ADDVANTAGE TECHNOLOGIES GROUP INC
Form 10QSB
February 13, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

[x] QUARTERLY REPORT UNDER SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2001

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period ________________ to ______________

Commission File number 1-10799

ADDvantage Technologies Group, Inc.
(Exact name of small business issuer as specified in its charter)

| | |
|---|---|
| OKLAHOMA | 73-1351610 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

| | |
|---|---|
| 1605 E. Iola<br>Broken Arrow, Oklahoma | 74012 |
| (Address of principal executive office) | (Zip Code) |

(918) 251-9121
(Registrant's telephone number, including area code)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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

Shares outstanding of the issuer's $.01 par value common stock as of December 31, 2001 were 10,048,738.

Transitional Small Business Issuer Disclosure Format (Check one):
Yes No x

ADDVANTAGE TECHNOLOGIES GROUP, INC.
CONSOLIDATED BALANCE SHEET
December 31, 2001

| | |
|---|---|
| Assets | |
| Current assets: | |
| Cash | $ 235,495 |
| Accounts receivable | 2,287,191 |
| Inventories | 17,583,826 |
| Deferred income taxes | 36,000 |
| Total current assets | 20,142,512 |
| Property and equipment, at cost | |
| Machinery and equipment | 1,967,902 |
| Land and Buildings | 642,288 |
| Leasehold improvements | 177,500 |
| | 2,787,690 |
| Less accumulated depreciation and amortization | (911,530) |
| Net property and equipment | 1,876,160 |
| Other assets: | |
| Deferred income taxes | 945,094 |
| Investment | 11,675 |
| Goodwill, net of accumulated amortization of $285,314 | 1,450,288 |
| Other assets | 108,440 |
| Total other assets | 2,515,497 |
| Total assets | $ 24,534,169 |

See notes to consolidated financial statements



ADDVANTAGE TECHNOLOGIES GROUP, INC.
CONSOLIDATED BALANCE SHEET
December 31, 2001

| | |
|---|---|
| Liabilities and Stockholders' Equity | |
| Current liabilities: | |
| Accounts payable | $ 625,716 |
| Accrued expenses | 148,453 |
| Accrued income taxes | 236,863 |
| Bank revolving line of credit | 3,892,622 |
| Notes payable - current portion | 188,006 |
| Dividends payable | 310,000 |
| Stockholder loans | 1,250,000 |
| Total current liabilities | 6,651,660 |
| Notes Payable | 594,998 |
| Stockholders' equity: | |
| Preferred stock, 5,000,000 shares authorized, $1.00 par value, at stated value: | |
| Series A, 5% cumulative convertible; 200,000 shares issued and outstanding with a stated value of $40 per share | 8,000,000 |
| Series B, 7% cumulative; 300,000 shares issued and outstanding with a stated value of $40 per share | 12,000,000 |
| Common stock, $.01 par value; 30,000,000 shares authorized; 10,011,716 shares issued | 100,117 |
| Common stockholders' deficit | (2,758,452) |
| | 17,341,675 |
| Less: Treasury stock, 20,000 shares at cost | (54,164) |
| Total stockholders' equity | 17,287,511 |
| Total liabilities and stockholders' equity | $ 24,534,169 |

See notes to consolidated financial statements

ADDVANTAGE TECHNOLOGIES GROUP, INC
STATEMENTS OF INCOME
FOR THREE MONTHS ENDED DECEMBER 31,

| | 2001 | 2000 |
|---|---|---|
| Net sales and service income | $ 5,584,729 | $ 4,816,682 |
| Cost of sales | 2,919,171 | 2,447,264 |
| Gross profit | 2,665,558 | 2,369,418 |
| Operating expenses | 1,589,930 | 1,163,536 |
| Income from operations | 1,075,628 | 1,205,882 |
| Interest expense | 66,848 | 87,918 |
| Income before income taxes | 1,008,780 | 1,117,964 |
| Provision for income taxes | 347,000 | 422,673 |
| Net income | 661,780 | 695,291 |
| Preferred Dividends | 310,000 | 310,000 |
| Net income attributable to common stockholders | $ 351,780 | $ 385,291 |
| Earnings per Share: | | |
| Basic and Diluted | $ .04 | $ .04 |

See notes to consolidated financial statements



ADDVANTAGE TECHNOLOGIES GROUP, INC.
STATEMENTS OF CASH FLOWS
FOR THREE MONTHS ENDED DECEMBER 31,

| | 2001 | 2000 |
|---|---|---|
| Cash Flows from Operating Activities | | |
| Net income | $ 661,780 | $ 695,291 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation and amortization | 85,088 | 60,150 |
| Provision for deferred income taxes | 44,906 | 44,906 |
| Change in: | | |
| Receivables | 708,295 | 678,023 |
| Prepaid and other expense | (13,622) | 749 |
| Inventories | 145,295 | (835,182) |
| Accounts payable and accrued liabilities | (825,375) | 667,541 |
| Net cash provided by operating activities | 806,367 | 1,311,478 |

| | | |
|---|---|---|
| Cash Flows from Investing Activities | | |
| Additions to property and equipment | (164,083) | (33,771) |
| Proceeds from sale of investment in Ventures | - | 640,000 |
| Net cash provided by investing activities | (164,083) | 606,229 |
| Cash Flows from Financing Activities | | |
| Net repayments under line of credit | (358,511) | (1,178,529) |
| Proceeds from Notes Payable | 111,986 | - |
| Repayments from Notes Payable | (80,822) | (33,875) |
| Payment on stockholders loan | - | (300,000) |
| Payments of Preferred Dividends | (310,000) | (310,000) |
| Net cash used in financing activities | (637,347) | (1,822,404) |
| Net increase in cash | 4,937 | 95,303 |
| Cash, beginning of period | 230,558 | 22,495 |
| Cash, end of period | $ 235,495 | $ 117,798 |

See notes to consolidated financial statements



ADDVANTAGE TECHNOLOGIES GROUP, INC.
STATEMENTS OF CASH FLOWS
FOR THREE MONTHS ENDED DECEMBER 31,

| | 2001 | 2000 |
|---|---|---|
| Supplemental Cash Flow Information | | |
| Interest paid for the period | $ 66,848 | $ 87,918 |
| Income taxes paid for the period | 671,471 | 156,500 |

See notes to consolidated financial statements



NOTES TO CONDENSED FINANCIAL STATEMENTS (Unaudited)

Note 1 - Basis of Presentation

The accompanying unaudited condensed financial statements have been prepared in accordance with generally accepted accounting principles for interim financial statements and do not include all information and footnotes required by generally accepted accounting principles for complete financial statements. However, the information furnished reflects all adjustments, consisting only of normal recurring adjustments which are, in the opinion of management, necessary in order to make the financial statements not misleading.

Note 2 - Description of Business

ADDvantage Technologies Group, Inc., through its subsidiaries TULSAT Corporation, ADDvantage Technologies Group of Nebraska, (dba "Lee Enterprise"), NCS Industries Inc. ("NCS"), ADDvantage Technologies Group of Missouri, (dba "Comtech Services"), ADDvantage Technologies Group of Texas, (dba "Tulsat - Texas") (collectively, the "Company"), sells new, surplus, and refurbished cable television equipment throughout North America in addition to being a repair center for various cable companies. The Company operates in one business segment.

Note 3 - Earnings per Share

| | Three Months ended December 31 2001 | 2000 |
|---|---|---|
| Net income attributable to common stockholders | $351,780 | $385,291 |
| Basic and Diluted EPS Computation: | | |
| Weighted average outstanding common shares | 9,991,776 | 9,990,616 |
| Earnings per Share | $0.04 | $0.04 |



Note 4 - Line of Credit, Stockholder Loans, and Notes Payable

At December 31, 2001, a $3,892,622 balance is outstanding under a $6.0 million line of credit due June 30, 2002, with interest payable monthly at Chase Manhattan Prime less 1 1/4% (3.5% at December 31, 2001). Borrowings under the line of credit are limited to the lesser of $6.0 million or the sum of 80% of qualified accounts receivable and 25% of qualified inventory. The line of credit is collateralized by inventory, accounts receivable, equipment and fixtures, and general intangibles, and is guaranteed by certain stockholders up to an aggregate $1.0 million. The line of credit is subject to customary covenants, including a minimum net income and net worth requirement.

Stockholder loans of $1,250,000 million bear interest at rates that correspond with the line of credit (3.5% at December 31, 2001) and are subordinate to the bank notes payable.

Notes payable consist of the following items: a $225,000 obligation due $25,000 per quarter over 9 quarters, a $143,292 note bearing interest at 7.0% due quarterly with a 3 year term, and notes payable to Chymiak Investments in the amounts of $269,847 and $144,865, bearing interest at 7.5% due monthly with a 10 year term.



ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

The Company specializes in the refurbishment of previously owned cable television ("CATV") equipment and the distribution of new and surplus equipment to CATV operators and other broadband communication companies. With the slowdown in the economy and in particular a tightening of credit to companies in the cable industry, prices for re-manufactured equipment have declined as a result of the lower demand, which has affected the Company's gross profits. However, we believe that as the cable companies look at expanding their services in key markets, there will be an emphasis on minimizing their costs, thus creating a higher demand for the Company's repair services and re-manufactured equipment.

Results of Operations

Comparison of Results of Operations for the Three Months Ended December 31, 2001 and December 31, 2000

Net Sales and service income. Net Sales climbed $768,000 or 15.9%, to $5.6 million in the first quarter of fiscal 2002 from $4.8 million for the same period in fiscal 2001. Despite the slowdown in capital spending by cable operators due to the economic environment in the United States, new equipment sales increased 228.6% to $2.3 million from $695,000 last year primarily due to our acquisitions of NCS and Comtech (acquired in the second and third quarters of 2001, respectively) and as a result of our distributorship with Scientific-Atlanta (initiated in the fourth quarter of 2001). Revenue from re-manufactured equipment dropped 29.7% from $3.4 million last year to $2.4 million, primarily due to the capital expenditure reductions in the cable industry. NCS and Comtech had sales of $774,000 and $420,000, respectively.

Cost of Goods Sold. Cost of goods sold increased to $2.9 million for the first quarter of fiscal 2002 from $2.4 million for the same period of fiscal 2001. The increase was primarily due to the lower margins associated with new equipment sales.

Operating Expenses. Operating expenses increased to $1.6 million in the first quarter of fiscal 2002 from $1.2 million in the first quarter of 2001, an increase of 33.3%. The increase in operating expenses was primarily due to the acquisitions of NCS and Comtech.

Income from Operations. Income from operations decreased 130,000, or 10.8% to $1.1 million for the first quarter of fiscal 2002 from $1.2 million for the same period last year. This decrease was primarily due to overall revenue increase offset by higher operating expenses resulting from the recent acquisitions.

Liquidity and Capital Resources

The company has a line of credit with the Bank of Oklahoma under which it is authorized to borrow up to $12.0 million at a borrowing rate of 1.25% below Chase Manhattan Prime (3.5% at December 31, 2001). This line of credit will provide the lesser of $6.0 million or the sum of 80% of qualified accounts receivable and 40% of qualified inventory in a revolving line of credit for working capital purposes, $4.0 million for future acquisitions meeting Bank of Oklahoma credit guidelines and $2.0 million to be used at the Company's discretion based on assets purchased. The line of credit is collateralized by



inventory, accounts receivable, equipment and fixtures, and general intangibles and had an outstanding balance at December 31, 2001 of $3.9 million, due June 30, 2002.

The Company finances its operations primarily through internally generated funds and a bank line of credit. The company also owes a $225,000 obligation due $25,000 per quarter over 9 quarters and a $143,292 on a note resulting from the NCS purchase, payable quarterly at 7% due quarterly with a 3 year term, and notes payable to Chymiak Investments in the amounts of $269,847 and $144,857, bearing interest at 7.5% due monthly with a 10 year term.

Stockholder loans include a $1,250,000 note, due on demand, bearing interest at the same rate as the Company's bank line of credit, and is subordinate to the bank notes payable.

The Company has authorized the repurchase of up to $1.0 million of its outstanding common stock from time to time in the open market at prevailing market prices or in privately negotiated transactions. The repurchased shares will be held in treasury and used for general corporate purposes including possible use in the company's employees' stock plans or for acquisitions. The Company did not repurchase any shares during the first quarter of the fiscal year.

Forward Looking Statements

Certain statements included in this report which are not historical facts are forward-looking statements. These forward-looking statements are based on current expectations, estimates, assumptions and beliefs of management; and words such as "expects," "anticipates," "intends," "plans," "believes," "projects", "estimates" and similar expressions are intended to identify such forward looking statements. These forward-looking statements involve risks and uncertainties, including, but not limited to, the future prospects for the business of the Company, the Company's ability to generate or to raise sufficient capital to allow it to make additional business acquisitions, changes or developments in the cable television business that could adversely affect the business or operations of the Company, general economic conditions, the availability of new and used equipment and other inventory and the Company's ability to fund the costs thereof, and other factors which may affect the Company's ability to comply with future obligations. Accordingly, actual results may differ materially from those expressed in the forward-looking statements.

## PART II - OTHER INFORMATION

### OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K.

(a) 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.

ADDVANTAGE TECHNOLOGIES GROUP, INC.

| Signature | Title | Date |
|---|---|---|
| /S/ Kenneth A. Chymiak<br>Kenneth A. Chymiak | Director and President<br>(Principal Executive Officer) | February 12, 2002 |
| /S/ Adam R. Havig<br>Adam R. Havig | Controller<br>(Principal Accounting Officer) | February 12, 2002 |