thousands):

	2023		2022	
United States	$	65,781	$	74,919
Foreign Countries				
Canada		2,183		6,765
Italy		1,802		1,670
Mexico		4		106
All Other		2,398		1,794
		6,387		10,335
Totals	$	72,168	$	85,254

Net sales, income (loss) before provision (benefit) for income taxes and other related segment information for the years ended October 31, 2023 and 2022 are as follows (in thousands):

2023	RF Connector and Cable Assembly	Custom Cabling Manufacturing and Assembly	Corporate	Total
Net sales	$ 45,941	$ 26,227	$ -	$ 72,168
Loss before benefit from income taxes	(1,463)	(1,479)	(1,307)	(4,250)
Depreciation and amortization	1,932	501	-	2,433
Total assets	55,466	17,009	9,803	82,278
2022				
Net sales	$ 43,521	$ 41,733	$ -	$ 85,254
(Loss) income before provision (benefit) from income taxes	(195)	4,919	(3,137)	1,587
Depreciation and amortization	1,191	499	-	1,690
Total assets	55,006	22,068	12,492	89,566

Note 8 – Income tax provision (benefit)

The provision (benefit) for income taxes for the fiscal years ended October 31, 2023 and 2022 consists of the following (in thousands):

	2023	2022
Current		
Federal	$ (501)	$ 1,252
State	6	225
	(495)	1,477
Deferred		
Federal	$ (438)	$ (1,054)
State	(239)	284
	(677)	(1,338)
Totals	$ (1,172)	$ 139

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

	2023		2022	
	Amount	% of Pretax Loss	Amount	% of Pretax Income
Income taxes at federal statutory rate	$ (893)	21.0%	$ 333	21.0%
State tax provision, net of federal tax benefit	(212)	5.0%	60	3.8%
Nondeductible differences:				
Stock options	88	-2.1%	19	1.2%
Permanent differences	15	-0.4%	5	0.3%
R&D credits	(238)	5.6%	(219)	-13.6%
Foreign derived intangible income	-	0.0%	(68)	-4.3%
ASC 740-10 Liability	13	-0.3%	(7)	-0.4%
Section 481(a) adjustment	-	0.0%	142	8.9%
Return-to-provision adjustments	(69)	1.6%	(126)	-7.9%
Other	124	-2.9%	-	0.0%
	$ (1,172)	27.5%	$ 139	9.2%

Our total deferred tax assets and deferred tax liabilities at October 31, 2023 and 2022 are as follows (in thousands):

	2023	2022
Deferred Tax Assets:		
Reserves	$ 497	$ 404
Accrued vacation	275	294
Stock-based compensation awards	213	168
Uniform capitalization	208	173
Lease liability	5,177	4,169
State taxes	21	72
Other	-	36
Capitalized Section 174 Costs	864	-
Credits	128	-
163(j) interest carryforward	118	-
Net operating loss carryforwards	73	-
Total deferred tax assets	$ 7,574	$ 5,316
Deferred Tax Liabilities:		
Amortization / intangible assets	(192)	(29)
Change in right-of-use assets	(3,942)	(3,335)
Depreciation / equipment and furnishings	(822)	(136)
Total deferred tax liabilities	(4,956)	(3,500)
Valuation allowance	(124)	-
Total net deferred tax assets (liabilities)	$ 2,494	$ 1,816

Deferred income tax assets and liabilities are recorded for differences between the financial statement and tax basis of the assets and liabilities that will result in taxable or deductible amounts in the future based on enacted laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. We have evaluated the available evidence supporting the realization of its gross deferred tax assets including the amount and timing of future taxable income, and has determined it is more likely than not that the federal and combined state deferred tax assets will be realized in future tax years, but it is not more likely than not that the separate state deferred tax assets will be realized in future tax years. As such, a valuation allowance has been recorded against the separate state deferred tax assets. The change in valuation allowance was $0.1 million and $0.0 million for fiscal 2023 and 2022, respectively.

At October 31, 2023, the Company has gross United States federal and state net operating loss (NOL) carryforwards of $0.3 million and $0.2 million, respectively. The federal NOL carryforwards will carry forward indefinitely. The state NOL carryforwards of $0.2 million will begin to expire in 2043 unless previously utilized. At October 31, 2023, the Company also has IRC 163(j) interest carryforwards of $0.6 million, which will carry forward indefinitely. At October 31, 2023, the Company also has state research and development credit carryforwards of $0.2 million. The state credit carryforwards of $0.2 million will begin to expire in 2029 unless previously utilized and the remainder will carry forward indefinitely.

The provision (benefit) for income taxes was ($1.2) million or 27.5% and $0.1 million or 9.2% of income before income taxes for fiscal 2023 and 2022, respectively. The fiscal 2023 effective tax rate differed from the statutory federal rate of 21% primarily as a result of the tax benefit from research and development tax credits, the change in valuation allowance and state taxes.

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, 2023 and 2022 are as follows:

	2023	2022
Balance, at beginning of year	$ 121	$ 128
Increase for tax positions related to the current year	78	50
Increase (decrease) for tax positions related to prior years	2	(29)
Increase for interest and penalties	-	-
Statute of Limitations Expirations	(23)	(28)
Balance, at end of year	$ 178	$ 121

We had gross unrecognized tax benefits of $178,000 and $121,000 attributable to U.S. federal and California research tax credits as of October 31, 2023 and 2022 respectively. During fiscal 2023, the increase in our gross unrecognized tax benefit was primarily related to increased federal and California research tax credits being generated. The uncertain tax benefit of $40,000 is recorded as a reduction to deferred tax assets and the remainder is recorded in income taxes payable in our consolidated balance sheet and if recognized in the future would impact our effective tax rate. We recognize interest and penalties related to uncertain tax positions in income tax expense. We recognized expense of approximately $20,000 and $13,000 during the years ended October 31, 2023 and

2022 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, 2020 and forward are subject to examination by the United States and October 31, 2019 and forward with state tax authorities.

Note 9 – Stock options

Incentive and non-qualified stock option plans

On July 22, 2020, the Company's Board of Directors adopted the 2020 Equity Incentive Plan (the "2020 Plan"). In September 2020, the Company's stockholders approved the 2020 Plan by vote as required by NASDAQ. An aggregate of 1,250,000 shares of common stock was set aside and reserved for issuance under the 2020 Plan. As of October 31, 2023, 703,252 shares of common stock were remaining for future grants of stock options under the 2020 Plan.

Additional disclosures related to stock option plans

On January 10, 2022, we granted a total of 39,666 shares of restricted stock and 106,001 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 vested on January 11, 2023; and (ii) the remaining restricted shares and options shall vest in 12 equal quarterly installments over the next three years. All incentive stock options expire 10 years from the date of grant.

On January 11, 2023, we granted a total of 54,092 shares of restricted stock and 108,181 incentive stock options to one manager and three officers, respectively. 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 10, 2024 and (ii) the remaining restricted shares and options shall vest in 12 equal quarterly installments over the next three years. Also on January 11, 2023, we granted another manager 50,000 incentive stock options. As of October 31, 2023, the 50,000 incentive stock options granted to manager were cancelled and forfeited as the manager was no longer employed. All incentive stock options expire 10 years from the date of grant.

On August 29, 2023, we granted one employee 10,000 incentive stock options. These options vested with respect to 2,500 shares on the date of grant, and the remaining shares vests in equal installments thereafter on each of the next three anniversaries of August 29, 2023. The options expire 10 years from the date of grant.

No other shares or options were granted to Company employees during fiscal 2023.

The fair value of each option granted in 2023 and 2022 was estimated on the grant date using the Black-Scholes option pricing model with the following assumptions:

	2023	2022
Weighted average volatility	54.27%	53.36%
Expected dividends	0.00%	0.00%
Expected term (in years)	7.0	7.0
Risk-free interest rate	3.78%	1.47%
Weighted average fair value of options granted during the year	$ 3.15	$ 3.77
Weighted average fair value of options vested during the year	$ 2.80	$ 2.32

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 2023 and 2022 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, 2023 and 2022 and changes in outstanding stock options in 2023 and 2022 follows:

	2023		2022	
	Shares or Price Per Share	Weighted Average Exercise Price	Shares or Price Per Share	Weighted Average Exercise Price
Outstanding at beginning of year	691,005	$ 5.87	618,858	$ 5.33
Options granted	168,181	$ 5.36	145,001	$ 6.94
Options exercised	(45,000)	$ 1.90	(60,854)	$ 2.45
Options canceled or expired	(60,000)	$ 5.33	(12,000)	$ 7.58
Options outstanding at end of year	754,186	$ 6.04	691,005	$ 5.87
Options exercisable at end of year	479,588	$ 6.10	366,714	$ 6.13
Options vested and expected to vest at end of year	748,358	$ 6.13	685,154	$ 5.88
Option price range at end of year	$1.90 - $8.69		$1.90 - $8.69	
Aggregate intrinsic value of options exercised during year	$ 144,005		$ 245,420	

Weighted average remaining contractual life of options outstanding as of October 31, 2023: 6.29 years
Weighted average remaining contractual life of options exercisable as of October 31, 2023: 5.46 years
Weighted average remaining contractual life of options vested and expected to vest as of October 31, 2023: 6.29 years
Aggregate intrinsic value of options outstanding at October 31, 2023: $58,000
Aggregate intrinsic value of options exercisable at October 31, 2023: $40,000
Aggregate intrinsic value of options vested and expected to vest at October 31, 2023: $57,000

As of October 31, 2023, $642,000 and $612,000 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 2.34 and 0.96 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. On September 8, 2022, the Board determined that the compensation payable to directors as Board fees for the next year ending with the 2023 annual meeting of stockholders will be $90,000 ($40,000 in cash and $50,000 in restricted stock). In addition, effective September 8, 2022, the Board determined that additional chair fees and committee member fees would be paid in cash as follows:

	Chair	Member
Board	$25,000	
Audit Committee	$8,000	$5,000
Compensation Committee	$6,000	$5,000
Nominating and Corporate Governance Committee	$4,000	$4,000
Strategic Planning and Capital Allocation Committee	$4,000	$4,000

The restricted stock fees vest on the earlier of (i) one year from the date of grant, or (ii) the Company's next annual meeting of stockholders. The number of restricted shares granted to each director was 7,485 determined by dividing the amount of the fee by the closing price of the Company's common stock from the date of grant ($6.68). Accordingly, on September 8, 2022, Mr. Holdsworth, Ms. Cefali, Mr. Cohenour, Mr. Garland, and Ms. Tidwell were each granted 7,485 shares of restricted stock. The cash fees vests in four equal quarterly installments paid in arrears commencing November 1, 2022.

Note 10 – Retirement plan

We have a 401(k) plan available to our employees. For the years ended October 31, 2023 and 2022, we contributed and recognized as an expense $567,000 and $488,000, respectively, which amounts represented 3% of eligible employee earnings under the Company's Safe Harbor Non-elective Employer Contribution Plan.

Note 11 – Term Loan and Line of credit

In February 2022, we entered into a loan agreement (the "Loan Agreement") providing for a revolving line of credit (the "Revolving Credit Facility") in the amount of $3.0 million and a $17.0 million term loan (the "Term Loan", and together with the Revolving Credit Facility, the "Credit Facility") with Bank of America, N.A. (the "Bank"). Amounts outstanding under the Revolving Credit Facility shall bear interest at a rate of 2.0% plus the Bloomberg Short-Term Bank Yield Index Rate. The maturity date of the Revolving Credit Facility is March 1, 2024. The Company drew down the entire amount of the Term Loan on March 1, 2022. The primary interest rate for Term Loan is 3.76% per annum. The maturity date of the Term Loan is March 1, 2027.

Borrowings under the Credit Facility are secured by a security interest in certain assets of the Company and are subject to certain loan covenants. The Credit Facility requires the maintenance of certain financial covenants, including: (i) consolidated debt to EBITDA ratio not to exceed 3.00 to 1.00; (ii) consolidated fixed charge coverage ratio of at least 1.25 to 1.00; and (iii) consolidated minimum EBITDA of at least $600,000 for the discrete quarter ended January 31, 2022. In addition, the Credit Facility contains customary affirmative and negative covenants.

As of July 31, 2023, we were not in compliance with the consolidated debt to EBITDA ratio nor were we in compliance with the consolidated fixed charge coverage ratio covenants (the "Defaults"). On September 12, 2023, we entered into Amendment No. 1 and Waiver to the Loan Agreement ("Loan Amendment No. 1") with the Bank, which, among other matters, provided for a temporary waiver of (i) the Defaults, and (ii) compliance with the consolidated debt to EBITDA ratio and the consolidated fixed charge coverage ratio minimum covenants for the quarterly periods ending October 31, 2023, January 31, 2024, April 30, 2024 and July 31, 2024. Further, pursuant to Loan Amendment No. 1, we were required to maintain (i) (a) until September 21, 2023, minimum liquidity (week-end cash balance plus availability from the Revolving Credit Facility) of $4.0 million, and (b) from September 22, 2023 and thereafter, liquidity equal to the greater of (1) $4.0 million or (2) 80% of the liquidity that had been forecast for this date at the fourth week of the forecast and (ii) minimum EBITDA of ($400,000), $500,000, $1.0 million, and $1.0 million for the quarters ending October 31, 2023, January 31, 2024, April 30, 2024, and July 31, 2024, respectively.

On January 26, 2024, we entered into Amendment No. 2 to the Loan Agreement ("Loan Amendment No. 2") with the Bank. Loan Amendment No. 2, among other matters, eliminated the requirement to maintain minimum EBITDA of $500,000 for the quarter ending January 31, 2024. Under Loan Amendment No. 2, the line of credit available to the Company under the Revolving Credit Facility was lowered from $3.0 million to $500,000. Further, Loan Amendment No. 2 requires that we maintain from September 22, 2023 and thereafter, liquidity of at least $2.0 million, rather than the greater of $4.0 million or 80% of the forecast liquidity as was required under Loan Amendment No. 1. Under Loan Amendment No. 2, the Company will be charged an additional fee equal to 1% of the collective outstanding principal balances of the Revolving Credit Facility and Term Loan if the Credit Facility is not repaid in full on or before March 1, 2024. This additional fee, if applicable, will be due on March 2, 2024. Further, Loan Amendment No. 2 requires that the

Company make an additional principal payment of $1.0 million on the Term Loan on March 1, 2024, in addition to the existing monthly payments due on the Term Loan. In connection with Loan Amendment No. 2, we paid the Bank a $500,000 paydown on the Revolving Credit Facility, thereby reducing the outstanding balance from $1.0 million to $500,000.

As of October 31, 2023, we have borrowed $13,162,000 under the Term Loan and $1.0 million from the Revolving Credit Facility.

The foregoing summary description of Loan Amendment No. 2 is qualified in its entirety by reference to the complete text of Loan Amendment No. 2, a copy of which is included as Exhibit 10.36 and is incorporated herein by reference.

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, 2023, we paid a total of $208,000 under the leases.

During fiscal 2023, 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, 2023, we paid a total of $24,000 of royalty payments to Elmec. 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 2023, nor during fiscal year 2022.

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, 2023 were as follows (in thousands):

	Fiscal Year Ended October 31, 2023
Operating lease cost	$ 2872
Short-term lease cost	1

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

	October 31, 2023	October 31, 2022
Supplemental Cash Flows Information		
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	$ 6,479	$ 13,352
Weighted Average Remaining Lease Term		
Operating leases (in months)	114.26	113.72
Weighted Average Discount Rate		
Operating leases	6.96%	3.75%

Future minimum lease payments under non-cancellable leases as of October 31, 2023 were as follows (in thousands):

Year ended October 31,	Operating Leases
2024	$ 2,404
2024	2,827
2025	2,877
2027	2,929
Thereafter	17,874
Total future minimum lease payments	28,911
Less imputed interest	(8,313)
Total	$ 20,598

Reported as of October 31, 2023	Operating Leases
Other current liabilities	$ 1,314
Operating lease liabilities	19,284
Total	$ 20,598

As of October 31, 2023, operating lease right-of-use asset was $15.7 million and operating lease liability totaled $20.6 million, of which $1.3 million is classified as current. There were no finance leases as of October 31, 2023.

Leadership

DIRECTORS

Mark K. Holdsworth
Chairman
Managing Partner
The Holdsworth Group

Sheryl Cefali
Managing Director
Duff & Phelps

Gerald Garland
Retired Executive

Kay L. Tidwell
General Counsel and
Chief Risk Officer
Hudson Pacific Properties Inc.

Robert Dawson
Chief Executive Officer

OFFICERS

Robert Dawson
Chief Executive Officer

Peter Yin
Chief Financial Officer,
Corporate Secretary
and Treasurer

Ray Bibisi
President and
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, Thursday, September 5, 2024, at RF Industries, Ltd., 16868 Via Del Campo Court, Suite 200, San Diego, California 92127.

INVESTOR RELATIONS

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

Peter Yin
Chief Financial Officer
16868 Via Del Campo Court, Suite 200
San Diego, CA 92127
Telephone: 858-549-6340
Email: pyin@rfindustries.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., Via Del Campo Court, Suite 200, San Diego, California 92127

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

Transfer Agent and Registrar
Continental Stock Transfer & Trust Co.
1 State Street, 30th Floor
New York, NY 10004
Telephone: 212-509-4000
Email: cstmail@continentalstock.com

Corporate Counsel
DLA Piper LLP (US)
4365 Executive Drive, Suite 1100
San Diego, CA 92121

Independent Public Accounting Firm
CohnReznick LLP
8000 Towers Crescent Drive
Suite 1000
Tysons, VA 22182

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858.549.6340
800.233.1728

rfi@rfindustries.com

16868 Via Del Campo Court
Suite 200, San Diego, CA 92127