R F INDUSTRIES LTD
Form 10-Q
September 13, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended July 31, 2010

Commission file number: 0-13301

RF INDUSTRIES, LTD.
(Exact name of registrant as specified in its charter)

Nevada (State or other jurisdiction of incorporation or organization)	88-0168936 (I.R.S. Employer Identification No.)
7610 Miramar Road, Building 6000 San Diego, California (Address of principal executive offices)	92126 (Zip Code)

(858) 549-6340
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer o Non-accelerated filer o Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes o No x

The number of shares of the issuer's Common Stock, par value $0.01 per share, outstanding as of September 1, 2010 was 2,850,928.

Part I. FINANCIAL INFORMATION

Item 1: Financial Statements

RF INDUSTRIES, LTD.
CONDENSED BALANCE SHEETS
(UNAUDITED)

	July 31, 2010	October 31, 2009 (Note 1)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 1,580,511	$ 1,225,927
Certificates of deposit	7,328,138	6,476,981
Trade accounts receivable, net of allowance for doubtful accounts of $62,475 and $52,892	1,981,975	2,263,265
Inventories	4,481,907	4,984,921
Other current assets	487,946	340,362
Deferred tax assets	478,200	478,200
TOTAL CURRENT ASSETS	16,338,677	15,769,656
Equipment and furnishings:		
Equipment and tooling	2,415,336	2,365,160
Furniture and office equipment	501,588	425,389
	2,916,924	2,790,549
Less accumulated depreciation	2,362,999	2,224,745
TOTALS	553,925	565,804
Long-term certificates of deposit	746,624	-
Goodwill	-	137,328
Amortizable intangible asset, net	6,789	27,156
Note receivable from stockholder	66,980	66,980
Other assets	32,158	31,276
TOTAL ASSETS	$ 17,745,153	$ 16,598,200

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Item 1: Financial Statements (continued)

RF INDUSTRIES, LTD.
CONDENSED BALANCE SHEETS
(UNAUDITED)

	July 31, 2010	October 31, 2009 (Note 1)
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 352,825	$ 224,974
Accrued expenses	832,979	673,080
Income taxes payable	-	75,134
TOTAL CURRENT LIABILITIES	1,185,804	973,188
Deferred tax liabilities	50,500	50,500
Other long-term liabilities	302,564	321,030
TOTAL LIABILITIES	1,538,868	1,344,718
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common stock - authorized 10,000,000 shares of $0.01 par value; 2,850,928 and 2,848,313 shares issued and outstanding	28,509	28,483
Additional paid-in capital	6,669,942	6,502,447
Retained earnings	9,507,834	8,722,552
TOTAL STOCKHOLDERS' EQUITY	16,206,285	15,253,482
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 17,745,153	$ 16,598,200

See Notes to Condensed Unaudited Financial Statements.

Item 1: Financial Statements (continued)

RF INDUSTRIES, LTD.
CONDENSED STATEMENTS OF INCOME
(UNAUDITED)

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2010	2009	2010	2009
Net sales	$ 4,230,032	$ 3,294,290	$ 11,321,062	$ 10,401,589
Cost of sales	2,213,128	1,670,358	5,717,611	5,409,304
Gross profit	2,016,904	1,623,932	5,603,451	4,992,285
Operating expenses:				
Engineering	218,975	255,682	624,586	805,921
Selling and general	1,354,395	1,339,847	3,738,085	3,736,126
Totals	1,573,370	1,595,529	4,362,671	4,542,047
Operating income	443,534	28,403	1,240,780	450,238
Other income - interest	28,062	22,764	67,856	148,877
Income before provision for income taxes	471,596	51,167	1,308,636	599,115
Provision for income taxes	159,326	40,590	523,299	211,485
Net income	$ 312,270	$ 10,577	$ 785,337	$ 387,630
Basic earnings per share	$ 0.11	$ 0.00	$ 0.28	$ 0.13
Diluted earnings per share	$ 0.10	$ 0.00	$ 0.25	$ 0.12
Basic weighted average shares outstanding	2,850,928	2,869,928	2,850,210	2,985,083
Diluted weighted average shares outstanding	3,218,376	3,161,904	3,202,701	3,278,509
Dividends paid	$ -	$ -	$ -	$ 94,780

See Notes to Condensed Unaudited Financial Statements.

Item 1: Financial Statements (continued)

RF INDUSTRIES, LTD.
CONDENSED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED JULY 31
(UNAUDITED)

	2010	2009
OPERATING ACTIVITIES:		
Net income	$ 785,337	$ 387,630
Adjustments to reconcile net income to net cash provided by operating activities:		
Bad debt expense	2,020	13,722
Depreciation and amortization	158,404	194,171
Goodwill impairment	137,328	209,763
Inventory write-off	247,539	
Loss on disposal of equipment		4,827
Stock-based compensation expense	157,522	124,786
Changes in operating assets and liabilities:		
Trade accounts receivable	279,269	190,374
Inventories	255,475	650,628
Other current assets	(147,584)	(291,605)
Other long-term assets	(882)	(394)
Accounts payable	127,851	(95,329)
Accrued expenses	170,060	(183,983)
Income taxes payable	(75,134)	(329,733)
Other long-term liabilities	(18,466)	57,046
Net cash provided by operating activities	2,078,739	931,903
INVESTING ACTIVITIES:		
Purchases of certificates of deposit	(3,411,107)	(2,117,184)
Sale of certificates of deposit	1,813,327	4,478,821
Capital expenditures	(126,375)	(158,403)
Net cash provided by (used in) investing activities	(1,724,155)	2,203,234
FINANCING ACTIVITIES:		
Purchases of treasury stock	-	(1,609,150)
Dividends paid	-	(94,780)
Net cash used in financing activities	-	(1,703,930)
Net increase in cash and cash equivalents	354,584	1,431,207
Cash and cash equivalents, beginning of period	1,225,927	1,060,838
Cash and cash equivalents, end of period	$ 1,580,511	$ 2,492,045
Supplemental cash flow information – income taxes paid	$ 633,000	$ 550,000
Supplemental noncash investing and financing activities:		
Retirement of treasury stock	$ -	$ 1,609,151

Stock issuance related to contingent liability	$ 10,000	$ 30,000

See Notes to Condensed Unaudited Financial Statements.

RF INDUSTRIES, LTD.
NOTES TO CONDENSED UNAUDITED FINANCIAL STATEMENTS

Note 1 - Unaudited interim financial statements

The accompanying unaudited condensed financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments, which are normal and recurring, have been included in order to make the information not misleading. Information included in the balance sheet as of October 31, 2009 has been derived from, and certain terms used herein are defined in, the audited financial statements of the Company as of October 31, 2009 included in the Company's Annual Report on Form 10-K ("Form 10-K") for the year ended October 31, 2009 that was previously filed with the Securities and Exchange Commission ("SEC"). Operating results for the three and nine months period ended July 31, 2010 are not necessarily indicative of the results that may be expected for the year ending October 31, 2010. The unaudited condensed financial statements should be read in conjunction with the financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended October 31, 2009.

Revenue recognition

Four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services rendered; (3) the fee is fixed and determinable; and (4) collectability is reasonably assured. The Company recognizes revenue from product sales after purchase orders are received, which contain a fixed price and the products are shipped. Most of the Company's products are sold to continuing customers with established credit histories.

Note 2 - Components of inventories

Inventories, consisting of materials, labor and manufacturing overhead, are stated at the lower of cost or market. Cost has been determined using the weighted average cost method.

	July 31, 2010	October 31, 2009
Raw materials and supplies	$ 1,280,765	$ 1,355,504
Work in process	46,031	8,105
Finished goods	3,198,519	3,685,950
Inventory reserve	(43,408)	(64,638)
Totals	$ 4,481,907	$ 4,984,921

Purchases of connector products from three major vendors in the nine month period ended July 31, 2010 represented 22%, 15%, and 13% compared to one major vendor who represented 23% of total inventory purchases for the same period in 2009. The Company has arrangements with these vendors to purchase product based on purchase orders periodically issued by the Company. The decrease in inventories is also attributable to a write-off of $247,539 of obsolete inventory at the Neulink division, which is a significant portion of the decrease in inventories compared to prior comparable nine month period.

Note 3 - Earnings per share

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net income by the weighted average number of common shares outstanding increased by the effects of assuming that other potentially dilutive securities (such as stock options) outstanding during the period had been exercised and the treasury stock method had been applied. For the three months ended July 31, 2010, the effects of the assumed exercise of options to purchase 271,539 shares of the Company's common stock, at a price range of $5.12 to $7.56 per share, were not included in the computation of diluted per share amounts because they were anti-dilutive for that purpose. For both the three and nine months ended July 31, 2009, the effects of the assumed exercise of options to purchase 391,439 shares of the Company's common stock, at a price of $3.95 to $7.56 per share, were not included in the computation of diluted per share amounts because they were anti-dilutive for that purpose. For the nine months ended July 31, 2010, the effects of the assumed exercise of options to purchase 270,039 shares of the Company's common stock, at a price range of $5.42 to $7.56 per share, were not included in the computation of diluted per share amounts because they were anti-dilutive for that purpose.

The following table summarizes the computation of basic and diluted weighted average shares outstanding:

	Three Months Ended July 31		Nine Months Ended July 31	
	2010	2009	2010	2009
Weighted average shares outstanding for basic net earnings per share	2,850,928	2,869,928	2,850,210	2,985,083
Add effects of potentially dilutive securities-assumed exercise of stock options	367,448	291,976	352,491	293,426
Weighted average shares for diluted net earnings per share	3,218,376	3,161,904	3,202,701	3,278,509

Note 4 - Stock-based compensation and equity transactions

The stock incentive plans provide for the granting of qualified and nonqualified options to the Company's officers, directors and employees. Non-qualified stock options granted during the nine months ended July 31, 2010 vest and are exercisable immediately and expire in five years from date of grant. There were no stock options granted during the quarter ended July 31, 2010. The Company satisfies the exercise of options by issuing previously unissued common shares.

The weighted average fair value of employee stock options granted by the Company in the nine months ended July 31, 2010 and 2009 was estimated to be $1.63 and $1.51 per share, respectively, using the Black-Scholes option pricing model with the following assumptions:

	2010	2009
Risk-free interest rate	1.41%	1.01%
Dividend yield	0.00%	2.96%
Expected life of the option	2.5 years	2.5 years
Volatility factor	57.67%	60.37%

Expected volatilities are based on historical volatility of the Company's stock and other factors. The Company used the simplified method to calculate the expected life of the 2010 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.

Issuances of common stock by the Company

During the nine months ended July 31, 2010, the Company issued 2,615 shares of common stock valued at approximately $10,000 to the former owner of RadioMobile to fully satisfy the earn-out contingency accrual. The RadioMobile Purchase Agreement earn-out contingency is more fully described in Note 11 of the Company's Annual Report 10-K for the year ended October 31, 2009.

Company Stock Option Plans

Descriptions of the Company's stock option plans are included in Note 7 of the Company's Annual Report on Form 10-K for the year ended October 31, 2009. A summary of the status of the options granted under the Company's stock option plans as of July 31, 2010 and the changes in options outstanding during the nine months then ended is presented in the table that follows:

	Shares		Weighted Average Exercise Price
Outstanding at November 1, 2009	1,243,306	$	3.74
Options granted	16,000	$	4.49
Options exercised	-	$	-
Options canceled or expired	(19,882)	$	4.73
Options outstanding at July 31, 2010	1,239,424	$	3.74
Options exercisable at July 31, 2010	922,242	$	3.70
Options vested and expected to vest at July 31, 2010	1,232,414		3.74

Weighted average remaining contractual life of options outstanding as of July 31, 2010: 4.41 years

Weighted average remaining contractual life of options exercisable as of July 31, 2010: 4.18 years

Weighted average remaining contractual life of options vested and expected to vest as of July 31, 2010: 4.39 years

Aggregate intrinsic value of options outstanding at July 31, 2010: $2,542,844

Aggregate intrinsic value of options exercisable at July 31, 2010: $2,051,198

Aggregate intrinsic value of options vested and expected to vest at July 31, 2010: $2,528,462

As of July 31, 2010, $461,434 of expense with respect to non-vested stock-based arrangements has yet to be recognized which is expected to be recognized over a weighted average period of 4.75 years.

Stock Option Expense

During the nine-months ended July 31, 2010 and 2009, stock-based compensation expense totaled $157,522 and $124,786, respectively. For the three-months ended July 31, 2010 and July 31, 2009, stock-based compensation expense totaled $43,605 and $47,576, respectively. For the nine months ended July, 2010 and 2009, stock-based compensation classified in cost of sales amounted to $26,247 and $9,898 and stock-based compensation classified in selling and general expense amounted to $131,275 and $114,888, respectively. For the three months ended July 31, 2010 and 2009, stock-based compensation classified in cost of sales amounted to $9,004 and $3,283 and stock-based compensation classified in selling and general expense amounted to $34,806 and $44,293, respectively.

Note 5 - Concentration of Credit Risk

One customer accounted for approximately 24% and 23% of the Company's net sales for the three and nine month periods ended July 31, 2010, respectively. One customer accounted for approximately 21% and 14% of the Company's net sales for the three and nine month periods ended July 31, 2009, respectively. Although this customer has been an on-going major customer of the Company continuously during the past thirteen years, the written agreements with this customer do not have any minimum purchase obligations and the customer could stop buying the Company's products at any time and for any reason. A reduction, delay or cancellation of orders from this customer or the loss of this customer could significantly reduce the Company's revenues and profits.

Note 6 - Segment Information

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

The RF Connector and Cable Assembly segment is comprised of three divisions, the Medical Cabling and Interconnector is comprised of one division while the RF Wireless segment is comprised of two. The three divisions that meet the quantitative thresholds for segment reporting are Connector / Cable Assembly, Bioconnect and RF Neulink. Each of the other divisions aggregated into these segments have similar products that are marketed to their respective customer base; production and product development processes are similar in nature. The specific customers are different for each division; however, there is some overlapping of product sales to them. The methods used to distribute products are similar within each division aggregated.

Management identifies the Company's segments based on strategic business units that are, in turn, based along market lines. These strategic business units offer products and services to different markets in accordance with their customer base and product usage. For segment reporting purposes, the Company aggregates the Connector and Cable Assembly, Aviel Electronics, and Oddcables.com (formerly known as Worswick) divisions into the RF Connector and Cable Assembly segment while RF Neulink and RadioMobile are part of the RF Wireless segment. The Bioconnect division makes up the Company's Medical Cabling and Interconnector segment.

As reviewed by the Company's chief operating decision maker, the Company evaluates the performance of each segment based on income or loss before income taxes. The Company charges depreciation and amortization directly to each division within the segment. All stock based compensation is attributed to the RF Connector and Cable Assembly segment. Inventory, fixed 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 as for the Company as a whole.

Substantially all of the Company's operations are conducted in the United States; however, the Company derives a portion of its revenue from export sales. The Company attributes sales to geographic areas based on the location of the customers. The following table presents the sales of the Company by geographic area for the three and nine month periods ended July 31, 2010 and 2009:

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2010	2009	2010	2009
United States	$ 3,654,004	$ 2,890,715	$ 9,767,347	$ 8,622,873
Foreign countries:				
Israel	289,061	179,455	637,076	865,173
All other	286,967	224,120	916,639	913,543
	$ 4,230,032	$ 3,294,290	$ 11,321,062	$ 10,401,589

Net sales, income (loss) before provision for income taxes and other related segment information for the three months ended July 31, 2010 and 2009 are as follows:

2010	RF Connectors and Cable Assembly	Medical Cabling and Interconnector	RF Wireless	Corporate	Total
Net sales	$ 3,546,233	$ 563,419	$ 120,380		$ 4,230,032
Income (loss) before provision for income taxes	682,620	153,104	(392,190)	$ 28,062	471,596
Depreciation, amortization and impairment	179,687	6,881	5,505		192,073
207 2009					
Net sales	$ 2,765,914	$ 347,473	$ 180,903		$ 3,294,290
Income (loss) before provision for income taxes	313,462	46,528	(331,586)	$ 22,763	51,167
Depreciation, amortization and impairment	114,571	3,388	153,215		271,174

Net sales, income (loss) before provision for income taxes and other related segment information for the nine months ended July 31, 2010 and 2009 are as follows:

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2010	RF Connectors and Cable Assembly	Medical Cabling and Interconnector	RF Wireless	Corporate	Total
Net sales	$ 9,719,162	$ 1,346,225	$ 255,675		$ 11,321,062
Income (loss) before provision for income taxes	1,699,925	296,544	(755,689)	67,856	1,308,636
Depreciation, amortization and impairment	259,523	16,566	19,643		295,732
207 2009					
Net sales	$ 8,831,013	$ 924,044	$ 646,532		$ 10,401,589
Income (loss) before provision for income taxes	1,057,046	12,772	(619,579)	$ 148,876	599,115
Depreciation, amortization and impairment	221,320	10,683	171,931		403,934

Note 7 - Income tax provision

The income tax provision reflected in the accompanying unaudited condensed statements of income for the three and nine months ended July 31, 2010 is different than the expected tax provision computed based on the pre-tax income and the applicable statutory Federal income tax rate of 34% and the state income tax rate, net of Federal tax effects, of 6%. Interim tax provisions are determined using an estimate of the annual effective tax rate. As of July 31, 2010, the Company estimated that its effective annual tax rate for the year ending October 31, 2010 will be approximately 40% which is above the expected statutory rate primarily due to state income taxes, net of Federal benefit.

The provision for income taxes during the nine month period ended July 31, 2010 was $523,299 (or an effective tax rate of approximately 40%), compared to $211,485 in the nine month period ended July 31, 2009 (or an effective tax rate of approximately 35%). The increase in the tax rate in the nine month period ended July 31, 2010 is primarily due to the Company's recognition of a one-time tax benefit of approximately $39,000 in the prior comparable period that related to a domestic production activity adjustment. Without this adjustment, the effective tax rate for the nine month period ended July 31, 2009 would have been higher and comparable to the 2010 rate.

Note 8 - Amortizable intangible assets

Amortizable intangible assets are comprised of the following:

	July 31, 2010	October 31, 2009
Intangible assets		
Software	$ 47,522	$ 47,522
Accumulated amortization	(43,561)	(31,681)
	3,961	15,841
Customer list	33,945	33,945
Accumulated amortization	(31,117)	(22,630)
	2,828	11,315
Totals	$ 6,789	$ 27,156

Note 9 - Goodwill impairment

We review our goodwill for impairment annually in the fourth quarter at the reporting unit level. We also analyze whether any indicators of impairment exist each quarter. A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators may include a sustained, significant decline in our share price and market capitalization, a decline in our expected future cash flows, a significant adverse change in legal factors or in the business climate, unanticipated competition, the testing for recoverability of our long-lived assets, and/or slower growth rates, among others.

We estimate the fair value of our reporting units using discounted expected future cash flows. If the fair value of the reporting unit exceeds its net book value, goodwill is not impaired, and no further testing is necessary. If the net book value of our reporting units exceeds their fair value, we perform a second test to measure the amount of impairment loss, if any.

We performed a valuation analysis, utilizing an income approach in our goodwill assessment process. The following describes the valuation methodologies used to derive the fair value of our reporting units.

- Income Approach: To determine each reporting unit's estimated fair value, we discount the expected cash flows of our reporting units. We estimate our future cash flows after considering current economic conditions and trends; estimated future operating results, growth rates, anticipated future economic and regulatory conditions; and the availability of necessary technology. The discount rate used represents the estimated weighted average cost of capital, which reflects the overall level of inherent risk involved in our operations and the rate of return an outside investor would expect to earn. To estimate cash flows beyond the final year of our model, we use a terminal value approach. Under this approach, we use estimated operating income before depreciation and amortization in the final year of our model, adjust it to estimate a normalized cash flow, apply a perpetuity growth assumption and discount by a perpetuity discount factor to determine the terminal value. We incorporate the present value of the resulting terminal value into our estimate of fair value.

Due to the ongoing negative effects of the global recession and related triggers, (due to Aviel division revenues not meeting forecasts), during the third quarter of 2010, the Company performed an impairment analysis of the Aviel goodwill balance. The sales generated by this division were significantly lower than expected and the forecasted improvements from prior periods did not occur. As such, triggers were evident at this division in the third quarter of 2010 and we performed a goodwill impairment analysis. Prior to management's analysis, the Company had a total of $137,328 of goodwill allocated to the acquisition of the Aviel division. As a result of its analysis, management recorded a goodwill impairment charge of $137,328 for the third quarter of fiscal 2010, which is included in selling and general expense in the statement of income.

Note 10 – Related party transactions:

The note receivable from stockholder of $66,980 at July 31, 2010 and October 31, 2009 is due from the President of the Company, bears interest at 6%, payable annually, and has no specific due date. The note is collateralized by a lien on certain personal property. Interest income relating to the note receivable was approximately $3,000 for each of the nine month periods ended July 31, 2010 and 2009 and was approximately $1,000 for each of the three month periods ended July 31, 2010 and 2009.

Note 11- Accrued expenses and other long-term liabilities

Accrued expenses consist of the following:

	July 31, 2010	October 31, 2009
Wages payable	$ 461,465	$ 426,596
Accrued receipts	333,647	183,212
Other current liabilities	37,867	63,272
Totals	$ 832,979	$ 673,080

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

Other long-term liabilities consist of the following:

	July 31, 2010	October 31, 2009

Tax related liabilities	$	216,170	$	241,344
Deferred lease liability		86,394		79,686
Totals	$	302,564	$	321,030

Deferred lease liabilities represent the excess of recognized rent expense over scheduled lease payments.

Note 12 – Subsequent Event

On September 3, 2010, the Board of Directors of the Company declared a quarterly cash dividend of $0.03 per share. The dividend date of record is September 30, 2010 and the payment date to stockholders will be October 15, 2010. Based on the Company’s current financial condition and its current operations, the foregoing dividend payment is not expected to have a material impact on the Company’s liquidity or capital resources.

Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations

This report contains forward-looking statements. These statements relate to future events or the future financial performance of RF Industries, Ltd. (herein referred to as "we" or the "Company"). In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "except," "plan," "anticipate," "believe," "estimat "predict," "potential" or "continue," the negative of such terms or other comparable terminology. These statements are only predictions. Actual events or results may differ materially.

Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, the Company cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither the Company, nor any other person, assumes responsibility for the accuracy and completeness of the forward-looking statements. The Company is under no obligation to update any of the forward-looking statements after the filing of this Quarterly Report on Form 10-Q to conform such statements to actual results or to changes in its expectations.

The following discussion should be read in conjunction with the Company's financial statements and the related notes and other financial information appearing elsewhere in this Form 10-Q. Readers are also urged to carefully review and consider the various disclosures made by the Company which attempt to advise interested parties of the factors which affect the Company's business, including without limitation the disclosures made under the caption "Management's Discussion and Analysis and Plan of Operation," under the caption "Risk Factors," and the audited financial statements and related notes included in the Company's Annual Report filed on Form 10-K for the year ended October 31, 2009 and other reports and filings made with the Securities and Exchange Commission.

Critical Accounting Policies

The condensed financial statements of the Company are prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"). One of the accounting policies that involves significant judgments and estimates concerns our inventory valuation. Inventories are valued at the weighted average cost value. Certain items in the inventory may be considered obsolete or excess and, as such, we establish an allowance to reduce the carrying value of these items to their net realizable value. Based on estimates, assumptions and judgments made from the information available at the time, we determine the amounts of these allowances. Because inventories have, during the past few years, represented approximately one-third 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. Consistent with the foregoing policy, during the fiscal quarter ended July 31, 2010, we wrote off $247,539 of inventory held in our Neulink wireless division.

Another accounting policy that involves significant judgments and estimates is our accounts receivable allowance valuation. The Company routinely assesses the financial strength of its customers and maintains an allowance for doubtful accounts that management believes will adequately provide for credit losses.

Another critical accounting policy that involves significant judgments and estimates is management's assessment of goodwill for impairments. We review our goodwill for impairment annually in the fourth quarter at the reporting unit level. We also analyze each quarter whether any indicators of impairment exist. Consistent with this policy, we recorded a goodwill impairment charge of $137,328 during the third quarter of fiscal 2010 to reflect the decrease in the goodwill attributable to our Aviel cable division.

The Company uses the Black-Scholes model to value the stock option grants which involves significant judgments and estimates.

Executive Overview

The Company markets connectors and cables to numerous industries for use in thousands of products, primarily for the wireless marketplace. In addition, to a limited extent, the Company also markets wireless products that incorporate connectors and cables. Since sales of RF connectors and cable assemblies represented 84% and 86% of the Company's net sales during the three and nine month periods ended July 31, 2010, respectively, the Company's results of operations and liquidity are principally dependent upon the results of its RF connector and cable operations.

Liquidity and Capital Resources

Management believes that existing current assets and the amount of cash it anticipates it will generate from current operations will be sufficient to fund the anticipated liquidity and capital resource needs of the Company for at least twelve months. The Company does not, however, currently have any commercial banking arrangements providing for loans, credit facilities or similar matters should the Company need to obtain additional capital. Management believes that its existing assets and the cash expected to be generated from operations will be sufficient during the current fiscal year are based on the following:

- Ασ οφ ϑυλψ 31, 2010, τηε αμουντ οφ χαση ανδ χαση εθυιϖαλεντσ ωασ εθυαλ το ∃1,581,000 ιν τηε αγγρεγατε ανδ τηε Χομπανψ ηαδ ∃8,075,000 οφ ινϖεστμεντσ ιν χερτιφιχατεσ οφ δεποσιτ.

- Ασ οφ ϑυλψ 31, 2010, τηε Χομπανψ ηαδ ∃16,339,000 ιν χυρρεντ ασσετσ, ανδ ∃1,186,000 ιν χυρρεντ λιαβιλιτιεσ.

- Ασ οφ ϑυλψ 31, 2010, τηε Χομπανψ ηαδ νο ουτστανδινγ ινδεβτεδνεσσ (οτηερ τηαν αχχουντσ παψαβλε, αχχρυεδ εξπενσεσ ανδ ινχομε ταξεσ παψαβλε).

In the past, the Company has financed some of its equipment and furnishings requirements through capital leases. No additional capital equipment purchases have been currently identified that would require significant additional leasing or capital expenditures during the next twelve months. Management also believes that based on the Company’s current financial condition, the absence of outstanding bank debt and recent operating results, the Company would be able to obtain bank loans to finance its expansion, if necessary, although there can be no assurance any bank loan would be obtainable or, if obtained, would be on favorable terms or conditions.

The Company recognized net income of $785,337 for the nine months ended July 31, 2010. The Company generated $2,078,739 of net cash from its operating activities. Our cash balances increased as a result of increased collections of accounts receivable of $279,269 and a decrease in inventory of $255,475. In addition, net income was reduced as a result of a number of non-cash charges, including depreciation and amortization ($158,404), goodwill impairment ($137,328), inventory write-off ($247,539), and stock-based compensation charges ($157,522). The increase in cash was partially offset by the use of $147,584 for prepaid expenses and deposits.

The Company used $1,724,155 in investment activities during the nine months ended July 31, 2010. However, only $126,375 of this amount represented cash outlays for capital expenditures. Most of the investment activities reflected allocation of the Company’s cash funds to various accounts as the Company sought to preserve its cash resources and maximize the returns on its cash. As a result, the Company liquidated $1,813,327 of short-term investments, which consisted ent