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ADVANTAGE TECHNOLOGIES GROUP INC  
Form 10KSB  
December 28, 2001

U.S. SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-KSB

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended September 30, 2001

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-10799

ADVANTAGE TECHNOLOGIES GROUP, INC.  
(Name of small business issuer in its charter)

Oklahoma  
-----  
(State or other jurisdiction of  
incorporation or organization)

73-1351610  
-----  
(I.R.S. Employer  
Identification No.)

1605 East Iola  
Broken Arrow, Oklahoma  
-----  
(Address of principal executive offices)

74012  
-----  
(Zip code)

Issuer's telephone number: (918) 251-9121

Securities registered under Section 12(b) of the Act: None

Securities registered under Section 12(g) of the Act:  
Common Stock, \$.01 par value

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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

The issuer's revenues for its most recent fiscal year are \$22,884,566.

The aggregate market value of the shares of common stock, par value \$.01 per share, held by non-affiliates of the issuer was \$1,690,844 as of December 26, 2001.

As of the latest practicable date, the number of the registrant's common

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stock, \$.01 par value per share, outstanding was 9,991,716 as of December 26, 2001.

The definitive Proxy Statement to be filed pursuant to Regulation 14A in connection with the Registrant's 2002 annual meeting of shareholders is incorporated by reference in Part III, Items 9, 10, 11 and 12 of this Form 10-KSB. The Proxy Statement will be filed with the Securities and Exchange Commission within 120 days after the close of the registrant's most recent fiscal year.

TRANSITIONAL SMALL BUSINESS DISCLOSURE  
FORMAT (CHECK ONE):    Yes    [    ]    No    X

### Forward Looking-Statements

Certain matters discussed in this report constitute forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, including statements which relate to, among other things, expectations of the business environment in which the Company operates, projections of future performance, perceived opportunities in the market and statements regarding the Company's goals and objectives and other similar matters. The words "estimates," "projects," "intends," "expects," "anticipates," "believes," "plans" and similar expressions are intended to identify forward-looking statements. These forward-looking statements are found at various places throughout this report and the documents incorporated into it by reference. These and other statements which are not historical facts are hereby identified as "forward-looking statements" for purposes of the safe harbor provided by Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended. These statements are subject to a number of risks, uncertainties and developments beyond the control or foresight of the Company, including changes in the trends of the cable television industry, technological developments, changes in the economic environment generally, the growth or formation of competitors, changes in governmental regulation or taxation, changes in the Company's personnel and other such factors. The Company's actual results, performance, or achievements may differ significantly from the results, performance, or achievements expressed or implied in the forward-looking statements. The Company does not undertake any obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events.

### PART I

#### ITEM 1. DESCRIPTION OF BUSINESS

##### Developments in the Business

On September 30, 1999, the former shareholders of TULSAT Corporation (formerly named DRK Enterprises, Inc.) assumed control of ADDvantage Technologies Group, Inc. ("ADDvantage Technologies," formerly named ADDvantage Media Group, Inc.) pursuant to the Securities Exchange Agreement ("Agreement") entered into on September 16, 1999. Pursuant to the Agreement, the TULSAT shareholders transferred all the issued and outstanding common stock of TULSAT, along with \$10,000,000 of TULSAT promissory notes, to ADDvantage Technologies in exchange for 8,000,000 shares of ADDvantage Technologies \$.01 par value common stock, 200,000 shares of newly issued Series A 5% Cumulative Convertible Preferred Stock, par value \$1.00 per share, with a stated value of \$40.00 per share (convertible into ADDvantage Technologies common stock at a price of \$4.00 per share), and 300,000 shares

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of newly issued Series B 7% Cumulative Preferred Stock, par value \$1.00 per share, with a stated value of \$40.00 per share.

As a result of this transaction, TULSAT became a wholly owned subsidiary of ADDvantage Technologies and the former TULSAT owners acquired approximately 82% of the issued and outstanding common stock, and 100% of the

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issued and outstanding preferred stock of ADDvantage Technologies. TULSAT's management assumed management and control of ADDvantage Technologies.

As a result of the transaction, all of the executive officers and directors of the Company other than Gary W. Young, Executive Vice President and a director, resigned. David E. Chymiak became Chairman of the Board and Kenneth A. Chymiak became President and Chief Executive Officer of the Company. The new board of directors included Stephen J. Tyde and Freddie H. Gibson, in addition to Messrs. David Chymiak, Kenneth Chymiak and Gary Young. Randy L. Weideman was elected to the board of directors in 2000.

On November 22, 1999, the Company's wholly owned subsidiary, Lee CATV Corporation, a Nebraska corporation ("Lee"), merged with Diamond W Investments, Inc., a Nebraska corporation ("Diamond"). Lee was the surviving corporation and is carrying on the business and operations previously conducted by Diamond. Diamond was established in 1986 as a full service repair and sales center, selling new and re-manufactured cable equipment, designing, pre-wiring, installing and repairing along with FCC Proof of Performance on all types of headend equipment. Diamond built its reputation on high-quality with prompt turn around in repairs and technical training for their customers. As a result of the merger, the shareholders of Diamond received 27,211 shares of the Company's Series C Convertible Preferred Stock (which have since been converted into 272,110 shares of the Company's common stock) and a promissory note in the original principal amount of \$271,000, which is payable over two years and bears interest at the rate of 8.0% per annum.

On December 30, 1999, the name of the Company changed to ADDvantage Technologies Group, Inc.

In March 2001, the Company purchased all of the issued and outstanding common stock of NCS Industries, Inc., a Pennsylvania corporation ("NCS"). The consideration for the acquisition of \$1,988,000 included: (i) \$800,000 in cash, (ii) a promissory note payable to the seller, Richard S. Grasso in the amount of \$200,000, (iii) the assumption of the seller's obligation of \$639,000 under a promissory note issued to the former shareholders, and (iv) \$49,000 remaining in a payable to the seller. As contemplated by the Purchase and Sale Agreement, the seller entered into a three-year consulting agreement with NCS for \$300,000 and the seller also entered into a non-competition agreement with the Company and NCS. The Company financed the purchase price through borrowings under its line of credit agreement with Bank of Oklahoma. As a result of this transaction, NCS became a wholly owned subsidiary of the Company.

NCS was established in 1973 as a full service repair and sales center, selling new and re-manufactured cable equipment and has been a leading distributor of telecommunication equipment and a solutions provider to cable operators and other related businesses since the market's infancy. The principal place of business of NCS is located in Willow Grove, Pennsylvania.

In May 2001, the Company purchased from Nick Ferolito and Russell Brown

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all of the issued and outstanding stock of Fero-Midwest dba Comtech Services, a Missouri corporation ("Comtech"). The consideration for the acquisition was

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\$250,000 in cash and assumption of certain liabilities as stated in the agreement. As a result of this transaction, Comtech became a wholly owned subsidiary of the Company.

### Current Business

The principal business of the Company is the sale and repair of cable television ("CATV") equipment. This includes new, surplus and re-manufactured equipment. Customers of the Company include: cable operators, apartment complexes, universities and other entities that distribute broadband signals. The Company purchases the equipment from cable operators who have surplus due to either an upgrade in their systems or an overstock in their warehouse. This equipment is sold both re-manufactured and "as is" to CATV operators throughout North America, South America, Mexico and Pacific Rim. The Company supplies virtually any type of electronic equipment a cable operator would use, from the headend (receiving and transmitting site) to the converter box at the customer's home. The Company also is a large stocking distributor for new equipment.

### Overview of the Industry

CATV is a service that delivers multiple channels of television to subscribers who pay a monthly fee for the services they receive. A CATV system consists of four principal components. The first is the "up-link" where the programmer's signal is first scrambled and addressed, and is then transmitted to a C-band satellite. The second, known as a cable system "headend" facility, receives television signals from satellites and other sources. The headend facility organizes and retransmits those signals through the third component, the distribution network, to the subscriber. The third principal component is the distribution network, which consists of fiber optic and coaxial cables and associated electronic equipment, which originate at the headend and extend throughout the CATV system. The fourth component of the CATV system, the subscriber equipment, is comprised of a "drop wire" which extends from the distribution network to the subscriber's home and connects either directly to the subscriber's television set or to a converter box. An addressable converter box is a home terminal device, which permits the efficient delivery of premium CATV services, including pay-per-view programming, by enabling the CATV operator to control CATV subscriber services from a central headend computer.

CATV operators generally offer to subscribers a basic service package and, for additional charges, additional tiers of services, including premium services. Basic service programming typically includes broadcast network local affiliates, independent television stations and other locally originated programs. Additional tiers of service may consist of different satellite-delivered services and premium services, such as HBO and ShowTime that typically are offered to subscribers as a package for a separate monthly fee. Successive tiers of programming include additional services for additional monthly fees. In addition, movies and special entertainment events, such as boxing matches and Olympic Games can be offered to subscribers with addressable converters on a selective, pay-per-view basis. CATV operators are also introducing digital cable audio services, which consist of multiple channels of commercial-free, compact disc quality music and programming.

#### Business of the Company

The basic strategy of the Company is to: (a) maintain and expand its current customer base in North America for the sale of new and re-manufactured CATV equipment while focusing on expanding the repair side of the business and (b) acquire existing companies in the industry within specific geographic areas utilizing their service and sales staffs to increase sales.

The Company believes that the CATV industry is expanding from a home entertainment service to providing telecommunications services to both homes and businesses. Management believes that the Company is well positioned to thrive and prosper in the industry.

Construction, maintenance, expansion and upgrade of CATV systems require significant capital expenditures by CATV operators for system components, including coaxial and fiber optic cable, traditional radio frequency ("RF") amplifiers and fiber optic electronics, and addressable system controllers and converters. A major trend in the cable and satellite television industry has been the continuing expansion of channel capacity in response to CATV operators' desire to provide subscribers with more programming selections, including pay-per-view and additional premium programming services.

The Company expects that CATV operators will continue to upgrade the technological capabilities of their systems and increase channel capacity in order to meet subscriber demand for more programming services, such as expanded pay-per-view, premium services and digital cable audio, which, in turn, provides opportunities for increased revenues for the CATV operators. In addition, new technologies can improve a CATV operator's margins and customer services by increasing the CATV system's reliability, picture quality and the "user friendliness" of the converter. The Company also expects CATV operators to increase spending to meet governmental requirements for renewing franchises and to position themselves to enter new and potential markets such as telephone and personal communications networks.

In addition, the consolidation of CATV operators and their ongoing transformation into multi-service companies is prompting a re-evaluation of the re-manufactured equipment values, as new services roll out using new technologies and state-of-the-art components. With the cost and sophistication of new equipment and technologies on the rise, and their shelf lives shrinking, the savvy use of re-manufactured equipment by cable operators and manufacturers is becoming a vital component in their overall operational strategies. The Company believes that it is in a position to serve this expanding market.

With respect to technology, CATV operators and suppliers, including the Company, are demonstrating that system upgrades with currently available equipment and system architectures can be used as a basis to provide advanced subscriber services. Moreover, the growing use of United States broadband system designs and equipment in international markets, where CATV penetration is low, presents another opportunity for sales of the Company's systems and equipment.

#### Products and Services

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The majority of the Company's business is the sale of re-manufactured CATV equipment. The following is a list of the products sold by the Company with a brief description of the application of each product line:

Linegear covers all products, which are actually placed on the cable line. This includes active electronics, trunk stations and line extenders, which amplify and distribute the cable signal, and passive equipment such as taps, splitters and directional couplers, which simply pass the signal through for delivery to additional lines and the customer's home. The Company focuses on sales and repair of Scientific Atlanta, Magnavox, Jerrold, General Instruments, Texcan and Thetacom lines of taps, traps, splitters, DCs, power inserters and pin connectors. Linegear presently account for approximately 43% of revenues.

Headend equipment is used to provide signal acquisition, processing and manipulation for further transmission. Among the products offered by the Company in this category are Scientific Atlanta, Blonder Tongue, Magnavox, General Instruments and Drake lines of satellite receivers, integrated receiver/decoders, videociphers, demodulators, modulators, amplifiers, equalizers, processors, antennas, and antenna mounts. The Company specializes in the refurbishing and repairing of various manufacturers' lines of headend products as well as modifying these for use in different video formats. Headend equipment presently account for approximately 46% of revenues.

Repair Services are offered for all product lines, with an emphasis in headend equipment. The Company expects this area to grow significantly with the Company's focus on this side of the business and as additional mergers or acquisitions develop.

### Sales and Marketing

The majority of the Company's sales activity is generated through personal relationships developed by its sales personnel and executives, advertising in trade journals and other periodicals, telemarketing and direct mail to cable operators in the United States. The Company has developed contacts with the major CATV operators in the United States and is constantly in touch with these operators regarding plans for upgrading or expansion and their needs to either purchase or sell equipment. The Company purchases a large amount of its inventory from cable operators who have upgraded, or are in the process of upgrading their system. The sales and purchasing functions operate under the same umbrella using a computerized buy/sell board to coordinate the activity between the two. In addition, the Company has very close relationships with major manufacturers of CATV equipment and purchases a large amount of such equipment from these original equipment manufacturers.

The Company's purchasing department buys previously used CATV equipment throughout North America. As a result of competition in the communications industry, cable operators are aggressively upgrading their system with newer, technologically advanced equipment. This provides the Company's purchasing department opportunities to buy equipment, which were not normally available

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in the past. This competitive CATV market enables the Company to acquire additional inventory for sale to cable operators who are expanding with new subscribers or who are upgrading their system with the newer, more expensive technology.

The Company is not dependent on one or a few customers to support its

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business. There are approximately 6,000 cable television systems within the United States, each of which is a potential customer.

### Competition

There are a number of businesses similar to the Company throughout the United States engaged in buying and selling re-manufactured CATV equipment. Most competitors are not able to maintain the large inventory the Company maintains due to capital requirements. In terms of sales and inventory, the Company is the largest in this industry providing both sales and service of re-manufactured CATV equipment.

The CATV industry is highly competitive and is characterized by numerous companies competing in various segments of the market. In addition to companies which operate in a manner similar to the Company, it also faces competition from vendors supplying new products and various manufacturers in this industry. The Company has the ability to ship and supply products to their customers from its large inventory without having to wait for the manufacturers to supply the items.

### Personnel

At September 30, 2001, the Company had 132 employees. Management considers its relationships with its employees to be excellent. The employees of the Company are not unionized and the Company is not subject to any collective bargaining agreements.

### ITEM 2. DESCRIPTION OF PROPERTY

TULSAT leases a total of approximately 133,050 square feet of office space and warehouse facilities in seven buildings from entities, which are controlled by David E.Chymiak and Kenneth A. Chymiak. Each lease has a five-year term. At September 30, 2001, total monthly payments of \$36,500 were required. The Company believes that its current facilities are adequate to meet its needs.

### ITEM 3. LEGAL PROCEEDINGS

The company is not involved in any material legal proceedings.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of the shareholders of the Company during the fiscal quarter ended September 30, 2001.

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## PART II

### ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's common stock traded on the Nasdaq Small Cap Market from April 11, 1997 to September 21, 1999 under the symbol ADDM. On September 22, 1999, the Company's common stock was delisted from the Nasdaq Small Cap Market because the closing price of the stock was less than \$1.00 per share for a period of greater than 30 consecutive trading days. The Company's common stock is currently traded on the OTC Bulletin Board under the symbol

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ADDM.

The following table sets forth, for the periods indicated, the high and low closing bid quotations per share for the Company's common stock as quoted on the Nasdaq Small Cap Market and the OTC Bulletin Board, as the case may be. Quotations represent inter-dealer prices without an adjustment for retail mark-ups, mark-downs or commissions and may not represent actual transactions:

| Year Ended September 30, 2000<br>----- | High<br>----- | Low<br>----- |
|--|---------------|--------------|
| First Quarter                          | \$4.13        | \$2.38       |
| Second Quarter                         | \$3.63        | \$2.00       |
| Third Quarter                          | \$3.75        | \$2.50       |
| Fourth Quarter                         | \$2.63        | \$1.25       |

| Year Ended September 30, 2001<br>----- | High<br>----- | Low<br>----- |
|--|---------------|--------------|
| First Quarter                          | \$2.00        | \$0.81       |
| Second Quarter                         | \$2.22        | \$1.03       |
| Third Quarter                          | \$1.63        | \$0.86       |
| Fourth Quarter                         | \$1.90        | \$0.81       |

Substantially all of the holders of common stock maintain ownership of their shares in "street name" accounts and are not, individually, shareholders of record. As of December 26, 2001, there were approximately 77 holders of record of common stock. However, the Company believes there are in excess of 825 beneficial owners of common stock.

### Dividend Policy

The Company has never declared or paid a cash dividend on its common stock. It has been the policy of the Company's Board of Directors to use all available funds to finance the development and growth of the Company's

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business. The payment of cash dividends in the future will be dependent upon the earnings and financial requirements of the Company and other factors deemed relevant by the Board of Directors.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS



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### Results of Operations

Year Ended September 30, 2001 Compared to Year Ended September 30, 2000 (ALL REFERENCES TO YEARS ARE TO FISCAL YEARS)

**Net Sales.** Net sales increased \$882,000 or 4.0%, to \$22.9 million for the year ended September 30, 2001 from \$22.0 million for the year 2000. Despite the slowdown in capital spending by cable operators due to the economic environment in the United States and an over building of capacity, new sales increased 160.0% from \$2.1 million last year to \$5.4 million this year as a result of our new distributorship with Scientific-Atlanta and the acquisition of NCS. Our focus on increasing repair revenue is evidenced by the 38.1% increase from \$2.4 million last year to \$3.3 million this year primarily due to the acquisitions of Comtech and NCS. Although we are pleased with the results of repair services, they were severely impacted by the tightening of credit for the small cable operators. Our revenue generated by sales of re-manufactured equipment has also been impacted by the economic slowdown, and as a result, revenue from re-manufactured equipment sales dropped 21.3% from \$17.5 million last year to \$13.8 million this year.

**Cost of Goods Sold.** Cost of goods sold this year was 51.9% of net sales compared to 50.2% last year. While the overall gross margins percentages were relatively constant over the two years, the revenue mix has significantly changed. In the year 2001, revenue generated from re-manufactured sales was 60.3% of sales, compared to 79.7% last year, while 23.6% of our revenue this year was new equipment sales compared to 9.4% last year. Margins for the current year were affected by the lower margins of newly-acquired NCS and Comtech and the slow down in capital expenditures in the cable industry that caused reduction in some of the selling prices of re-manufactured equipment. Due to the nature of the secondary market for CATV equipment, low inventory turnover tends to be a characteristic of companies carrying this type of inventory. However, this condition greatly contributes to the attainment of high profit margins and profitability of the Company.

**Operating Expenses.** Operating expenses increased \$1.3 million, or 27.2% in 2001 over the previous year. Of this increase, \$1.1 million was directly attributable to operating expenses (primarily salaries and wages) associated with NCS and Comtech and the \$142,000 associated with increases in property tax assessments.

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**Income from Operations.** Income from operations decreased 20.0 %, to \$4.9 million for fiscal 2001 from \$6.1 million for fiscal 2000. This decrease was primarily due to the increase in operating costs associated with the recent acquisitions.

### Liquidity and Capital Resources

On November 4, 2000, the Bank of Oklahoma increased the Company's line of credit up to \$12.0 million and reduced the borrowing rate to 1 1/4% below prime (4.75% at September 30, 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

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inventory, accounts receivable, equipment and fixtures, and general intangibles.

The Company finances its operations primarily through internally generated funds and the 6.0 million bank line of credit reserved for working capital. At September 30, 2001, the revolving line of credit consisted of a \$4.3 million balance outstanding due June 30, 2002, with interest payable monthly at Chase Manhattan Prime less 1.25% (4.75% at September 30, 2001). At September 30, 2001, the company also owes a \$34,000 balance remaining on a note resulting from the Diamond W Investments, Inc. purchase, payable quarterly at 8% to the former owners and \$179,000 on a note resulting from the NCS purchase, payable quarterly at 7% to the former owner.

Stockholder loans include a \$1.3 million note bearing interest the same rate as the Company's bank line of credit, and which note is subordinate to the bank note payable.

On February 1, 2000, the Board of Directors of the Company 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 Incentive Stock Plan or for future acquisitions. As of September 30, 2001, a total of 20,000 shares had been repurchased on the open market pursuant to this authorization.

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### ITEM 7. FINANCIAL STATEMENTS

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| Notes to Consolidated Financial Statements                                     | 19            |

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### INDEPENDENT AUDITORS' REPORT

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The Stockholders of  
ADDvantage Technologies Group, Inc.

We have audited the accompanying consolidated balance sheet of ADDvantage Technologies Group, Inc. (the "Company") as of September 30, 2001, and the related statements of income, changes in stockholders' equity and cash flows for the years ended September 30, 2001 and 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of September 30, 2001, and the results of its operations and its cash flows for the years ended September 30, 2001 and 2000, in conformity with accounting principles generally accepted in the United States of America.

/S/ TULLIUS TAYLOR SARTAIN & SARTAIN LLP

TULLIUS TAYLOR SARTAIN & SARTAIN LLP

December 20, 2001

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## ADVANTAGE TECHNOLOGIES GROUP, INC. CONSOLIDATED BALANCE SHEET September 30, 2001

### Assets

#### Current assets:

|                       |            |
|-----------------------|------------|
| Cash                  | \$ 230,558 |
| Accounts receivable   | 2,995,486  |
| Inventories           | 17,729,121 |
| Deferred income taxes | 36,000     |

|                      |            |
|----------------------|------------|
| Total current assets | 20,991,165 |
|----------------------|------------|

#### Property and equipment, at cost

|                         |           |
|-------------------------|-----------|
| Machinery and equipment | 1,959,943 |
| Land and buildings      | 478,871   |
| Leasehold improvements  | 177,500   |

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|  |               |
|--|---------------|
|  | -----         |
|  | 2,616,314     |
| Less accumulated depreciation and amortization         | (857,105)     |
|  | -----         |
| Net property and equipment                             | 1,759,209     |
| Other assets:  |               |
| Deferred income taxes                                  | 990,000       |
| Goodwill, net of accumulated amortization of \$260,056 | 1,488,024     |
| Other assets   | 106,493       |
|  | -----         |
| Total other assets                                     | 2,584,517     |
|  | -----         |
| Total assets   | \$ 25,334,891 |
|  | =====         |

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ADVANTAGE TECHNOLOGIES GROUP, INC.  
CONSOLIDATED BALANCE SHEET  
September 30, 2001

|   |               |
|---|---------------|
| Liabilities and Stockholders' Equity  |               |
| Current liabilities:  |               |
| Accounts payable  | \$ 852,424    |
| Accrued expenses  | 491,839       |
| Accrued income taxes  | 492,145       |
| Bank revolving line of credit   | 4,251,133     |
| Note payable - current portion  | 221,975       |
| Dividends payable   | 310,000       |
| Stockholder loans   | 1,250,000     |
|   | -----         |
| Total current liabilities   | 7,869,516     |
| Notes payable   | 529,865       |
| Stockholders' equity:   |               |
| Preferred stock, 5,000,000 shares authorized,<br>\$1.00 par value, at stated value:                                 |               |
| Series A, 5% cumulative convertible; 200,000 shares issued and<br>outstanding with a stated value of \$40 per share | 8,000,000     |
| Series B, 7% cumulative; 300,000 shares issued and outstanding with<br>a stated value of \$40 per share             | 12,000,000    |
| Common stock, \$.01 par value; 30,000,000<br>shares authorized; 10,011,716 shares issued                            | 100,117       |
| Common stockholders' deficit  | (3,110,443)   |
|   | -----         |
|   | 16,989,674    |
| Less: Treasury stock, 20,000 shares at cost   | (54,164)      |
|   | -----         |
| Total stockholders' equity  | 16,935,510    |
|   | -----         |
| Total liabilities and stockholders' equity  | \$ 25,334,891 |
|   | =====         |

ADVANTAGE TECHNOLOGIES GROUP, INC.  
STATEMENTS OF INCOME

|  | Year ended<br>September 30, |               |
|--|-----------------------------|---------------|
|  | 2001                        | 2000          |
| Net sales and service income                   | \$ 22,884,566               | \$ 22,002,543 |
| Cost of sales                                  | 11,885,210                  | 11,055,052    |
| Gross profit                                   | 10,999,356                  | 10,947,491    |
| Operating expenses                             | 6,144,174                   | 4,813,011     |
| Income from operations                         | 4,855,182                   | 6,134,480     |
| Other Income                                   | -                           | 127,235       |
| Interest expense                               | 336,752                     | 385,069       |
| Income before income taxes                     | 4,518,430                   | 5,876,646     |
| Provision for income taxes                     | 1,667,000                   | 2,169,000     |
| Net income                                     | 2,851,430                   | 3,707,646     |
| Preferred Dividends                            | 1,240,000                   | 1,240,000     |
| Net income attributable to common stockholders | \$ 1,611,430                | \$ 2,467,646  |
| Earnings per share:                            |                             |               |
| Basic  | \$ 0.16                     | \$ 0.25       |
| Diluted  | \$ 0.16                     | \$ 0.24       |

ADVANTAGE TECHNOLOGIES GROUP, INC.  
STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY  
Years ended September 30, 2001 and 2000

|                             | Common<br>Shares | Stock<br>Amount | Series A<br>Preferred<br>Stock | Series B<br>Preferred<br>Stock | Common<br>Stockholders'<br>Deficit |
|-----------------------------|------------------|-----------------|--------------------------------|--------------------------------|------------------------------------|
| Balance, September 30, 1999 | 9,712,346        | \$ 97,124       | \$8,000,000                    | \$12,000,000                   | \$(8,212,000)                      |
| Net income                  | -                | -               | -                              | -                              | 3,707,646                          |
| Preferred stock dividends   |                  |                 |                                |                                | (1,240,000)                        |

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Purchase Treasury Stock

|   |            |            |             |              |            |
|---|------------|------------|-------------|--------------|------------|
| Options Exercised                         | 8,500      | 85         |             |              | 12,        |
| Issue common shares for business purchase | 272,110    | 2,721      |             |              | 997,       |
| -----                                     |            |            |             |              |            |
| Balance, September 30, 2000               | 9,992,956  | \$ 99,930  | \$8,000,000 | \$12,000,000 | \$ (4,735, |
| Net income                                |            |            |             |              | 2,851,     |
| Preferred stock dividends                 |            |            |             |              | (1,240,    |
| Issue common shares                       | 18,760     | 187        |             |              | 13,        |
| -----                                     |            |            |             |              |            |
| Balance, September 30, 2001               | 10,011,716 | \$ 100,117 | \$8,000,000 | \$12,000,000 | \$ (3,110, |
| =====                                     |            |            |             |              |            |

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ADVANTAGE TECHNOLOGIES GROUP, INC.  
STATEMENTS OF CASH FLOWS

|  | Year ended<br>September 30, |    |
|--|-----------------------------|----|
|  | 2001                        |    |
|  | -----                       |    |
| Cash Flows from Operating Activities   |                             |    |
| Net income   | \$ 2,851,430                | \$ |
| Adjustments to reconcile net income to net cash provided<br>by operating activities                |                             |    |
| Depreciation and amortization  | 312,441                     |    |
| Provision for deferred income taxes  | 117,000                     |    |
| Change in:   |                             |    |
| Receivables  | 1,118,782                   |    |
| Prepaid and other expense  | (26,431)                    |    |
| Inventories  | (2,327,183)                 |    |
| Accounts payable and accrued liabilities   | (177,325)                   |    |
|  | -----                       |    |
| Net cash provided by operating activities  | 1,868,714                   |    |
|  | -----                       |    |
| Cash Flows from Investing Activities   |                             |    |
| Additions to property and equipment  | (583,536)                   |    |
| Proceeds from sale of investment in Ventures   | 657,569                     |    |
| Purchase business combinations, net of cash acquired of<br>\$575,958 in 2001, and \$90,047 in 2000 | (1,090,269)                 |    |
|  | -----                       |    |
| Net cash used in investing activities  | (1,016,236)                 |    |
|  | -----                       |    |
| Cash Flows from Financing Activities   |                             |    |
| Net borrowings (repayments) under line of credit   | 895,585                     |    |

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|  |             |    |
|--|-------------|----|
| Advances (payment) on stockholder loans        | (300,000)   |    |
| Purchases of treasury stock                    | -           |    |
| Payments of preferred dividends                | (1,240,000) |    |
| Proceeds from exercise of common stock options | -           |    |
|  | -----       |    |
| Net cash used in financing activities          | (644,415)   | (  |
|  | -----       |    |
| Net increase in cash                           | 208,063     |    |
| Cash, beginning of period                      | 22,495      |    |
|  | -----       |    |
| Cash, end of period                            | \$ 230,558  | \$ |
|  | =====       |    |

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ADVANTAGE TECHNOLOGIES GROUP, INC.  
STATEMENTS OF CASH FLOWS

|   |            |                             |
|---|------------|-----------------------------|
|   |            | Year ended<br>September 30, |
|   |            | 2001                        |
|   |            | -----                       |
| Supplemental Cash Flow Information  |            |                             |
| Cash paid for interest  | \$ 343,460 | \$                          |
| Cash paid for income taxes  | 1,462,000  |                             |
| Supplemental Disclosure of Non-cash<br>Investing and Financing Activities |            |                             |
| Acquisition of Lee CATV Corporation:                                      |            |                             |
| Issuance of preferred stock   | -          |                             |
| Working capital other than cash   | -          |                             |
| Land and equipment  | -          |                             |
| Intangibles and other assets  | -          |                             |
| Assumption of note payable  | -          |                             |
| Issuance of note payable  | -          |                             |

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ADVANTAGE TECHNOLOGIES GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended September 30, 2001 and 2000

Note 1 - Summary of Significant Accounting Policies

Description of business

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ADDvantage Technologies Group, Inc. and its subsidiaries (the "Company") sell new, surplus, and re-manufactured cable television equipment throughout North America in addition to being a repair center for various cable companies. The Company operates in one business segment.

### Principles of consolidation

The consolidated financial statements include the accounts of ADDvantage Technologies Group, Inc. and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

### Inventory valuation

Inventory consists of new and used electronic components for the cable television industry. Inventory is stated at the lower of cost or market. Cost is determined using the weighted average method.

### Property and equipment

Depreciation is provided using straight line and accelerated methods over the estimated useful lives of the related assets. Repairs and maintenance are expensed as incurred, whereas major improvements are capitalized. Depreciation expense was \$165,493 and \$87,762 for the years ended September 30, 2001 and 2000, respectively.

### Income taxes

The Company provides for income taxes in accordance with the liability method of accounting pursuant to SFAS No. 109, "Accounting for Income Taxes." Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and tax carryforward amounts. Management provides valuation allowance against deferred tax assets for amounts which are not considered "more likely than not" to be realized.

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### Revenue recognition

Revenue is recognized when inventory or service components are shipped to the customers.

### Advertising costs

Advertising costs are expensed as incurred. Advertising expense was \$229,947 and \$182,581 for the years ended September 30, 2001 and 2000, respectively.

### Management estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

### Concentrations of credit risk



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Financial instruments that potentially subject the Company to concentration of credit risk consist principally of trade receivables. Concentrations of credit risk with respect to trade receivables are limited because a large number of geographically diverse customers make up the Company's customer base, thus spreading the trade credit risk. The Company controls credit risk through credit approvals, credit limits, and monitoring procedures. The Company performs in-depth credit evaluations for all new customers but does not require collateral to support customer receivables.

### Goodwill

Goodwill is amortized on a straight-line basis over periods ranging from 10 to 20 years. Amortization of goodwill for the years ended September 30, 2001 and 2000, was \$144,838 and \$115,218, respectively.

### Employee stock-based awards

Employee stock-based awards are accounted for using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations. Under APB No. 25, compensation expense is based on the difference, if any, on the date of grant between the fair value of the Company's stock and the exercise price. The Company accounts for stock issued to non-employees in accordance with the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation."

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### Earnings per share

Basic earnings per share are based on the sum of the average number of common shares outstanding and issuable restricted and deferred shares. Diluted earnings per share include any dilutive effect of stock options, restricted stock and convertible preferred stock.

### Fair value of financial instruments

The carrying amounts of accounts receivable and payable approximate fair value due to their short maturities. The carrying value of the Company's line of credit approximates fair value since the interest rate fluctuates periodically based on the prime rate. Terms of the stockholder loans are similar to the bank loan. Management believes that the carrying value of the Company's borrowings approximate fair value based on credit terms currently available for similar debt.

### Impact of recently issued accounting standards

In July 2001, the FASB issued Statements of Financial Accounting Standards No. 141, "Business Combinations" (SAFS 141), Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (SFAS 142), and Statement No. 143, "Accounting for Asset Retirement Obligations" (SFAS 143). SFAS 141 requires all business combinations to be accounted for using the purchase method of accounting and is effective for all business combinations initiated after June 30, 2001. The Company is currently not affected by SFAS 141 as there are no transactions covered by these pronouncements.

SFAS 142 requires goodwill to be tested for impairment under certain circumstances, and written off when impaired, rather than being amortized as

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previous standards required. SFAS 142 is effective for fiscal years beginning after December 15, 2001. The Company has goodwill from recent acquisitions and does not have any impairment at this time.

SFAS 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred and a corresponding increase in the carrying amount of the related long-lived asset. Statement No. 143 is effective for fiscal years beginning after June 15, 2002. The Company does not expect SFAS 143 to have a material impact on its financial condition and results of operations.

In August 2001, the FASB issued Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144). SFAS 144 supersedes Statement 121, "Accounting for the Impairment of Long-Lived assets and Long-Lived Assets to Be Disposed Of" and the accounting and reporting provisions of Accounting Principals Board Opinion No. 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" for the disposal of a segment of a business. Goodwill is excluded from the scope of Statement No. 144. Additionally, Statement No. 144 utilizes a probability-weighted cash flow estimation approach and establishes a "primary-asset" approach to determine the cash flow estimation period for a group of assets. Statement No. 144 is effective for fiscal years beginning after December 15, 2001. The Company does not expect SFAS 144 to have a material impact on its financial condition and results of operations.

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### Note 2 - Cash Management

Cash receipts are applied from the Company's lockbox account directly against the bank line of credit, and checks clearing the bank are funded from the line of credit. The resulting overdraft balance, consisting of outstanding checks, is \$206,649 and \$86,676 at September 30, 2001 and 2000 and is included in accounts payable.

### Note 3 - Line of Credit, Stockholder Loans, and Notes Payable

At September 30, 2001, a \$4,251,132 balance is outstanding under a \$6.0 million line of credit due June 30, 2002, with interest payable monthly at Chase Manhattan Prime less 1.5% (4.75% at September 30, 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 (4.75% at September 30, 2001) and are subordinate to the bank notes payable.

Notes payable consist of the following items - a \$250,000 obligation due \$25,000 per quarter over 10 quarters, a \$159,959 note bearing interest at 7.0% due quarterly with a 3 year term, notes payable to Chymiak Investments in the amounts of \$160,455 and \$147,458, bearing interest at 7.5% due monthly with a 10 year term, and a \$33,968 note bearing interest at 8% with the final payment due October 22, 2001.

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The aggregate maturities of notes payable for the five years ending September 30, 2006 are as follows: 2002 - \$221,975; 2003 - \$189,660; 2004 - \$108,113; 2005 - \$26,704; 2006 - \$28,776; thereafter - \$176,612.

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Note 4 - Income Taxes

The provisions for income taxes consist of:

|          | 2001        | 2000        |
|----------|-------------|-------------|
| Current  | \$1,550,000 | \$2,057,000 |
| Deferred | 117,000     | 112,000     |
|          | \$1,667,000 | \$2,169,000 |

The following table summarizes the differences between the U.S. federal statutory rate and the Company's effective tax rate for financial statement purposes for the year ended September 30, :

|  | 2001  | 2000  |
|--|-------|-------|
| Statutory tax rate   | 34.0% | 34.0% |
| State income taxes, net of U.S.federal tax benefit                     | 3.4   | 3.4   |
| Non-deductible goodwill amortization and other non-deductible expenses | .9    | .8    |
| Adjustment of deferred tax asset valuation allowance                   | (1.2) | (2.4) |
| Other  | (0.2) | .8    |
|  | 36.9% | 36.6% |

Deferred tax assets consist of the following at September 30,

|  | 2001 | 2000 |
|--|------|------|
|--|------|------|

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|   |             |             |
|---|-------------|-------------|
| Net operating losses carryforwards                          | \$1,449,000 | \$1,539,000 |
| Tax basis in excess of financial<br>basis of certain assets | 108,000     | 245,000     |
| Financial liability accruals                                | 36,000      | 43,000      |
|   | -----       | -----       |
| Total deferred tax assets                                   | 1,593,000   | 1,827,000   |
| Valuation allowance   | (567,000)   | (684,000)   |
|   | -----       | -----       |
| Net deferred tax asset                                      | \$1,026,000 | \$1,143,000 |
|   | =====       | =====       |

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Deferred Tax Assets are  
classified as:

|            |             |              |
|------------|-------------|--------------|
| Current    | \$ 36,000   | \$ 43,000    |
| Noncurrent | 990,000     | 1,100,000    |
|            | -----       | -----        |
|            | \$1,026,000 | \$ 1,143,000 |
|            | =====       | =====        |

Utilization of ADDvantage's net operating loss carryforward of approximately \$4,261,000 to reduce future taxable income is limited to an annual amount of \$265,000. The NOL carryforward expires in varying amounts from 2014 to 2019.

Note 5 - Stockholders' Equity

The 1998 Incentive Stock Plan provides for the award to officers, directors, key employees and consultants of stock options and restricted stock. The Plan provides that upon any issuance of additional shares of common stock by the Company, other than pursuant to the Plan, the number of shares covered by the Plan will increase to an amount equal to 10% of the then outstanding shares of common stock. Under the Plan, option prices will be set by the Board of Directors and may be greater than, equal to, or less than fair market value on the grant date.

At September 30, 2001, 1,004,874 shares of common stock were reserved for the exercise of stock awards under the 1998 Incentive Stock Plan. Of the shares reserved for exercise of stock awards, 886,476 shares were available for future grants at September 30, 2001.

A summary of the status of the Company's stock options at September 30, 2001 and 2000, and changes during the years then ended is presented below.

| 2001   |                        | 2000   |                        |
|--------|------------------------|--------|------------------------|
| Shares | Wtd. Avg.<br>Ex. Price | Shares | Wtd. Avg.<br>Ex. Price |
| -----  | -----                  | -----  | -----                  |

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|   |         |        |        |        |
|---|---------|--------|--------|--------|
| Outstanding, beginning of year                    | 38,500  | \$2.23 | 14,750 | \$0.86 |
| Granted   | 74,500  | 1.50   | 38,500 | 3.13   |
| Exercised   | -       | -      | 14,750 | 0.84   |
| Canceled  | -       | -      | -      | -      |
|   | -----   |        | -----  |        |
| Outstanding, end of year                          | 113,000 | \$1.75 | 38,500 | \$2.23 |
|   | =====   |        | =====  |        |
| Exercisable, end of year                          | 19,700  | \$2.23 | 6,000  | \$3.13 |
|   | =====   |        | =====  |        |
| Weighted average fair value of<br>Options granted |         | \$1.82 |        | \$2.56 |
|   |         | =====  |        | =====  |

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The following table summarizes information about fixed stock options outstanding at September 30, 2001:

| Range of<br>Exercise Prices | Options Outstanding                 |  |                        | Options Exercisable                 |                        |
|-----------------------------|-------------------------------------|--|------------------------|-------------------------------------|------------------------|
|                             | Number<br>Outstanding<br>At 9/30/01 | Weighted<br>Average<br>Remaining<br>Contract<br>Life | Wtd. Avg.<br>Ex. Price | Number<br>Exercisable<br>at 9/30/01 | Wtd. Avg.<br>Ex. Price |
| \$1.500                     | 6,000                               | 9.5 years  | \$1.50                 | 6,000                               | \$1.50                 |
| \$1.500                     | 68,500                              | 9.5 years  | \$1.50                 | -                                   | \$1.50                 |
| \$3.125                     | 6,000                               | 8.5 years  | \$3.13                 | 6,000                               | \$3.13                 |
| \$3.125                     | 32,500                              | 8.5 years  | \$3.13                 | 6,500                               | \$3.13                 |
|                             | -----                               |  |                        | -----                               |                        |
|                             | 113,000                             |  |                        | 18,500                              |                        |
|                             | =====                               |  |                        | =====                               |                        |

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants in 2001: risk-free interest rates of 5.5%; expected dividend yield of 0.0%; expected lives of 10 years; and estimated volatility of 122%.

SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123") provides an alternative method of determining compensation cost for employee stock options, which alternative method may be adopted at the option of the Company. Had compensation cost been determined consistent with SFAS 123, the Company's net income would not have changed significantly.

The Series A and Series B Preferred Stock are prior to the Company's common stock with respect to the payment of dividends and the distribution of assets. Cash dividends shall be payable quarterly when and as declared by the Board of Directors. Interest accrues on unpaid dividends at the rate of 5% per annum with respect to the Series A Preferred Stock and 7% per annum with respect to the Series B Preferred Stock. No dividends may be paid on

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any class of stock ranking junior to the Preferred Stock unless Preferred Stock dividends have been paid. Liquidation preference is equal to the stated value per share. The Series A and B Preferred Stock is redeemable at any time at the option of the Board of Directors at a redemption price equal to the stated value per share. Holders of the Preferred Stock do not have any voting rights unless the Company fails to pay dividends for four consecutive dividend payment dates. Shares of Series A Preferred Stock are convertible into common stock at any time at the option of the holder. Each share of Series A Preferred Stock is convertible into 10 shares of common stock.

### Note 6 - Operating Leases

The Company leases various properties primarily from a company owned by the

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Company's principal shareholders. Future minimum lease payments under these leases are as follows:

|      |              |
|------|--------------|
| 2002 | 438,000      |
| 2003 | 414,500      |
| 2004 | 357,000      |
| 2005 | 58,500       |
|      | -----        |
|      | \$ 1,268,000 |
|      | =====        |

Total rental expense for all operating leases was \$482,800 for the year ended September 30, 2001 and \$405,300 for the year ended September 30, 2000.

### Note 7 - Retirement Plan

The Company sponsors a 401(k) plan that covers all employees who are at least 21 years of age and have completed one year of service as of the plan effective date. The Company's contributions to the plan consist of a matching contribution as determined by the plan document. Pension expense under the 401(k) plan was \$84,134 during the year ended September 30, 2001 and \$56,586 during the year ended September 30, 2000.

### Note 8 - Business Combinations

On March 2, 2001, the Company entered into a Purchase and Sale Agreement with Richard S. Grasso (the "Shareholder") and NCS, a Pennsylvania corporation, to purchase from the Shareholder all of the issued and outstanding common stock of NCS. The consideration for the acquisition of \$1,988,000 included: (i) \$800,000 in cash, (ii) a promissory note payable to the Shareholder in the amount of \$200,000, (iii) the assumption of Shareholder's obligation of \$639,000 under a promissory note issued to a prior owner of NCS (iv) \$49,000 remaining in a payable to the shareholder; and a three-year consulting agreement with NCS for \$300,000. The Shareholder also entered into a non-competition agreement with the Company and NCS. The Company financed the purchase price through borrowings under its line of credit agreement with

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Bank of Oklahoma. Immediately after closing, \$639,000 was paid for the assumption of the Shareholder's obligation. As a result of this transaction, NCS became a wholly owned subsidiary of the Company.

NCS was established in 1973 as a full service repair and sales center, selling new and re-manufactured cable equipment and has been a leading distributor of telecommunication equipment and a solutions provider to cable operators and other related businesses since the market's infancy. The principal place of business of NCS is located in Willow Grove, Pennsylvania.

On May 31, 2001, the Company entered into a Purchase and Sale Agreement with Nick Ferolito and Russell Brown (the "Shareholders") and Fero-Midwest dba

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Comtech Services, a Missouri corporation ("Comtech"), to purchase from the Shareholders all of the issued and outstanding common stock of Comtech. The consideration for the acquisition was \$250,000 in cash and assumption of certain liabilities as stated in the agreement. As a result of this transaction, Comtech became a wholly owned subsidiary of the Company.

Following are the unaudited pro-forma results of operations for the years ending 2001 and 2000, assuming the NCS and Comtech acquisitions occurred at the beginning of each year presented.

|   | 2001                 | 2000          |
|---|----------------------|---------------|
|   | -----<br>(Unaudited) |               |
| Net sales and service income            | \$ 25,291,350        | \$ 30,177,640 |
| Income before income tax                | 4,355,760            | 5,894,794     |
| Income tax                              | 1,494,026            | 2,169,000     |
| Net income attributable to common stock | 2,861,734            | 3,725,794     |

These unaudited pro-forma results have been prepared for comparison purposes only and do not purport to be indicative of the results of operations which would have actually resulted had the combination been in effect on the dates indicated, or of future results of operations.

### Note 9 - Investment in Ventures Education System Corporation

On November 1, 2000, Ventures Education System Corporation exercised its option to repurchase the Company's 27% interest in Ventures. The exercise price consisted of \$660,000 and common stock warrants to purchase 50,000 shares at \$.90 per share. The warrants expire on January 31, 2004 or one year after a public offering, whichever first occurs. The warrants were valued at \$12,000. The transaction resulted in no gain or loss.

Note 10 - Earnings per Share

|   | Year ended<br>September 30<br>2001 | Year ended<br>September 30<br>2000 |
|---|------------------------------------|------------------------------------|
|   | -----                              | -----                              |
| Net income  | \$ 2,981,702                       | \$ 3,707,646                       |
| Dividends on preferred stock<br>stock                       | 1,240,000                          | 1,240,000                          |
|   | -----                              | -----                              |
| Net income attributable to<br>common shareholders - basic   | 1,741,702                          | 2,467,646                          |
| Dividends on Series A<br>convertible preferred stock        | 400,000                            | 400,000                            |
|   | -----                              | -----                              |
| Net income attributable to<br>common shareholders - diluted | \$ 2,141,702                       | \$ 2,867,646                       |
|   | =====                              | =====                              |
| Weighted average shares outstanding                         | 9,991,716                          | 9,862,054                          |
| Weighted average shares outstanding -<br>assuming dilution  | 11,991,716                         | 11,862,054                         |
|   | =====                              | =====                              |
| Earnings per common share:                                  |                                    |                                    |
| Basic   | \$ 0.16                            | \$ 0.25                            |
| Diluted   | 0.16                               | 0.24                               |
|   | =====                              | =====                              |

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS, AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

The information required by this item concerning the Company's officers, directors and compliance with Section 16(a) of the Securities Exchange Act of 1934, as amended, is incorporated by reference to the information in the sections entitled "Identity of Officers," "Election of Directors" and



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"Compliance with Section 16(a) of the Exchange Act," respectively, of the Company's Proxy Statement for the 2002 Annual Meeting of Shareholders (the "Proxy Statement") to be filed with the Securities and Exchange Commission within 120 days after the end of the Company's fiscal year ended September 30, 2001.

### ITEM 10. EXECUTIVE COMPENSATION

The information required by this item concerning executive compensation is incorporated by reference to the information set forth in the section entitled "Compensation of Directors and Executive Officers" of the Company's Proxy Statement.

### ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this item regarding certain relationships and related transactions is incorporated by reference to the information set forth in the section entitled "Security Ownership of Certain Beneficial Owners and Management" of the Company's Proxy Statement.

### ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item regarding certain relationships and related transactions is incorporated by reference to the information set forth in the section entitled "Certain Relationships and Related Transactions" of the Company's Proxy Statement.

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### ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

(a) The following documents are included as exhibits to this Form 10-KSB. Those exhibits below incorporated by reference herein are indicated as such by the information supplied in the parenthetical thereafter. If no parenthetical appears after an exhibit, such exhibit is filed herewith.

#### Exhibit

- 2.1 The Securities Exchange Agreement, dated as of September 16, 1999, by and among ADDvantage Media Group, Inc. and David E. Chymiak, Kenneth A. Chymiak, as Trustee of the Ken Chymiak Revocable Trust Dated March 4, 1992, and Susan C. Chymiak, as Trustee of the Susan Chymiak Revocable Trust Dated March 4, 1992 is incorporated by reference to Exhibit 2 to the Current Report on Form 8-K filed with the Securities Exchange Commission by the Company on September 24, 1999.
- 2.2 The Amendment and Clarification of the Securities Exchange Agreement, dated as of September 16, 1999 incorporated by reference to Exhibit 2.2 to the Current Report on Form 8-K filed with the Securities Exchange Commission by the Company on October 14, 1999.
- 2.3 The Agreement and Plan of Merger, dated as of November 22, 1999, by and among ADDvantage Media Group, Inc., TULSAT

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Corporation, Lee CATV Corporation, Diamond W Investments, Inc., Randy L. Weideman and Deborah R. Weideman incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed with the Securities Exchange Commission by the Company on December 7, 1999.

- 2.4 The Sale and Purchase Agreement, dated as of March 2, 2001 by and among ADDvantage Technologies Group, Inc., NCS Industries, Inc. and Richard S. Grasso incorporated by reference to the Current Report on Form 8-K filed with the Securities Exchange Commission by the Company on March 16, 2001.
- 2.5 The Purchase and Sale Agreement with Nick Ferolito, Russell Brown and Fero-Midwest d/b/a Comtech Services, dated May 31, 2001, less the exhibits and schedules listed in the table of contents of that agreement. The Registrant undertakes to furnish supplementally to the Commission upon request a copy of any such omitted schedule or exhibit listed in the Exhibit Index set forth elsewhere herein.
- 3.1 Certificate of Incorporation of the Company and amendments thereto incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-18, File No. 33-399902-FW (the "S-18 Registration Statement").
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- 3.2 Fourth Amendment to the Certificate of Incorporation of the Company incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1, File No. 33-49892 (the "S-1 Registration Statement").
- 3.3 Bylaws of the Company incorporated by reference to Exhibit 3.2 to the S-18 Registration Statement.
- 4.1 Certificate of Designation, Preferences, Rights and Limitations of ADDvantage Media Group, Inc. Series 5% Cumulative Convertible Preferred Stock and Series B 7% Cumulative Preferred Stock as filed with the Oklahoma Secretary of State on September 30, 1999 incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed with the Securities Exchange Commission by the Company on October 14, 1999.
- 4.2 Certificate of Designation, Preferences, Rights and Limitations of ADDvantage Media Group, Inc. Series C Convertible Preferred Stock as filed with the Oklahoma Secretary of State on November 22, 1999 incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed with the Securities Exchange Commission by the Company on December 7, 1999.
- 10.1 Lease Agreement dated September 15, 1999 by and between Chymiak Investments, L.L.C. and TULSAT Corporation (formerly named DRK Enterprises, Inc.) incorporated by reference to Exhibit 10.3 to the Current Report on Form 10-KSB filed with the Securities Exchange Commission by the Company on December 30, 1999.

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- 10.2 Schedule of documents substantially similar to Exhibit 10.1 incorporated by reference to Exhibit 10.3 to the Current Report on Form 10-KSB filed with the Securities Exchange Commission by the Company on December 30, 1999.
- 10.3 Promissory Note for \$271,093.54 from the Company to Randy L. Weideman and Deborah R. Weideman dated November 22, 1999 incorporated by reference to Exhibit 10.3 to the Current Report on Form 10-KSB filed with the Securities Exchange Commission by the Company on December 30, 1999.
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- 10.4 Lease Agreement, dated November 22, 1999, by and between Randy L. Weideman and Deborah R. Weideman and Lee CATV Corporation incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the Securities Exchange Commission by the Company on December 7, 1999.
- 10.5 Employment Agreement, dated as of November 22, 1999, by and between Lee CATV Corporation, Randy L. Weideman and TULSAT Corporation incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed with the Securities Exchange Commission by the Company on December 7, 1999.
- 10.6 Noncompete Agreement, dated as of November 22, 1999, by and between Lee CATV Corporation and Deborah R. Weideman incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed with the Securities Exchange Commission by the Company on December 7, 1999.
- 10.7 Form of promissory notess issued by TULSAT to David Chymiak and to Ken Chymiak Revocable Trust and Susan C. Chymiak Revocable Trust dated as of February 7, 2000.
- 10.8 Amended and restated loan agreement dated June 30, 1997, by and between Bank of Oklahoma, N.A. ("Lender") and Registrant's wholly owned subsidiary, Tulsat Corporation, formerly DRK Enterprises, Inc., an Oklahoma corporation doing business as Tulsat ("Borrower"), as amended through the eighth amendment dated as of November 3, 2000.
- 21.1 Subsidiaries.
- 23.1 Consent of Tullius Taylor Sartain & Sartain LLP.

(b) Reports on Form 8-K

None.

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### SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.



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- 2.1 The Securities Exchange Agreement, dated as of September 16, 1999, by and among ADDvantage Media Group, Inc. and David E. Chymiak, Kenneth A. Chymiak, as Trustee of the Ken Chymiak Revocable Trust Dated March 4, 1992, and Susan C. Chymiak, as Trustee of the Susan Chymiak Revocable Trust Dated March 4, 1992 is incorporated by reference to Exhibit 2 to the Current Report on Form 8-K filed with the Securities Exchange Commission by the Company on September 24, 1999.
- 2.2 The Amendment and Clarification of the Securities Exchange Agreement, dated as of September 16, 1999 incorporated by reference to Exhibit 2.2 to the Current Report on Form 8-K filed with the Securities Exchange Commission by the Company on October 14, 1999.
- 2.3 The Agreement and Plan of Merger, dated as of November 22, 1999, by and among ADDvantage Media Group, Inc., TULSAT Corporation, Lee CATV Corporation, Diamond W Investments, Inc., Randy L. Weideman and Deborah R. Weideman incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed with the Securities Exchange Commission by the Company on December 7, 1999.
- 2.4 The Sale and Purchase Agreement, dated as of March 2, 2001 by and among ADDvantage Technologies Group, Inc., NCS Industries, Inc. and Richard S. Grasso incorporated by reference to the Current Report on Form 8-K filed with the Securities Exchange Commission by the Company on March 16, 2001.
- 2.5 The Purchase and Sale Agreement with Nick Ferolito, Russell Brown and Fero-Midwest d/b/a Comtech Services, dated May 31, 2001, less the exhibits and schedules listed in the table of contents of that agreement. The Registrant undertakes to furnish supplementally to the Commission upon request a copy of any such omitted schedule or exhibit listed in the Exhibit Index set forth elsewhere herein.
- 3.1 Certificate of Incorporation of the Company and amendments thereto incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-18, File No. 33-399902-FW (the "S-18 Registration Statement").
- 3.2 Fourth Amendment to the Certificate of Incorporation of the Company incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1, File No. 33-49892 (the "S-1 Registration Statement").
- 3.3 Bylaws of the Company incorporated by reference to Exhibit 3.2 to the S-18 Registration Statement.
- 4.1 Certificate of Designation, Preferences, Rights and Limitations of ADDvantage Media Group, Inc. Series 5% Cumulative Convertible Preferred Stock and Series B 7% Cumulative Preferred Stock as filed with the Oklahoma Secretary of State on September 30, 1999 incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed with the Securities Exchange Commission by the Company on October 14, 1999.

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- 4.2 Certificate of Designation, Preferences, Rights and Limitations of ADDvantage Media Group, Inc. Series C Convertible Preferred Stock as filed with the Oklahoma Secretary of State on November 22, 1999 incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed with the Securities Exchange Commission by the Company on December 7, 1999.
- 10.1 Lease Agreement dated September 15, 1999 by and between Chymiak Investments, L.L.C. and TULSAT Corporation (formerly named DRK Enterprises, Inc.).
- 10.2 Schedule of documents substantially similar to Exhibit 10.1.
- 10.3 Promissory Note for \$271,093.54 from the Company to Randy L. Weideman and Deborah R. Weideman dated November 22, 1999.
- 10.4 Lease Agreement, dated November 22, 1999, by and between Randy L. Weideman and Deborah R. Weideman and Lee CATV Corporation incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the Securities Exchange Commission by the Company on December 7, 1999.
- 10.5 Employment Agreement, dated as of November 22, 1999, by and between Lee CATV Corporation, Randy L. Weideman and TULSAT Corporation incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed with the Securities Exchange Commission by the Company on December 7, 1999.
- 10.6 Noncompete Agreement, dated as of November 22, 1999, by and between Lee CATV Corporation and Deborah R. Weideman incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed with the Securities Exchange Commission by the Company on December 7, 1999.
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- 10.7 Form of promissory notes issued by TULSAT to David Chymiak and to Ken Chymiak Revocable Trust and Susan C. Chymiak Revocable Trust dated as of February 7, 2000.
- 10.8 Amended and restated loan agreement dated June 30, 1997, by and between Bank of Oklahoma, N.A. ("Lender") and Registrant's wholly owned subsidiary, Tulsat Corporation, formerly DRK Enterprises, Inc., an Oklahoma corporation doing business as Tulsat ("Borrower"), as amended through the eighth amendment dated as of November 3, 2000.
- 21.2 Subsidiaries.
- 23.1 Consent of Tullius Taylor Sartain & Sartain LLP.