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R F INDUSTRIES LTD
Form 10QSB
March 23, 2001

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549
FORM 10-QSB

Quarterly Report Under Section 13 or 15 (d) of

Securities Exchange Act of 1934

for Quarter ended January 31, 2001

Commission File Number 0-13301

RF INDUSTRIES, LTD.

(Exact name of registrant as specified in its charter)

Nevada 88-0168936

(State of Incorporation) (I.R.S. Employer Identification No.)

7610 Miramar Road., Bldg. 6000, San Diego, California 92126-4202

(Address of principal executive offices) (Zip Code)

(858) 549-6340 FAX (858) 549-6345

(Issuer's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None.

Check whether the issuer (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

State the number of shares outstanding of each of the issuer's classes of common stock at the latest practicable date.

As of January 31, 2001, the registrant had 3,403,054 shares of Common Stock, \$.01 par value, issued and outstanding.

Transitional small business disclosure format

Yes No X

PART I. FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS

RF INDUSTRIES, LTD.
AND SUBSIDIARY
CONDENSED CONSOLIDATED
BALANCE SHEET

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	January 31 2001	October 31 2000
	-----	-----
	(Unaudited)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 212,812	\$ 557,923
Investments in available-for-sale securities	1,714,420	2,208,558
Trade accounts receivable, net of allowance for doubtful accounts of \$42,000	978,670	1,313,935
Notes receivable	12,000	12,000
Inventories	5,064,567	4,165,242
Other current assets	196,248	174,779
Deferred tax assets	166,000	166,000
TOTAL CURRENT ASSETS	8,344,717	8,598,437
PROPERTY AND EQUIPMENT		
Furniture and tooling	936,373	733,150
Furniture and office equipment	192,048	190,867
Fixed assets, at cost	1,128,421	924,017
Less accumulated depreciation	630,334	605,164
NET FIXED ASSETS	498,087	318,853
Intangible assets	174,698	0
Less amortization reserve	1,941	0
NET INTANGIBLE ASSETS	172,757	0
Note receivable from stockholder	70,000	70,000
Deferred tax assets	94,000	94,000
Other assets	11,471	11,471
TOTAL ASSETS	\$9,191,032	\$9,092,761
	=====	=====

See Notes to Condensed Consolidated Unaudited Financial Statements

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	January 31 2001	October 31 2000
	-----	-----
	(Unaudited)	
LIABILITIES AND STOCKHOLDERS' EQUITY -----		
CURRENT LIABILITIES		
Accounts payable	\$ 213,909	\$ 403,530
Line of credit and notes payable	167,902	0
Accrued expenses	383,628	513,186
	-----	-----
TOTAL LIABILITIES	765,439	916,716
	-----	-----
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common Stock - authorized 10,000,000 shares of \$.01 par value; 3,403,054 and		
3,402,054, respectively shares issued	34,031	34,021
Additional paid-in capital	4,687,712	4,686,161
Retained earnings	3,914,101	3,668,867
Unearned compensation	(94,032)	(117,546)
Accumulated other comprehensive loss	(61,651)	(40,890)
Receivables from sale of stock	(1,715)	(1,715)
Treasury stock, at cost - 29,400 shares	(52,853)	(52,853)
	-----	-----
TOTAL STOCKHOLDERS' EQUITY	8,425,593	8,176,045
	-----	-----
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	\$ 9,191,032	\$ 9,092,761
	=====	=====

See Notes to Condensed Consolidated Unaudited Financial Statements

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	(Unaudited) Three Months Ended January 31	
	2001	2000
INCOME:		
Net Sales	\$ 2,348,601	\$ 1,760,526
Cost of Sales	1,220,164	845,255
Gross profit	1,128,437	915,271
Operating expenses:		
Engineering	115,729	65,481
Selling and general	651,555	508,726
Totals	767,284	574,207
Operating income	361,153	341,064
Other income:		
Commissions	18,073	0
Interest	31,508	30,559
Totals	49,581	30,559
Income before provision for income tax	410,734	371,623
Provision for income tax	165,500	150,000
Net income	\$ 245,234	\$ 221,623
Basic earnings per share	\$ 0.07	\$ 0.07
Diluted earnings per share	\$ 0.06	\$ 0.06
Basic weighted average shares outstanding	3,402,554	3,148,648
Diluted weighted average shares outstanding	4,027,473	3,707,526
COMPREHENSIVE INCOME:		
Net income	\$ 245,234	\$ 221,623
Unrealized loss on available-for-sale securities ...	20,761	0
Total comprehensive income	\$ 265,995	\$ 221,623

See Notes to Condensed Consolidated Unaudited Financial Statements

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ITEM 1: FINANCIAL STATEMENTS (continued)

RF INDUSTRIES, LTD.
AND SUBSIDIARY
CONDENSED CONSOLIDATED
STATEMENTS OF CASH FLOWS
(Unaudited)
Three Months Ended

	January 31	
	2001	2000
	-----	-----
OPERATING ACTIVITIES		
Net income	\$ 245,234	\$ 221,623
Adjustments to reconcile net income to net cash provided by (used in) operations		
Inventory deposit write-offs	30,294	0
Depreciation and amortization	27,111	14,149
Amortization of unearned compensation	23,514	23,514
Changes in operating assets and liabilities, net of		
acquisition payment:		
Trade accounts receivable	381,308	62,895
Inventories	(859,369)	(216,061)
Other assets	(6,734)	2,610
Accounts payable	(217,607)	93,653
Accrued expenses	(129,602)	87,278
Net cash provided by (used in) operating activities	(505,851)	289,661
INVESTING ACTIVITIES		
Proceeds from sale of (investment in) securities	473,377	(14,592)
Capital expenditures	(16,548)	(48,431)
Payment for acquisition, net of cash acquired	(147,078)	0
Net cash provided by (used in) investing activities	309,751	(63,023)
FINANCING ACTIVITIES		
Payments on loans payable	(150,572)	0
Proceeds from exercise of common stock options	1,561	0
Net cash used in financing activities	(149,011)	0
Net increase in cash and cash equivalents	(345,111)	226,638
Cash and cash equivalents at the beginning of the period	557,923	1,100,816
Cash and cash equivalents at the end of period	\$ 212,812	\$ 1,327,454
	=====	=====
SUPPLEMENTARY CASH FLOW DATA:		
Taxes paid	\$ 255,000	0
Noncash investing and financing activities:		
Fair value of assets acquired	\$ 496,504	

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Liabilities assumed	(207,341)
Seller financing	(139,163)

Cash paid	\$ 150,000
	=====

See Notes to Condensed Consolidated Unaudited Financial Statements

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RF INDUSTRIES, LTD. AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Unaudited interim financial statements:

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-QSB. 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 (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month periods ended January 31, 2001 are not necessarily indicative of the results that may be expected for the year ending October 31, 2001. The unaudited condensed consolidated financial statements should be read in conjunction with the financial statements and footnotes thereto included in the Company's annual report on Form 10-KSB for the year ended October 31, 2000.

Note 2 - The merger and other matters

On December 1, 2000, the Company acquired all the outstanding stock of Bioconnect, Inc. for a total consideration of \$289,163, of which \$89,163 was financed by seller.

The acquisition has been accounted for pursuant to the purchase method and, accordingly, the net assets acquired were recorded at estimated fair values on the date of acquisition. A summary of the allocation of the cost of the acquisitions to the net assets acquired follows:

Cash	\$ 2,922
Accounts receivable	76,337
Inventory	39,956
Property and equipment	187,855
Intangibles and other assets	189,434

Total assets acquired	496,504
Accounts payable and other liabilities	(207,341)

Net assets acquired	\$ 289,163
	=====

The condensed consolidated financial statements include the accounts of RF INDUSTRIES, LTD. (the "Parent") and its wholly-owned subsidiary, Bioconnect, Inc. (collectively, the "Company"). All significant intercompany accounts and

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transactions are eliminated in consolidation.

Note 3 - Components of inventory

	January 31 2001 ----- (Unaudited)	October 31 2000 ----- (Audited)
Raw material and supplies...	\$ 876,170	\$ 559,786
Finished goods	4,188,397	3,605,456
	-----	-----
TOTAL	\$5,064,567 =====	\$4,165,242 =====

Note 4 - Earnings (loss) per share:

Effective October 31, 1998, the Company adopted the provisions of Statement of Financial Accounting Standards No. 128, Earnings per Share, which requires the presentation of "basic" and "diluted" earnings (loss) per common share, as further explained in Note 1 of the notes to the audited financial statements of the Company, included in Form 10-KSB for the fiscal year ended October 31, 2000.

Basic earnings per share is computed by dividing net earnings by the weighted average number of common stock outstanding during the period.

Diluted earnings per share is computed by dividing net earnings by the weighted average number of shares of common stock increased by the effects of assuming that other potentially dilutive securities (such as stock options) outstanding during the period had been exercised.

Note 5 - Segment Information

Net sales and income (loss) before provision for income taxes for the three months ended January 31, 2001 and 2000 follows:

	Connector -----	Neulink -----	Bioconnect -----	Common/ Corporate -----	Total -----
2001					

Net sales	\$ 2,053,276	\$ 245,254	\$ 50,071		\$ 2,348,601
Income (loss) before provision for income taxes	624,042	(141,294)	(67,328)	\$ (4,686)	410,734
2000					

Net sales	\$ 1,614,266	\$ 146,260			\$ 1,760,526
Income (loss) before					

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provision for income			
taxes	434,313	(62,690)	371,623

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 Company's future financial performance. In some cases, you can identify forward-looking statements 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 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-QSB 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-QSB. 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 of Financial Condition and Results of Operations," under the caption "Risk Factors," and the audited financial statements and related notes included in the Company's Annual Report filed on Form 10-KSB for the year ended October 31, 2000 and other reports and filings made with the Securities and Exchange Commission.

Liquidity and Capital Resources

Management believes that cash generated from operations will be sufficient to fund the anticipated growth of the Company in fiscal 2001. Management believes that any financing requirements can be met through a combination of cash and investments held as of January 31, 2001, internally generated cash flow and advance payments from customers. The Company does not currently have any commercial banking arrangements providing for loans, credit facilities or similar matters.

The Company does not believe it will need material additional capital equipment in fiscal 2001. In the past, the Company has financed some of its fixed asset requirements through capital leases. No additional capital equipment purchases have been currently identified that would require significant additional leasing or capital obligations during fiscal 2001. Management also believes that based on the Company's financial condition at January 31, 2001, 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.

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Net cash used in operating activities for the first three months of fiscal 2001 was \$505,851 whereas cash provided by operating activities for the first quarter ended January 31, 2000 was \$289,661. Non cash outlays for inventory deposit write-offs, depreciation and amortization, and amortization of unearned income for the first three months of 2001 were \$80,919 compared to \$37,664 the previous year, an increase of \$43,255. Inventories increased \$889,663, and other assets increased \$6,734 in the first quarter of 2001. Trade accounts receivable decreased by \$381,308. Accounts payable and accrued expenses increased by \$347,209.

Net cash provided by investing activities was \$309,751 during the first quarter ended January 31, 2001, compared to \$63,023 used in the previous year. Current year investing activities included capital expenditures of \$16,548 and payment for acquisition of Bioconnect of \$147,078. Proceeds from sale of securities was \$473,377.

Net cash used in financing activities was \$149,011 for the first quarter ended January 31, 2001, and consisted of proceeds from exercise of stock options of \$1,561 and payments on loans payable of \$150,572.

As of January 31, 2001 the Company had \$212,812 in cash and cash equivalents and \$1,714,420 in investments, as compared to \$557,923 in cash and cash equivalents and \$2,208,558 in investments at October 31, 2000.

Three Months 2001 vs. Three Months 2000

Net sales increased 33%, or \$588,075, to \$2,348,601 from \$1,760,526 in the first three months of fiscal 2001. RF Connectors sales increased 27% to \$2,053,276, compared to \$1,614,266 for the same period last year, due to continuing strong order rates for coax connectors and cable assemblies. Sales at RF Neulink increased 68% to \$245,254 compared to \$146,260 last year. This increase can be attributed to stronger sales in new application areas. Bioconnect's first quarter sales were \$50,071. Cost of sales increased 44%, or \$374,909 to \$1,220,164 from \$845,255 last year. The increase is due to the increased sales.

Engineering expenses increased \$50,248, or 77%, from \$65,481 last year. This increase can be attributed to added personnel and expenses associated with the expansion of our engineering departments to meet the increased business demands.

Selling and general expenses increased 28% or \$142,829, to \$651,555 from \$508,726 last year. The increase is due to increased travel, advertising, and insurance expenses. As a percent of sales, selling and administrative expenses declined to 28% from 29% due to the increase in sales.

Net interest income increased \$949 to \$31,508 from \$30,559 the previous year. Commissions for the Neulink divisions sales were \$18,073. This is the first time we have earned any income from commissions.

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MATERIAL CHANGES IN FINANCIAL CONDITION:

Cash decreased \$345,111 to \$212,812 compared to the October 31, 2000 fiscal year balance of \$557,923. Cash and investments are \$1,927,232 at January 31, 2001.

Trade accounts receivable decreased \$335,265, or 26% to \$978,670 compared to the

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October 31, 2000 balance of \$1,313,935. This decrease is due to the continued collection efforts.

Inventories increased \$889,663 compared to October 31, 2000 inventory levels. This increase is in response to the current demand and the anticipated backlog requirements, and includes \$37,500 in Bioconnect inventory.

Other current assets, including prepaid expenses and deposits, increased \$21,469, to \$196,248, from \$174,779 on October 31, 2000. This increase is due the annual invoice for accounting expenses that is expensed throughout the year, but is invoiced in the first quarter as a prepaid expense. There are also the added Bioconnect deposits for their building and equipment.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

In August 2000, the Company was notified that the Securities and Exchange Commission ("SEC") issued a formal order of investigation to determine whether violations of certain aspects of the federal securities laws may have occurred in connection with matters related to the Company. The formal order of investigation indicates that the SEC is examining the conduct of persons or entities, including the Company, who may have made improper statements regarding the Company's order backlog, manufacturing and design capabilities, and ownership of the Company's stock. The SEC is also examining whether the Company's filings with the SEC may have contained improper statements concerning, among other things, the Company's financial condition and results of operations.

The SEC has indicated that this investigation is a fact-finding inquiry and should not be construed as a conclusion by the SEC or its staff that any violation of law has occurred or that the SEC or its staff has a negative opinion of any person, entity or security. The Company is cooperating with the SEC in connection with this investigation and its outcome cannot yet be determined.

Items 2-5 Not applicable

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits	Description
2.1	Agreement of Purchase and Sale of Stock dated as of December 1, 2000 between the Company and Richard Roberts, Leonard Malena, Phillip Booker, and Richard R. Roberts, Inc.dba Bioconnect, Inc.
10.1	2000 Stock Option Plan
10.2	Terrie Gross Employment Agreement made as of November 5, 1999

(b) Reports on Form 8-K

None

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the

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undersigned thereunto duly authorized.

RF INDUSTRIES, LTD.

Dated: March 26, 2001

By: Howard F. Hill

Howard F. Hill, President
Chief Executive Officer

Dated: March 26, 2001

By: Terrie A. Gross

Terrie A. Gross
Chief Financial Officer