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ADVANTAGE TECHNOLOGIES GROUP INC

Form 10QSB

February 09, 2001

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

FORM 10-QSB

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

For the quarterly period ended December 31, 2000

☐ 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
(State or other jurisdiction of
incorporation or organization)

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

1605 E. Iola
Broken Arrow, Oklahoma
(Address of principal executive office)

74012
(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 ☒ No ☐

Shares outstanding of the issuer's \$.01 par value common stock as of February 1, 2001 is 9,990,616.

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

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ADVANTAGE TECHNOLOGIES GROUP, INC. CONSOLIDATED BALANCE SHEET December 31, 2000

Assets	
Current assets:	
Cash	\$ 117,798
Accounts receivable	2,793,515
Inventories	15,415,672
Deferred income taxes	43,000

Total current assets	18,369,985
Property and equipment, at cost	
Machinery and equipment	1,173,682
Leasehold improvements	167,629
Other property and equipment	26,412

	1,367,723
Less accumulated depreciation and amortization	(710,808)

Net property and equipment	656,915
Other assets:	
Deferred income taxes	1,055,094
Investment	29,243
Goodwill, net of accumulated amortization of \$150,727	1,324,993
Other assets	55,658

Total other assets	2,464,988

Total assets	\$ 21,491,888
	=====

See notes to consolidated financial statements

ADVANTAGE TECHNOLOGIES GROUP, INC.
CONSOLIDATED BALANCE SHEET
December 31, 2000

Liabilities and Stockholders' Equity

Current liabilities:

Accounts payable	\$ 1,557,079
Accrued expenses	18,663
Accrued income taxes	384,093
Bank revolving line of credit	2,140,604
Note payable - current portion	135,594
Dividends payable	310,000
Stockholder loans	1,250,000

Total current liabilities

5,796,033

Note Payable

-

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

(4,350,098)

15,750,019

Less: Treasury stock, 21,100 shares at cost

(54,164)

Total stockholders' equity

15,695,855

Total liabilities and stockholders' equity

\$ 21,491,888

=====

See notes to consolidated financial statements

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

2000	1999
(unaudited)	(unaudited)

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Net sales and service income	\$ 4,816,682	\$ 4,536,171
Cost of sales	2,447,264	2,101,005
	-----	-----
Gross profit	2,369,418	2,435,166
Operating expenses	1,163,536	1,127,458
	-----	-----
Income from operations	1,205,882	1,307,708
Interest expense	(87,918)	(74,184)
	-----	-----
Income before income taxes	1,117,964	1,233,524
Provision for income taxes	422,673	428,199
	-----	-----
Net income	695,291	805,325
Preferred Dividends	310,000	310,000
	-----	-----
Net income attributable to common stockholders	385,291	495,325
	=====	=====
Earnings per Share:		
Basic and Diluted	\$ 0.04	\$ 0.05

See notes to consolidated financial statements

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

	2000	1999
	-----	-----
Cash Flows from Operating Activities		
Net income	\$ 385,291	\$ 495,325
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	60,150	139,539
Provision for deferred income taxes	44,906	-
Change in:		
Receivables	678,023	(242,896)
Prepaid and other expense	749	(4,657)
Inventories	(835,182)	(310,721)
Accounts payable and accrued liabilities	977,541	368,781
	-----	-----
Net cash provided by operating activities	1,311,478	445,371
	-----	-----
Cash Flows from Investing Activities		
Additions to property and equipment	(33,771)	-
Proceeds from sale of investment in Ventures	640,000	-
Cash acquired in LEE CATV merger	-	90,047
	-----	-----
Net cash provided by investing activities	606,229	90,047
	-----	-----
Cash Flows from Financing Activities		

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Net borrowings (repayments) under line of credit	(1,212,404)	-
Payment on stockholders loan	(300,000)	-
Payments of Preferred Dividends	(310,000)	-
	-----	-----
Net cash used in financing activities	(1,822,404)	-
	-----	-----
Net increase in cash	95,303	535,418
Cash, beginning of year	22,495	16,843
	-----	-----
Cash, end of year	\$ 117,798	\$ 552,261
	=====	=====

See notes to consolidated financial statements

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

	2000	1999
	-----	-----
Supplemental Cash Flow Information		
Interest paid for the period	\$ 87,918	67,554
Supplemental Disclosure of Non-cash Investing and Financing Activities		
Acquisition of Lee CATV Corporation:		
Issuance of preferred stock	-	1,000,000
Working capital other than cash	-	241,017
Land and equipment	-	116,694
Intangibles and other assets	-	1,276,229
Assumption of note payable	-	723,987
Issuance of note payable	-	271,094

See notes to consolidated financial statements

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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.

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Note 2 - Description of Business

ADDvantage Technologies, through its subsidiaries TULSAT Corporation and Lee Enterprise, sells new, surplus, and refurbished cable television equipment throughout North America in addition to being a repair center for various cable companies. ADDvantage operates in one business segment.

Note 3 - Earnings per Share

	Three Months ended December 31	
	2000	1999

Net income attributable to common stock	\$385,291	\$495,325
Basic and Diluted EPS Computation:		
Weighted average outstanding common stock	9,990,616	9,719,429
Earnings per Share	\$0.04	\$0.05

Stock options, warrants and the conversion of Series A Preferred Stock were not included in the computation of diluted EPS as their effect is anti-dilutive.

Note 4 - Revolving Line of Credit

On November 4, 2000, the Bank of Oklahoma amended the Company's line of credit, which is due June 30, 2001. The Company is authorized to borrow up to \$12,000,000 at the borrowing rate of 1 1/4% below prime (8.25% at December 31, 2000). This line of credit will provide the lesser of \$6,000,000 or the sum of 80% of qualified accounts receivable and 40% of qualified inventory in a revolving Line of Credit for working capital purposes (\$4,000,000 available at December 31, 2000), \$4,000,000 for future acquisitions meeting Bank of Oklahoma credit guidelines and \$2,000,000 to be used at the Company's discretion based on assets purchased. The line of credit is collateralized by inventory, accounts receivable,

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equipment and fixtures, and general intangibles. The balance outstanding at December 31, 2000 is \$2,140,604.

Note 5 - Investment in Ventures Education System Corporation

On November 1, 2000, Ventures Education System Corporation exercised its option to repurchase 733,333 shares (after giving effect to a recent four for three stock split) of Ventures stock acquired by the company in September 1998. The exercise price consisted of \$660,000 (\$640,000 cash plus deposits received of \$20,000) 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.

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

Overview

ADDvantage Technologies, through its subsidiaries TULSAT Corporation and Lee Enterprise, 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.

Results of Operations

Comparison of Results of Operations for the Three Months Ended December 31, 2000 and December 31, 1999

Gross profits increased \$56,717 or 2.3% in the first quarter of the fiscal year 2001, as compared to 2000. This increase was primarily due to an increase in repair services offset by a reduction in sales of products with higher profit margins.

Net Sales. Net Sales increased \$280,511 or 6.2%, to \$4,816,682 in the first quarter of fiscal 2001 from \$4,536,171 for the same period in fiscal 2000. The increase was primarily due to repair services, which rose more than 71.5% for the quarter and new products, which increased 46.9%. Sales were affected by severe weather and an overall cable industry slowdown that occurred during the quarter.

Cost of Sales. Cost of goods sold increased to \$2,324,799 for the first three months of fiscal 2001 from \$2,101,005 for the first three months of fiscal 2000. The increase was primarily due to sales in new products, such as fiber optic cable, which usually have lower margins than the refurbished gear.

Operating Expenses. Operating expenses increased to \$1,286,001 in the first three months of 2001 from \$1,127,458 in the first three months of 2000. The increase in operating expenses was primarily due to the higher costs resulting from the acquisition of LEE CATV.

Income from Operations. Income from operations decreased 7.8% to \$1,205,882 for the first three months of 2001 from \$1,307,708 for the first three months of 2000. This decrease was primarily due to a sales product mix with lower profit margins combined with higher operating expenses as discussed in the previous paragraph.

Liquidity and Capital Resources

On November 4, 2000, the Bank of Oklahoma increased the Company's line of credit under which it is authorized to borrow up to \$12,000,000 and reduced the borrowing rate to 1 1/4% below prime (8.25% at December 31, 2000). This line of credit will provide the lesser of \$6,000,000 or the sum of 80% of qualified accounts receivable and 40% of qualified inventory in a revolving Line of Credit for working capital purposes, \$4,000,000 for future acquisitions meeting Bank of Oklahoma credit guidelines and \$2,000,000 to be used at the Company's discretion based on assets purchased. The line of

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credit is collateralized by inventory, accounts receivable, equipment and fixtures, and general intangibles.

The Company finances its operations primarily through internally generated funds and a bank line of credit totaling \$6,000,000 reserved for working capital purposes. At December 31, 2000, the revolving line of credit consisted of a \$2,140,604 balance outstanding due June 30, 2001, with interest payable monthly at Chase Manhattan Prime less 1.25% (8.25% at December 31, 2000). The company also owes \$135,594 balance remaining on a note resulting from the Diamond purchase, payable quarterly at 8% to the former owners.

Stockholder loans include a \$1,250,000 note bearing interest 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 \$1,000,000 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.

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.

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PART II-OTHER INFORMATION

OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

- (a) Exhibits pursuant to Item 601 of Regulation S-B.

Exhibit 27.1 Financial Data Schedule

- (b) Reports on Form 8-K.

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None.

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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.

ADVANTAGE TECHNOLOGIES GROUP, INC.

Signature -----	Title -----	Date -----
/S/ Kenneth A. Chymiak ----- Kenneth A. Chymiak	Director and President (Principal Executive Officer)	February 9, 2001
/S/ Adam R. Havig ----- Adam R. Havig	Controller (Principal Accounting Officer)	February 9, 2001

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EXHIBIT INDEX

Exhibit No.	Description
27.1	Financial Data Schedule

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