ADDVANTAGE TECHNOLOGIES GROUP INC
Form 10QSB
May 14, 2002

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

FORM 10-QSB

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

For the quarterly period ended March 31, 2002

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

For the transition period ________________ to ______________

Commission File number 1-10799

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

OKLAHOMA	73-1351610
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1605 E. Iola Broken Arrow, Oklahoma	74012
(Address of principal executive office)	(Zip Code)

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

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x
No

Shares outstanding of the issuer's $.01 par value common stock as of March 31, 2002 were 10,011,716.

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

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ADDVANTAGE TECHNOLOGIES GROUP, INC.
CONSOLIDATED BALANCE SHEET
March 31, 2002

Assets	
Current assets:	
Cash	$ 106,764
Accounts receivable	2,770,150
Inventories	17,472,621
Deferred income taxes	36,000
Refundable income taxes	172,070
Total current assets	20,557,605
Property and equipment, at cost	
Machinery and equipment	1,981,302
Land and Buildings	837,095
Leasehold improvements	189,265
	3,007,662
Less accumulated depreciation and amortization	(934,440)
Net property and equipment	2,073,222
Other assets:	
Deferred income taxes	900,188
Investment	11,675
Goodwill, net of accumulated amortization of $343,116	1,405,053
Other assets	40,216

Total other assets	2,357,131
Total assets	$ 24,987,958

See notes to consolidated financial statements

ADDVANTAGE TECHNOLOGIES GROUP, INC.
CONSOLIDATED BALANCE SHEET
March 31, 2002

Liabilities and Stockholders' Equity	
Current liabilities:	
Accounts payable	$ 582,266
Accrued expenses	251,760
Bank revolving line of credit	4,103,661
Notes payable - current portion	189,377
Dividends payable	310,000
Stockholder loans	1,210,000
Total current liabilities	6,647,064
Notes Payable	583,460
Stockholders' equity:	
Preferred stock, 5,000,000 shares authorized, $1.00 par value, at stated value:	
Series A, 5% cumulative convertible; 200,000 shares issued and outstanding with a stated value of $40 per share	8,000,000
Series B, 7% cumulative; 300,000 shares issued and outstanding with a stated value of $40 per share	12,000,000
Common stock, $.01 par value; 30,000,000 shares authorized; 10,011,716 shares issued	100,117
Common stockholders' deficit	(2,288,519)
	17,811,598
Less: Treasury stock, 20,000 shares at cost	(54,164)
Total stockholders' equity	17,757,434
Total liabilities and stockholders' equity	$ 24,987,958

See notes to consolidated financial statements

ADDVANTAGE TECHNOLOGIES GROUP, INC.
STATEMENTS OF INCOME

	Three months ended March 31 2002	Three months ended March 31 2001	Six months en[ded] March 31 2002	
Net sales and service income	$ 5,843,964	$ 4,754,311	$ 11,428,693	$
Cost of sales	2,862,187	2,379,304	5,781,358	
Gross profit	2,981,777	2,375,007	5,647,335	
Operating expenses	1,746,111	1,317,320	3,336,041	
Income from operations	1,235,667	1,057,687	2,311,294	
Interest expense	48,522	82,746	115,370	
Income before income taxes	1,187,144	974,941	2,195,924	
Provision for income taxes	407,000	384,055	754,000	
Net income	780,144	590,886	1,441,924	
Preferred Dividends	310,000	310,000	620,000	
Net income attributable to common stockholders	$ 470,144	$ 280,886	$ 821,924	$
Earnings per Share:				
Basic and Diluted	$ 0.05	$ 0.03	$ 0.08	$

See notes to consolidated financial statements

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ADDVANTAGE TECHNOLOGIES GROUP, INC.
STATEMENTS OF CASH FLOWS
FOR SIX MONTHS ENDED MARCH 31,

	2002	2001
Cash Flows from Operating Activities		
Net income	$ 1,441,924	$ 1,286,
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	148,918	122,
Provision for deferred income taxes	89,813	89,
Change in:		
Receivables	225,336	1,384,
Prepaids and other expense	(117,467)	(11,
Inventories	256,500	(978,
Accounts payable and accrued liabilities	(1,002,382)	(500,
Net cash provided by operating activities	1,042,641	1,392,
Cash Flows from Investing Activities		
Additions to property and equipment	(379,960)	(67,
Proceeds from sale of investment in Ventures	-	657,

Acquisition of stock in NCS	-	(1,439,
Cash acquired in NCS Acquisition	-	575,
Net cash provided by investing activities	(379,960)	(273,
Cash Flows from Financing Activities		
Net borrowings (repayments) under line of credit	(147,473)	139,
Proceeds from Notes Payable	20,997	
Advances (payment) on stockholders loan	(40,000)	(300,
Payments of Preferred Dividends	(620,000)	(620,
Net cash used in financing activities	(786,475)	(780,
Net (decrease) increase in cash	(123,794)	338,
Cash, beginning of year	230,558	22,
Cash, end of year	$ 106,764	$ 361,

See notes to consolidated financial statements

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ADDVANTAGE TECHNOLOGIES GROUP, INC.
STATEMENTS OF CASH FLOWS
FOR SIX MONTHS ENDED MARCH 31,

	2002	2001
Supplemental Cash Flow Information		
Cash paid during the period for:		
Interest	$ 115,370	$ 170,66
Income Taxes	1,204,898	675,12
Supplemental Disclosure of Non-cash Investing and Financing Activities		
Acquisition of NCS, Inc:		
Working capital other than cash	-	957,19
Land and equipment	-	250,00
Intangibles and other assets	-	243,05
Assumption of note payable	-	289,00
Issuance of note payable	-	249,00

See notes to consolidated financial statements

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NOTES TO CONDENSED FINANCIAL STATEMENTS (Unaudited)

Note 1 - Basis of Presentation

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

Note 2 - Description of Business

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

Note 3 - Earnings per Share

	Three months ended March 31, 2002	Three months ended March 31, 2001	Six mon ende March 3 2002
Net Income attributable to common stockholders	$470,144	$280,886	$821,9
Basic and Diluted EPS Computation:			
Weighted average outstanding common shares	9,991,716	10,011,716	9,991,7
Earnings per Share	$0.05	$0.03	$0.

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

At March 31, 2002, a $4.1 million balance is outstanding under a $6.0 million line of credit due June 30, 2002, with interest payable monthly at Chase Manhattan Prime less 1 1/4% (3.5% at March 31, 2002). 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 40% of qualified inventory for working capital purposes, $4.0 million for future acquisitions meeting Bank of Oklahoma credit guidelines and $2.0 million to be used at the Company's discretion based on assets purchased. The line of credit is collateralized by inventory, accounts receivable, equipment and fixtures, and general intangibles.

Stockholder loans of $1.2 million bear interest at rates that correspond with the line of credit (3.5% at March 31, 2002) and are subordinate to the bank notes payable.

Notes payable consist of the following items - notes arising from the NCS purchase include a $300,000 obligation due $25,000 per quarter (of which a $200,000 balance remains payable at March 31, 2002) and a $200,000 obligation payable quarterly at 7% (of which a balance of $124,000 remains at March 31, 2002). Both notes are payable quarterly, with 8 quarters remaining. Notes payable to Chymiak Investments, LLC for buildings purchased at Comtech and ADDvantage Technologies Group of Texas, include two notes issued in June 2001 for $314,399 and $150,000, respectively (of which balances of $306,614 and $142,223 remain at March 31, 2002, respectively) bearing interest at 7.5% due monthly with a 10 year term.

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

Overview

The Company specializes in the refurbishment of previously owned cable television ("CATV") equipment and the distribution of new and surplus equipment to CATV operators and other broadband communication companies. Although we have seen a slowdown in the cable industry due to a tightening of credit to cable companies over the past few quarters, we have turned the corner this quarter by improving our gross profit margins for the six month period and sales are steadily increasing each month at our subsidiaries NCS and Comtech. We believe that as the cable companies look at expanding their services in key markets, there will be an emphasis on minimizing their costs, thus creating a higher demand for the Company's repair services and re-manufactured equipment.

Results of Operations

Comparison of Results of Operations for the Three Months Ended March 31, 2002 and March 31, 2001

Net Sales and Service Income. Net Sales climbed $1.09 million or 22.9%, to $5.84 million in the second quarter of fiscal 2002 from $4.75 million for the same period in fiscal 2001. Despite the slowdown in capital spending by cable operators due to the economic environment in the United States, new equipment sales increased to $2.70 million from $1.70 million last year primarily due to our acquisitions of NCS and Comtech (acquired in the second and third quarters of 2001, respectively) and as a result of our distributorship with Scientific-Atlanta (initiated in the fourth quarter of 2001). In addition, repairs have increased to $971,000 in this quarter from $697,202 for the same period last year. Revenue from re-manufactured equipment was flat from $2.28 million for the second quarter last year to $2.24 million in this period. NCS and Comtech had sales of $997,000 and $239,000, respectively.

Cost of Goods Sold. Cost of goods sold increased to $2.86 million for the second quarter of fiscal 2002 from $2.38 million for the same period of fiscal

2001. The increase was primarily due to the increase in sales for the period.

Gross Profit. Gross Profit increased $606,000 or 25.5% to $2.98 million for the second quarter of fiscal 2002 from $2.38 million for the same period in fiscal 2001. The gross margin percentage was 51.0% for the current quarter, compared to 50.0% for the same quarter last year.

Operating Expenses. Operating expenses increased to $1.75 million in the second quarter of fiscal 2002 from $1.31 million in 2001, an increase of 32.6%. The increase in operating expenses was primarily due to the acquisitions of NCS and Comtech.

Income from Operations. Income from operations increased $178,000, or 16.7% to $1.2 million for the second quarter of fiscal 2002 from $1.0 million for the same period last year. This increase was primarily due to overall revenue increase offset by higher operating expenses resulting from the recent acquisitions.

Comparison of Results of Operations for the Six Months Ended March 31, 2002 and March 31, 2001

Net Sales and Service Income. Net Sales increased $1.86 million or 19.4%, to $11.43 million in the first six months of fiscal year 2002 from $9.57 million for the same period in 2001. The increase was primarily due to higher new equipment sales, which increased to $4.98 million from $3.88 million last year primarily due to our acquisitions of NCS and Comtech (acquired in the second and third quarters of 2001, respectively) and as a result of our distributorship with Scientific-Atlanta (initiated in the fourth quarter of 2001). In addition, repairs have increased to $1.80 million in this period from $1.32 million last year. Revenue from re-manufactured equipment increased to $4.63 million in the first six months of fiscal year 2002 from $4.18 million for the same period last year primarily due to the synergies created from our latest acquisitions. NCS and Comtech had sales of $1.82 million and $653,000, respectively.

Cost of Sales. Cost of goods sold increased to $5.78 million for the six month period of fiscal 2002 from $4.83 million for the same period of fiscal 2001. The increase was primarily due to the increase in sales.

Gross Profit. Gross Profit increased $903,000 or 19.0% to $5.65 million for the six month period of fiscal 2002 from $4.74 million for the same period last year. The gross margin percentage was 49.4% for the current six month period, compared to 49.6% for the same period in fiscal 2001.

Operating Expenses. Operating expenses increased to $3.34 million in the second quarter of fiscal 2002 from $2.48 million in 2001, an increase of 34.5%. The increase in operating expenses was primarily due to the acquisitions of NCS and Comtech.

Income from Operations. Income from operations increased $46,000 or 2.0%, to $2.30 million for the first six months of 2002 from $2.26 million for the same period last year. This increase was primarily due to overall revenue increase offset by higher operating expenses resulting from the recent acquisitions.

Liquidity and Capital Resources

The company has a line of credit with the Bank of Oklahoma under which it is authorized to borrow up to $12.0 million at a borrowing rate of 1.25% below Chase Manhattan Prime (3.5% at March 31, 2002). This line of credit will provide the lesser of $6.0 million or the sum of 80% of qualified accounts receivable and 40% of qualified inventory in a revolving line of credit for working capital purposes, $4.0 million for future acquisitions meeting Bank of Oklahoma credit guidelines and $2.0 million to be used at the Company's discretion based on assets purchased. The line of credit is collateralized by inventory, accounts receivable, equipment and fixtures, and general intangibles and had an outstanding balance at March 31, 2002 of $4.1 million, due June 30, 2002.

The Company finances its operations primarily through internally generated funds and a bank line of credit. The company also owes from the NCS purchase, a $300,000 obligation due $25,000 per quarter (of which a $200,000 balance remains payable) and a $200,000 obligation payable quarterly at 7% (of which a balance of $124,000 remains). Both notes are payable quarterly, with 8 quarters remaining. Notes payable to Chymiak Investments, LLC for buildings purchased at Comtech and ADDvantage Technologies Group of Texas, include two notes issued in June 2001 for $314,399 and $150,000, respectively (of which balances of $306,614 and $142,223 remains, respectively) bearing interest at 7.5% due monthly with a 10 year term.

Stockholder loans include a $1,210,000 note, due on demand, bearing interest at the same rate as the Company's bank line of credit, and is subordinate to the bank notes payable.

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

Forward Looking Statements

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

PART II-OTHER INFORMATION

OTHER INFORMATION

Item 4. Submission of Matter to a Vote of Security Holders

The annual meeting of shareholders of the Company was held in Broken Arrow, Oklahoma at the Corporate Offices of ADDvantage Technologies Group, Inc. on March 5, 2002. At the meeting, the following directors were elected for one year terms (with the votes as indicated):

	FOR	WITHHELD
Kenneth A. Chymiak	9,574,188	575
David E. Chymiak	9,574,188	575
Stephen J. Tyde	9,574,738	325
Freddie H. Gibson	9,574,738	325
Gary W. Young	9,574,738	325
Randy L. Weideman	9,574,738	325

The shareholders also approved the ratification of appointment of Tullius, Taylor, Sartain & Sartain as the Company's auditors for the 2002 fiscal year by a vote of 9,574,488 shares in favor and 275 against.

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

(a) Reports on Form 8-K

The Company filed one Form 8-K during the three months ended March 31, 2002. The report dated March 6, 2002 related to the Press Release Announcing Voting Results and Management Comments at Annual Meeting.

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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.

ADDVANTAGE TECHNOLOGIES GROUP, INC.

Signature	Title	Date
------------------- Kenneth A. Chymiak	Director and President (Principal Executive Officer)	May 13, 2002
------------------- Adam R. Havig	Controller (Principal Accounting Officer)	May 13, 2002