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R F INDUSTRIES LTD
Form 10QSB
March 18, 2002

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, 2002
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., Suite 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 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, 2002, the registrant had 3,409,354 outstanding shares of Common Stock, \$.01 par value, issued. Transitional small business disclosure format

Yes No

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Part I. FINANCIAL INFORMATION

RF INDUSTRIES, LTD. AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS

	January 31 2002 ----- (Unaudited)	October 31 2001 -----
ASSETS		

CURRENT ASSETS		
Cash and cash equivalents	\$1,212,451	\$ 915,538
Investments in available-for-sale securities	1,774,305	1,744,851
Trade accounts receivable, net of allowance for doubtful accounts of \$42,000	1,058,459	981,803
Notes receivable	12,000	12,000
Income tax refund receivable	165,192	216,192
Inventories	4,489,077	4,746,125
Other current assets	180,780	111,214
Deferred tax assets	150,595	155,700
	-----	-----
TOTAL CURRENT ASSETS	9,042,859	8,883,423
	-----	-----
PROPERTY AND EQUIPMENT		
Equipment and tooling	1,055,473	1,050,922
Furniture and office equipment	243,357	243,357
	-----	-----
Fixed assets, at cost	1,298,830	1,294,279
Less accumulated depreciation	778,464	737,279
	-----	-----
NET FIXED ASSETS	520,366	557,000
	-----	-----
Goodwill, net of accumulated amortization of \$11,646	163,052	163,052
Note receivable from stockholder	70,000	70,000
Other assets	11,471	11,471
	-----	-----
TOTAL ASSETS	\$9,807,748	\$9,684,946
	=====	=====

See Notes to Condensed Consolidated Unaudited Financial Statements

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RF INDUSTRIES, LTD. AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS

	January 31 2002 ----- (Unaudited)	October 31 2001 -----
LIABILITIES AND STOCKHOLDERS' EQUITY -----		
CURRENT LIABILITIES		
Accounts payable	\$ 234,897	\$ 107,145
Current portion of notes payable	41,663	50,000
Accrued expenses	208,183	278,407
	-----	-----
Total current liabilities	484,743	435,552
Notes payable, net of current portion		39,163
Deferred tax liabilities	25,700	25,700
	-----	-----
TOTAL LIABILITIES	510,443	500,415
	-----	-----
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common Stock - authorized 10,000,000 shares of \$.01 par value; 3,441,054 shares issued	34,410	34,410
Additional paid-in capital.....	4,695,147	4,695,147
Retained earnings	4,625,564	4,543,376
Unearned compensation		(23,490)
Accumulated other comprehensive loss	(890)	(7,986)
Receivables from sale of stock	(1,715)	(1,715)
Treasury stock, at cost - 31,700	(55,211)	(55,211)
	-----	-----
TOTAL STOCKHOLDERS' EQUITY	9,297,305	9,184,531
	-----	-----
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	\$ 9,807,748	\$ 9,684,946
	=====	=====

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 INCOME
AND COMPREHENSIVE INCOME
(Unaudited)
Three Months Ended
January 31

	2002	2001
INCOME:		
Net Sales	\$ 2,184,917	\$ 2,348,601
Cost of Sales	1,149,680	1,220,164
Gross profit	1,035,237	1,128,437
Operating expenses:		
Engineering	164,035	115,729
Selling and general	769,983	651,555
Totals	934,018	767,284
Operating income	101,219	361,153
Other income:		
Commissions	8,215	18,073
Interest	23,754	31,508
Totals	31,969	49,581
Income before provision for income tax	133,188	410,734
Provision for income tax	51,000	165,500
Net income	\$ 82,188	\$ 245,234
Basic earnings per share	\$ 0.02	\$ 0.07
Diluted earnings per share	\$ 0.02	\$ 0.06
Basic weighted average shares outstanding	3,409,354	3,402,554
Diluted weighted average shares outstanding	3,843,766	4,027,473
COMPREHENSIVE INCOME:		
Net income	\$ 82,188	\$ 245,234
Unrealized gain (loss) on available-for-sale securities	7,096	(20,761)
Total comprehensive income	\$ 89,284	\$ 224,473

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	
	2002	2001
	-----	-----
OPERATING ACTIVITIES		
Net income	\$ 82,188	\$ 245,234
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Inventory deposit write-offs		30,294
Depreciation and amortization	41,185	27,111
Amortization of unearned compensation	23,490	23,514
 Changes in operating assets and liabilities, net of acquisition:		
Trade accounts receivable	(76,656)	381,308
Inventories	257,048	(859,369)
Other assets	(18,566)	(6,734)
Accounts payable	127,752	(217,607)
Accrued expenses	(70,224)	(129,602)
	-----	-----
Net cash provided by (used in) operating activities	366,217	(505,851)
	-----	-----
INVESTING ACTIVITIES		
Proceeds from sale of (investment in) securities ..	(17,253)	473,377
Capital expenditures	(4,551)	(16,548)
Payment for acquisition, net of cash acquired		(147,078)
	-----	-----
Net cash provided by (used in) investing activities	(21,804)	309,751
	-----	-----
FINANCING ACTIVITIES		
Payments on loans payable	(47,500)	(150,572)
Proceeds from exercise of common stock options		1,561
	-----	-----
Net cash used in financing activities	(47,500)	(149,011)
	-----	-----
Net increase (decrease) in cash and cash equivalents	296,913	(345,111)
Cash and cash equivalents at the beginning of the period	915,538	557,923
	-----	-----
Cash and cash equivalents at the end of period	\$ 1,212,451	\$ 212,812
	=====	=====
SUPPLEMENTARY CASH FLOW DATA:		
Taxes paid		\$ 255,000
		=====
Noncash investing and financing activities:		
Fair value of assets acquired		\$ 496,504
Liabilities assumed		(207,341)
Seller financing		(139,163)

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

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See Notes to Condensed Consolidated Unaudited Financial Statements

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, 2002 are not necessarily indicative of the results that may be expected for the year ending October 31, 2002. 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, 2001.

Note 2 - Components of inventory

	January 31, 2002	October 31, 2001
	-----	-----
	(Unaudited)	
Raw material and supplies	\$ 763,143	\$ 822,180
Finished goods.....	3,725,934	3,923,945
	-----	-----
TOTALS	\$ 4,489,077	\$ 4,746,125
	=====	=====

Note 3 - Earnings (loss) per share:

The Company follows the provisions of Statement of Financial Accounting Standards No. 128, "Earnings per Share", which requires the presentation of "basic" and "diluted" earnings 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, 2001.

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.

The following table summarizes basic and diluted shares:

	Three Months Ended
	January 31
2002	2001

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Weighted average shares outstanding for basic net earnings per share	3,409,354	3,402,554
Add effects of potentially dilutive securities- assumed exercised of stock options	434,412	624,919
Weighted average shares for diluted net earnings per share	3,843,766	4,027,473

Note 4 - Segment Information

Net sales and income (loss) before provision for income taxes for the three months ended January 31, 2002 and 2001 follows:

	Connector	Neulink	Intercompany Sales	Bioconnect	Common/ Corporate
	-----	-----	-----	-----	-----
2002					
Net sales	\$1,770,750	\$349,232	\$(105,478)	\$170,413	
Income (loss) before provision for income taxes	212,089	64,480		(167,135)	\$23,754
Depreciation and amortization	23,393	5,001		12,791	
Total assets	8,593,051	1,105,355		109,342	
Additions to property and equipment	3,747			804	
2001					
Net sales	\$2,053,276	\$245,254		\$50,071	
Income (loss) before provision for income taxes	624,042	(141,294)		(67,328)	\$(4,686)
Depreciation and amortization	18,357	3,318		5,436	
Total assets	8,000,742	1,240,142		444,062	
Additions to property and equipment	16,548				

Note 5 - New accounting policy

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The Company has elected early adoption of SFAS No. 142, "Goodwill and Other Intangible Assets", which requires that goodwill and certain intangible assets, including those recorded in past business combinations, no longer be amortized against earnings, but instead be tested for impairment at least annually. The Company believes there is no material impact on the financial statements.

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, 2001 and other reports and filings made with the Securities and Exchange Commission.

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 the fiscal year ending October 31, 2002. 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:

- o As of January 31, 2002, the amount of cash, cash equivalents, and available-for-sale securities was equal to \$2,986,756 in the aggregate.
- o As of January 31, 2002, the Company had \$9,042,859 in current assets, and only \$484,743 of current liabilities
- o As of January 31, 2002, the Company had only \$41,663 of outstanding indebtedness (other than accounts payable and other current liabilities).

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The Company does not believe it will need material additional capital equipment in fiscal 2002. 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 2002. Management also believes that based on the Company's financial condition at January 31, 2002, 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.

Net cash provided by operating activities for the first three months of 2002 was \$366,217 whereas cash used in operating activities for the first quarter of 2001 was \$505,851. Non cash outlays for inventory deposit write-offs, depreciation and amortization, and amortization of unearned income for the first quarter were \$64,675 compared to \$80,919 the previous year. Trade accounts receivable increased \$76,656 compared to a decrease of \$381,308 the previous year. The increase is due to some slow paying accounts due to our economy. Accounts payable increased \$127,752 compared to an decrease of \$217,607 the previous year. Accrued expenses decreased \$70,224 compared to an decrease of \$129,602 the previous year. This is attributable to the Company's good cash position.

Net cash used in investing activities was \$21,804 for the first quarter ended January 31, 2002, and consisted of investments in securities of \$17,253 and capital expenditures of \$4,551.

Net cash used in financing activities was \$47,500 for the quarter ended January 31, 2002, and consisted of payment on the loan payable to Bioconnect.

As of January 31, 2002 the Company had \$1,212,451 in cash and cash equivalents and \$1,774,305 in investments, as compared to \$915,538 in cash and cash equivalents and \$1,744,851 in investments at October 31, 2001.

Three Months 2002 vs. Three Months 2001

Net sales decreased 7%, or \$163,600, to \$2,185,000 from \$2,348,600 in the first three months of fiscal 2002. RF Connectors sales decreased 14% to \$1,770,750, compared to \$2,053,300 for the same period last year, due to overall slow down in our industry. Sales at RF Neulink increased 42% to \$349,200 compared to \$245,250 last year. This increase can be attributed to stronger sales in new application areas. Bioconnect's first quarter sales were \$170,400, including \$105,500 in intercompany sales, compared to \$50,000 for December and January last year.

Cost of sales decreased 6%, or \$70,000 to \$1,150,000 from \$1,220,000 last year. The decrease is due to the decrease in sales.

Engineering expenses increased \$48,000, or 41%, from \$115,700 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 and development of product.

Selling and general expenses increased 18% or \$118,400, to \$770,000 from \$651,600 last year. The increase is due to increased travel, advertising, insurance expenses and development of a new catalog.

Net interest income decreased \$7,700 to \$23,800 from \$31,500 the previous year. Commissions for the Neulink divisions sales were \$8,200 compared to \$18,000.

MATERIAL CHANGES IN FINANCIAL CONDITION:

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Cash increased \$296,913 to \$1,212,451 compared to the October 31, 2001 fiscal year balance of \$915,538. Cash and investments are \$ 2,986,756 at January 31, 2002.

Trade accounts receivable increased \$76,656, or 8% to \$1,058,459 compared to the October 31, 2001 balance of \$981,803. This increase is due to some slow-down in payment habits of a few customers.

Inventories, as of January 31, 2002 were \$4,489,077, as \$257,048 decrease from \$4,746,125 on October 31, 2001. As part of its business strategy, and because of its off-shore manufacturing arrangements, the Company normally maintains a high level of inventory. Due to an overall slow-down in our industry, inventory levels are decreasing to maintain the correct level of customer demand.

Other current assets, including prepaid expenses and deposits, increased \$69,800 to \$181,000, from \$111,200 on October 31, 2001. This increase is due the annual invoice for accounting and insurance expenses that are expensed throughout the year, but invoiced in the first quarter as a prepaid expense.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 2-5 Not applicable

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits Description

None

(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 undersigned thereunto duly authorized.

RF INDUSTRIES, LTD.

Dated: March 17, 2002

By: /s/ Howard F. Hill

Howard F. Hill, President
Chief Executive Officer

Dated: March 17, 2002

By: /s/ Terrie A. Gross

Terrie A. Gross
Chief Financial Officer