

R F INDUSTRIES LTD
Form 10-Q
September 14, 2012

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, 2012

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)
(858) 549-6340

92126
(Zip Code)

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(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 No

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 No

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 Accelerated filer Non-accelerated filer Smaller reporting company

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

The number of shares of the issuer's Common Stock, par value \$0.01 per share, outstanding as of September 14, 2012 was 6,919,640.

Part I. FINANCIAL INFORMATION**Item 1: Financial Statements****RF INDUSTRIES, LTD. AND SUBSIDIARY****CONDENSED CONSOLIDATED BALANCE SHEETS**

	July 31, 2012 (Unaudited)	October 31, 2011 (Note 1)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (\$420,663 for settlement of VIE obligations at October 31, 2011)	\$5,630,000	\$1,760,816
Restricted cash (all related to VIE)	-	66,926
Certificates of deposit	-	4,094,724
Trade accounts receivable, net of allowance for doubtful accounts of \$91,776 and \$102,736 (\$809,120 for settlement of VIE obligations at October 31, 2011)	3,140,107	2,605,965
Inventories (\$487,687 for settlement of VIE obligations at October 31, 2011)	6,756,169	6,189,601
Prepaid income taxes	-	572,642
Other current assets (\$33,263 for settlement of VIE obligations at October 31, 2011)	594,451	511,832
Deferred tax assets (\$42,100 for settlement of VIE obligations at October 31, 2011)	610,700	610,700
TOTAL CURRENT ASSETS	16,731,427	16,413,206
Property and Equipment:		
Land and building (\$1,548,100 of collateral for VIE obligations at October 31, 2011)	-	1,548,100
Equipment and tooling (\$305,399 for settlement of VIE obligations at October 31, 2011)	2,291,118	2,938,388
Furniture and office equipment (\$16,150 for settlement of VIE obligations at October 31, 2011)	615,274	575,586
	2,906,392	5,062,074
Less accumulated depreciation	1,700,857	2,619,336
TOTALS	1,205,535	2,442,738
Goodwill	3,076,023	3,076,023
Amortizable intangible assets, net	1,682,265	1,866,171
Non-amortizable intangible assets	410,000	410,000
Note receivable from stockholder	66,980	66,980
Other assets (\$70,668 for settlement of VIE obligations at October 31, 2011)	32,159	102,828
TOTAL ASSETS	\$23,204,389	\$24,377,946

Item 1: Financial Statements (continued)**RF INDUSTRIES, LTD. AND SUBSIDIARY****CONDENSED CONSOLIDATED BALANCE SHEETS**

	July 31, 2012 (Unaudited)	October 31, 2011 (Note 1)
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$1,182,048	\$521,174
Accrued expenses	1,690,614	1,579,445
Mortgages payable (\$1,394,230 recourse limited to VIE creditors at October 31, 2011)	-	1,394,230
Income taxes payable	138,846	-
TOTAL CURRENT LIABILITIES	3,011,508	3,494,849
Deferred tax liabilities	1,072,202	1,072,202
Other long-term liabilities	25,862	132,867
TOTAL LIABILITIES	4,109,572	4,699,918
COMMITMENTS AND CONTINGENCIES		
EQUITY		
RF Industries, Ltd. and Subsidiary:		
Common stock - authorized 20,000,000 shares of \$0.01 par value; 6,889,424 and 7,110,507 shares issued and outstanding	68,894	71,105
Additional paid-in capital	11,682,155	11,382,605
Retained earnings	7,343,768	8,010,701
Total RF Industries, Ltd. and Subsidiary	19,094,817	19,464,411
Noncontrolling interest	-	213,617
TOTAL EQUITY	19,094,817	19,678,028
TOTAL LIABILITIES AND EQUITY	\$23,204,389	\$24,377,946

See Notes to Unaudited Condensed Consolidated Financial Statements.

Item 1: Financial Statements (continued)**RF INDUSTRIES, LTD. AND SUBSIDIARY****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****(UNAUDITED)**

	Three Months Ended July 31, 2012	2011	Nine Months Ended July 31, 2012	2011
Net sales	\$ 7,472,413	\$ 4,947,753	\$ 19,703,354	\$ 13,479,610
Cost of sales	4,118,576	2,532,204	10,825,345	6,657,337
Gross profit	3,353,837	2,415,549	8,878,009	6,822,273
Operating expenses:				
Engineering	261,322	274,156	835,084	903,612
Selling and general	1,998,349	2,141,268	5,847,438	4,768,368
Totals	2,259,671	2,415,424	6,682,522	5,671,980
Operating income	1,094,166	125	2,195,487	1,150,293
Other income - interest	10,813	1,497	35,836	22,743
Income before provision for income taxes	1,104,979	1,622	2,231,323	1,173,036
Provision for (benefit from) income taxes	369,693	(63,072)	776,477	350,337
Consolidated net income	735,286	64,694	1,454,846	822,699
Net income attributable to VIE	-	1,243	1,848	1,243
Net income attributable to RF Industries, Ltd. and Subsidiary	\$ 735,286	\$ 63,451	\$ 1,452,998	\$ 821,456
Basic earnings per share:				
Consolidated net income	\$.11	\$.01	\$.21	\$.13
Net income attributable to VIE	\$.00	\$.00	\$.00	\$.00
Net income attributable to RF Industries, Ltd. and Subsidiary	\$.11	\$.01	\$.21	\$.13

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Diluted earnings per share:				
Consolidated net income	\$.10	\$.01	\$.19	\$.12
Net income attributable to VIE	\$.00	\$.00	\$.00	\$.00
Net income attributable to RF Industries, Ltd. and Subsidiary	\$.10	\$.01	\$.19	\$.12
Basic weighted average shares outstanding	6,867,073	6,486,577	6,914,450	6,131,944
Diluted weighted average shares outstanding	7,625,085	7,463,169	7,657,546	7,085,996
Dividends paid and payable	\$ 343,178	\$ 2,313,354	\$ 1,038,408	\$ 2,528,675

See Notes to Unaudited Condensed Consolidated Financial Statements.

Item 1: Financial Statements (continued)**RF INDUSTRIES, LTD. AND SUBSIDIARY****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****NINE MONTHS ENDED JULY 31****(UNAUDITED)**

	2012	2011
OPERATING ACTIVITIES:		
Consolidated net income	\$1,454,846	\$822,699
Adjustments to reconcile consolidated net income to net cash provided by (used in) operating activities:		
Bad debt (recovery) expense adjustment	19,973	(2,181)
Depreciation and amortization	457,151	229,108
Stock-based compensation expense	163,804	165,368
Excess tax benefit from stock-based compensation	(73,133)	(216,911)
Changes in operating assets and liabilities (net of effects of deconsolidation of VIE on January 25, 2012):		
Restricted cash	4,471	(5,643)
Trade accounts receivable	(554,115)	505,918
Inventories	(566,568)	(1,241,580)
Other current assets	(106,420)	(397,245)
Accounts payable	660,874	(388,477)
Income taxes payable	784,621	93,002
Accrued expenses	111,450	212,205
Other long-term liabilities	(107,005)	(156,530)
Net cash provided by (used in) operating activities	2,249,949	(380,267)
INVESTING ACTIVITIES:		
Acquisition of business (Cables Unlimited)	-	(2,800,000)
Purchase of certificates of deposit	-	(4,650,744)
Maturity of certificates of deposit	4,094,724	3,904,000
Capital expenditures	(502,830)	(271,399)
Net cash provided by (used in) investing activities	3,591,894	(3,818,143)
FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	141,340	814,697
Excess tax benefit from stock-based compensation	73,133	216,911
Purchase of treasury stock	(1,143,243)	-
Principal payments on long-term liabilities	(5,481)	(5,122)
Dividends paid	(1,038,408)	(387,608)

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Net cash provided by (used in) financing activities	(1,972,659)	638,878
Net increase (decrease) in cash and cash equivalents	3,869,184	(3,559,532)
Cash and cash equivalents, beginning of period	1,760,816	4,728,884
Cash and cash equivalents, end of period	\$5,630,000	\$1,169,352
Supplemental cash flow information:		
Income taxes paid	\$595,000	\$680,000
Interest paid	\$-	\$8,982
Supplemental schedule of noncash investing and financing activities:		
Retirement of treasury stock	\$1,143,243	\$-
Stock issuance for acquisition of business (Cables Unlimited)	\$-	\$2,800,000

RF INDUSTRIES, LTD. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

NINE MONTHS ENDED JULY 31

(UNAUDITED)

	2012	2011
Dividends payable	\$-	\$2,141,067
Write-off of fully depreciated fixed assets	\$1,108,655	\$-
Assets and liabilities of VIE as of January 25, 2012:		
Restricted cash	\$62,455	\$-
Other current assets	\$23,801	\$-
Property and equipment, net	\$1,467,674	\$-
Other assets, net	\$69,784	\$-
Mortgages payable	\$1,408,249	\$-
Net equity	\$215,465	\$-

See Notes to Unaudited Condensed Consolidated Financial Statements.

RF INDUSTRIES, LTD. AND SUBSIDIARY

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Unaudited interim condensed consolidated financial statements

The accompanying unaudited condensed consolidated 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 consolidated balance sheet as of October 31, 2011 has been derived from, and certain terms used herein are defined in, the audited financial statements of the Company as of October 31, 2011 included in the Company's Annual Report on Form 10-K ("Form 10-K") for the year ended October 31, 2011 that was previously filed with the Securities and Exchange Commission ("SEC"). Operating results for the three and nine month periods ended July 31, 2012 are not necessarily indicative of the results that may be expected for the year ending October 31, 2012. 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-K for the year ended October 31, 2011.

Principles of consolidation

The accompanying unaudited condensed consolidated financial statements include the accounts of RF Industries, Ltd. and its wholly owned subsidiary, Cables Unlimited, Inc. ("Cables Unlimited"), collectively (the "Company"). All intercompany balances and transactions have been eliminated in consolidation. See Note 2 for a discussion of the Cables Unlimited acquisition, which occurred on June 15, 2011.

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 - Business Acquisition

On June 15, 2011, RF Industries, Ltd. completed its acquisition of Cables Unlimited. Cables Unlimited is an established fiber optic custom cable manufacturer based on Long Island, New York. All of Cables Unlimited's assets are located in the United States. There were no earnouts or contingent considerations included in the acquisition agreement.

The acquisition was accounted for in accordance with the acquisition method of accounting. The acquired assets and assumed liabilities were recorded by RF Industries, Ltd. at their estimated fair values. RF Industries, Ltd. determined the estimated fair values with the assistance of appraisals or valuations performed by an independent third party specialist. Cables Unlimited is an established fiber optic custom cable manufacturer based on Long Island, New York. Cables Unlimited is a Corning Cable Systems CAH Connections SM Gold Program member, authorized to manufacture optic products that are backed by Corning Cable Systems' extended warranty. The products manufactured by Cables Unlimited include custom fiber optic cable assemblies, adapters and electromechanical wiring harnesses for communications, computer, LAN, automotive and medical equipment. These products supplement and enhance the existing markets of RF Industries, Ltd. as well as tap into new fiber optic cable markets that the Company would not have been able to enter without incurring substantially more costs than incurred in the purchase of Cables Unlimited. The capital and other resources required to enter the fiber optic market would have greatly exceeded the purchase price of \$5.6 million. These factors, among others, contributed to a purchase price in excess of the estimated fair value of Cables Unlimited's net identifiable assets acquired, and as a result, goodwill was recorded in connection with this transaction.

Goodwill acquired was allocated to the Company's operating segment and reporting unit, Cables Unlimited, as part of the purchase price allocation. The goodwill is not expected 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 6 months to 9.6 years. The purchase price allocation was finalized in the fourth quarter of fiscal 2011.

The following table summarizes the components of the purchase price at fair value:

Cash consideration paid	\$2,800,000
RF Industries, Ltd. common shares issued (762,738 shares)	2,800,000
Total consideration	\$5,600,000

The following table summarizes the allocation of the purchase price at fair value:

Other assets	\$6,000
Accounts receivable	814,000
Inventories	442,000
Property, plant and equipment	313,000
Intangible assets	2,415,000
Goodwill (all non-deductible for tax purposes)	3,076,000
Interest bearing liabilities	(7,000)
Non-interest bearing liabilities	(423,000)
Deferred tax liabilities	(1,036,000)
Net assets	\$5,600,000

The results of Cables Unlimited operations subsequent to June 15, 2011 have been included in the Company's consolidated results of operations.

The following unaudited pro forma financial information presents the combined operating results of RF Industries, Ltd. and Cables Unlimited as if the acquisition had occurred as of the beginning of the three- and nine-month periods in 2011 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.

Pro forma financial information is presented in the following table:

(Unaudited)	(Unaudited)
Three Months	Nine Months
Ended July 31,	Ended July 31,
2011	2011

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Revenue	\$ 5,657,085	\$ 17,053,593
Net income	110,007	920,644

Earnings per share:

Basic	\$.02	\$.13
Diluted	\$.01	\$.12

Note 3 - Variable interest entity

The Company's unaudited condensed consolidated financial statements as of October 31, 2011 reflect consolidation of its variable interest entity, K&K Unlimited, LLC ("K&K"), in accordance with generally accepted accounting principles. K&K was formed on August 14, 2009 for the purpose of establishing a separation of legal ownership of the building where Cables Unlimited conducts its operations. Cables Unlimited's former sole stockholder is the sole member of K&K. Cables Unlimited was deemed the primary beneficiary of K&K even though it has no direct ownership in K&K as it had the power to direct the activities of K&K that most significantly impacted its economic performance and provided significant financial support through a lease agreement between Cables Unlimited and K&K. Cables Unlimited was also guarantor of K&K's mortgage notes payable to Teacher's Federal Credit Union ("TFCU") and Small Business Administration ("SBA") establishing a direct obligation to absorb any losses of K&K.

In November 2011, the mortgage note to the SBA was paid in full, thereby releasing Cables Unlimited from any guarantee on said note. In addition, Cables Unlimited was released as a guarantor on the mortgage note payable to TFCU, which was repaid through a refinancing on January 25, 2012. Based on these factors, it was determined that Cables Unlimited was no longer the primary beneficiary and has deconsolidated the operations of K&K as of January 25, 2012. As a result, the Company's unaudited condensed consolidated balance sheet at July 31, 2012 reflects a reduction in total assets of approximately \$1.6 million with a reduction in liabilities of approximately \$1.4 million. The effect of the deconsolidation did not have a material impact on the Company's unaudited condensed consolidated results of operations for the three and nine months ended July 31, 2012.

As of October 31, 2011, K&K had assets of \$1,627,346 (\$66,926 in cash, \$12,827 in other current assets, \$1,476,925 in land and building, net and \$70,668 in other assets) and liabilities of \$1,413,730.

Note 4 - Inventories and major vendors

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, 2012	October 31, 2011
Raw materials and supplies	\$2,556,322	\$2,023,108
Work in process	233,036	5,425
Finished goods	4,097,811	4,309,914
Less inventory reserve	(131,000)	(148,846)
Totals	\$6,756,169	\$6,189,601

Purchases of connector products from two major vendors in the nine month period ended July 31, 2012 represented 17% and 13% compared to four major vendors who represented 29%, 16%, 12% and 10% of total inventory purchases for the same period in 2011. The Company has arrangements with these vendors to purchase product based on purchase orders periodically issued by the Company.

Note 5 - 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. At July 31, 2012, the effects of the assumed exercise of options to purchase 749,229 shares of the Company's common stock, at a price range of \$3.16 to \$3.91 per share, were not included in the computation of diluted per share amounts because they were anti-dilutive for that purpose. At July 31, 2011, the effects of the assumed exercise of options to purchase 420,008 shares of the Company's common stock, at a price of \$3.75 to \$3.78 per share, were not included in the computation of diluted per share amounts because they were anti-dilutive for that purpose.

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

	Three Months Ended July 31		Nine Months Ended July 31	
	2012	2011	2012	2011
Weighted average shares outstanding for basic net earnings per share	6,867,073	6,486,577	6,914,450	6,131,944
Add effects of potentially dilutive securities -assumed exercise of stock options	758,012	976,592	743,096	954,052
Weighted average shares for diluted net earnings per share	7,625,085	7,463,169	7,657,546	7,085,996

Note 6 - 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, 2012 vest and are exercisable immediately with an expiration of five years from date of grant. The Company granted a total of 27,000 non-qualified stock options to its directors, 50,000 incentive stock options to the VP of Marketing, and 1,500 incentive stock options to an employee for a total of 78,500 options issued during the nine months ended July 31, 2012. 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, 2012 and 2011 was estimated to be \$1.23 and \$1.08 per share, respectively, using the Black-Scholes option pricing model with the following assumptions:

	2012		2011	
Risk-free interest rate	0.41	%	0.68	%
Dividend yield	4.2	%	2.7	%
Expected life of the option	3.9 years		3.5 years	
Volatility factor	62.79	%	51.68	%

Expected volatilities are based on historical volatility of the Company's stock and other factors. The Company used the expected term method to calculate the expected life of the 2012 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, 2012, the Company issued 103,788 shares of common stock and received net proceeds of \$141,340 in connection with the exercise of employee stock options.

Company Stock Option Plans

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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, 2011. A summary of the status of the options granted under the Company's stock option plans as of July 31, 2012 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, 2011	2,099,672	\$ 2.13
Options granted	78,500	\$ 3.74
Options exercised	(103,788)	\$ 1.36
Options canceled or expired	(8,000)	\$ 3.22
Options outstanding at July 31, 2012	2,066,384	\$ 2.22
Options exercisable at July 31, 2012	1,544,140	\$ 2.06
Options vested and expected to vest at July 31, 2012	3,397,716	\$ 2.06

Weighted average remaining contractual life of options outstanding as of July 31, 2012: 3.86 years

Weighted average remaining contractual life of options exercisable as of July 31, 2012: 3.61 years

Weighted average remaining contractual life of options vested and expected to vest as of July 31, 2012: 3.61 years

Aggregate intrinsic value of options outstanding at July 31, 2012: \$3,825,552

Aggregate intrinsic value of options exercisable at July 31, 2012: \$3,108,978

Aggregate intrinsic value of options vested and expected to vest at July 31, 2012: \$8,242,985

As of July 31, 2012, \$372,301 of expense with respect to non-vested stock-based arrangements has yet to be recognized and is expected to be recognized over a weighted average period of 3.73 years.

Stock Option Expense

During the nine-months ended July 31, 2012 and 2011, stock-based compensation expense totaled \$163,804 and \$165,368, respectively. For the three-months ended July 31, 2012 and July 31, 2011, stock-based compensation expense totaled \$43,413 and \$23,000, respectively. For the nine months ended July 31, 2012 and 2011, stock-based compensation classified in cost of sales amounted to \$41,627 and \$30,547 and stock-based compensation classified in selling and general expense amounted to \$122,177 and \$134,821, respectively.

Note 7 - Concentration of Credit Risk

One customer accounted for approximately 36% and 25% of the Company's net sales for the three and nine month periods ended July 31, 2012, respectively. One customer accounted for approximately 16% and 18% of the Company's net sales for the three and nine month periods ended July 31, 2011, 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 8 - Segment Information

The Company aggregates operating divisions into operating segments which have similar economic characteristics and divisions 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; (5) if applicable, the nature of the regulatory environment. The Company has four segments - RF Connector and Cable Assembly, Medical Cabling and Interconnector, RF Wireless, and Cables Unlimited based upon this evaluation.

The RF Connector and Cable Assembly segment is comprised of three divisions; the Cables Unlimited segment and the Medical Cabling and Interconnector segment are each comprised of one division, while the RF Wireless segment is comprised of two divisions. The four divisions that meet the quantitative thresholds for segment reporting are Connector & Cable Assembly, Cables Unlimited, Bioconnect and RF Wireless. 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 & Cable Assembly, Aviel, and Oddcables.com divisions into the RF Connector and Cable Assembly segment, while the Cables Unlimited division constitutes the Cables Unlimited segment. The Bioconnect Division makes up the Medical Cabling and Interconnector segment, and the RF Neulink and RadioMobile divisions make up the RF Wireless 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, 2012 and 2011:

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	Three Months Ended July 31		Nine Months Ended July 31	
	2012	2011	2012	2011
United States	\$7,064,430	\$4,594,086	\$18,592,094	\$