ADDVANTAGE TECHNOLOGIES GROUP INC
Form 10QSB
August 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 June 30, 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 June 30, 2002 were 10,011,716.

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

Part I - Financial Information Page

Financial Information:

ADDVANTAGE TECHNOLOGIES GROUP, INC.
CONSOLIDATED BALANCE SHEET
June 30, 2002

Assets	
Current assets:	
Cash	$ 494,532
Accounts receivable	2,918,364
Inventories	19,137,837
Deferred income taxes	36,000
Total current assets	22,586,733
Property and equipment, at cost	
Machinery and equipment	1,791,044
Land and buildings	840,138
Leasehold improvements	490,727
	3,121,909
Less accumulated depreciation and amortization	(969,045)
Net property and equipment	2,152,864
Other assets:	
Deferred income taxes	855,282
Investment	11,675
Goodwill, net of accumulated amortization of $380,852	1,359,817
Other assets	28,700
Total other assets	2,255,474
Total assets	$ 26,995,071

See notes to consolidated financial statements

ADDVANTAGE TECHNOLOGIES GROUP, INC.
CONSOLIDATED BALANCE SHEET
June 30, 2002

Liabilities and Stockholders' Equity	
Current liabilities:	
Accounts payable	$ 977,998
Accrued expenses	391,704
Accrued income taxes	344,993
Bank revolving line of credit	4,771,567
Notes payable - current portion	188,006
Dividends payable	310,000
Stockholder loans	1,150,000
Total current liabilities	8,134,268
Notes payable	558,740
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	(1,743,890)
	18,356,227
Less: Treasury stock, 20,000 shares at cost	(54,164)
Total stockholders' equity	18,302,063
Total liabilities and stockholders' equity	$ 26,995,071

See notes to consolidated financial statements

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ADDVANTAGE TECHNOLOGIES GROUP, INC.
STATEMENTS OF INCOME

	Three months ended June 30		Nine months June 30
	2002	2001	2002

Net sales and service income	$ 6,827,213	$ 7,551,120	$ 18,255,906	$
Cost of sales	3,351,194	3,870,713	9,132,552	
Gross profit	3,476,019	3,680,407	9,123,354	
Operating expenses	2,011,821	1,895,669	5,347,862	
Income from operations	1,464,198	1,784,738	3,775,492	
Interest expense	63,624	83,428	178,995	
Income before income taxes	1,400,573	1,701,310	3,596,497	
Provision for income taxes	545,944	646,950	1,299,944	
Net income	854,629	1,054,360	2,296,553	
Preferred dividends	310,000	310,000	930,000	
Net income attributable to common stockholders	$ 544,629	$ 744,360	$ 1,366,553	$
Earnings per share:				
Basic and diluted	$ 0.05	$ 0.07	$ 0.14	$

See notes to consolidated financial statements

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ADDVANTAGE TECHNOLOGIES GROUP, INC.
STATEMENTS OF CASH FLOWS
FOR NINE MONTHS ENDED JUNE 30,

	2002	2001
Cash Flows from Operating Activities		
Net income	$ 2,296,553	$ 2,340
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	229,626	204
Provision for deferred income taxes	134,719	134
Change in:		
Receivables	77,122	1,415
Other assets	66,118	(3
Inventories	(1,408,716)	(2,821
Accounts payable and accrued liabilities	(121,713)	657
Net cash provided by operating activities	1,273,709	1,928
Cash Flows from Investing Activities		
Additions to property and equipment	(495,075)	(213
Proceeds from sale of investment in Ventures	-	657
Acquisition of stock in NCS	-	(1,689
Cash acquired in NCS acquisition	-	575
Cash acquired in Comtech acquisition	-	22
Net cash used in investing activities	(495,075)	(645
Cash Flows from Financing Activities		

Net borrowings under line of credit	520,434	333
Repayment of notes payable	(5,094)	
Payment on stockholders loan	(100,000)	(300
Payments of preferred dividends	(930,000)	(930
Net cash used in financing activities	(514,660)	(896
Net increase in cash	263,974	385
Cash, beginning of year	230,558	22
Cash, end of year	$ 494,532	$ 407

See notes to consolidated financial statements

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ADDVANTAGE TECHNOLOGIES GROUP, INC.
STATEMENTS OF CASH FLOWS
FOR NINE MONTHS ENDED JUNE 30,

	2002	2001
Supplemental Cash Flow Information		
Cash paid during the period for:		
Interest	$ 178,995	$ 254
Income taxes	1,630,998	1,265

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"), and Tulsat - Atlanta LLC (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 June 30, 2002	Three months ended June 30, 2001	Nine months ended June 30, 2002
Net Income attributable to common stockholders	$ 544,629	$ 744,360	$ 1,366,553
Basic and Diluted EPS Computation:			
Weighted average outstanding common shares	9,991,716	10,002,957	9,991,716
Earnings per Share	$0.05	$0.07	$0.14

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

At June 30, 2002, a $4.8 million balance is outstanding under a $7.0 million line of credit due June 30, 2003, with interest payable monthly at Chase Manhattan Prime less 1 1/4% (3.5% at June 30, 2002). Borrowings under the line of credit are limited to the lesser of $7.0 million or the sum of 80% of qualified accounts receivable and 40% of qualified inventory for working capital purposes and $2.0 million for future acquisitions meeting Bank of Oklahoma credit guidelines. 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 June 30, 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 $175,000 balance remains payable at June 30, 2002) and a $200,000 obligation payable quarterly at 7% (of which a balance of $117,000 remains at June 30, 2002). Both notes are payable quarterly, with 7 quarters remaining. Notes payable to Chymiak Investments, LLC for loans used to purchase buildings at Comtech and ADDvantage Technologies Group of Texas, include two notes issued in June 2001 for $328,000 and $150,000, respectively (of which balances of

$328,000 and $140,000 remains, 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. As a result of bankruptcies and credit tightening in the broadband and cable industry this quarter, we have seen an impact of overall sales and profits for the third quarter of 2002. However, gross profit margins for the nine-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 and companies look to recover from recent stock market impacts, 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 June 30, 2002 and June 30, 2001

Net Sales and Service Income. Net Sales decreased $724,000 or 9.6%, to $6.83 million in the third quarter of fiscal 2002 from $7.55 million for the same period in fiscal 2001. Of the decrease, $671,000 was due to one of our major customers filing for Chapter 11 bankruptcy protection. Net sales also decreased as a result of the reduction in capital spending due to recent credit tightening occurring in the cable television industry. New equipment sales were $2.77 million, for the current period compared with $3.05 million in fiscal 2001. Sales from remanufactured equipment were $3.16 million for the current period, compared with $3.36 million in the same period last year. Repairs were $894,000 for the current quarter, compared with $1.05 million last year.

Cost of Goods Sold. Cost of goods sold decreased to $3.35 million for the third quarter of fiscal 2002 from $3.87 million for the same period of fiscal 2001. The decrease was primarily due to the decrease in sales for the period.

Gross Profit. Gross Profit decreased $204,000 or 5.6% to $3.48 million for the third quarter of fiscal 2002 from $3.68 million for the same period in fiscal 2001. The gross margin percentage was 51.0% for the current quarter, compared to 48.7% for the same quarter last year.

Operating Expenses. Operating expenses increased to $2.01 million in the third quarter of fiscal 2002 from $1.90 million in 2001, an increase of 6.1%. The increase in operating expenses was primarily due to higher operating expenses resulting from the acquisition of Comtech, coupled with reserving $62,000 for bad debts associated with one of our customers filing bankruptcy.

Income from Operations. Income from operations decreased $321,000, or 18.0% to $1.46 million for the third quarter of fiscal 2002 from $1.78 million for the same period last year. This decrease was primarily due to higher expenses associated with operating expenses resulting from the recent acquisitions.

Comparison of Results of Operations for the Nine Months Ended June 30, 2002 and June 30, 2001

Net Sales and Service Income. Net Sales increased $1.1 million or 6.6%, to $18.3 million in the first nine months of fiscal year 2002 from $17.1 million for the same period in 2001. The increase was primarily due to higher new equipment sales, which increased to $7.75 million from $6.93 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 $2.70 million in this period from $2.37 million last year. Revenue from re-manufactured equipment increased to $7.79 million in the first nine months of fiscal year 2002 from $7.54 million for the same period last year primarily due to the synergies created from our latest acquisitions. NCS and Comtech had sales of $2.58 million and $1.45 million, respectively.

Cost of Sales. Cost of goods sold increased to $9.13 million for the nine month period of fiscal 2002 from $8.70 million for the same period of fiscal 2001. The increase was primarily due to the increase in sales.

Gross Profit. Gross Profit increased $699,000 or 8.3% to $9.12 million for the nine month period of fiscal 2002 from $8.42 million for the same period last year. The gross margin percentage was 50.0% for the current nine month period, compared to 49.2% for the same period in fiscal 2001.

Operating Expenses. Operating expenses increased to $5.35 million in the nine month period of fiscal 2002 from $4.38 million in 2001, an increase of 22.1%. The increase in operating expenses was primarily due to the acquisitions of NCS and Comtech.

Income from Operations. Income from operations decreased $273,000 or 6.7%, to $3.78 million for the first nine months of 2002 from $4.05 million for the same period last year. This decrease was primarily due to overall revenue increase offset by higher operating expenses resulting from the recent acquisitions.

Liquidity and Capital Resources

The company has a line of credit with the Bank of Oklahoma under which it is authorized to borrow up to $9.0 million at a borrowing rate of 1.25% below Chase Manhattan Prime (3.5% at June 30, 2002). This line of credit will provide the lesser of $7.0 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 and $2.0 million for future acquisitions meeting Bank of Oklahoma credit guidelines. The line of credit is collateralized by inventory, accounts receivable, equipment and fixtures, and general intangibles and had an outstanding balance at June 30, 2002 of $4.8 million, due June 30, 2003.

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 $175,000 balance remains payable) and a $200,000 obligation payable quarterly at 7%(of which a balance of $117,000 remains). Both notes are payable quarterly, with 7 quarters remaining.

Notes payable to Chymiak Investments, LLC for loans used to purchase buildings at Comtech and ADDvantage Technologies Group of Texas, include two notes issued in June 2001 for $328,000 and $150,000, respectively (of which balances of $328,000 and $140,000 remains, respectively) bearing interest at 7.5% due monthly with a 10 year term.

Stockholder loans include a $1.2 million 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 nine 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 6. Exhibits and Reports on Form 8-K.

(a)

Exhibit No.	Description
99.1	Certification of the Chief Executive Officer and Chief Financial Officer Pursuant to U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K for the quarter ended June 30, 2002:

None

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ADDVANTAGE TECHNOLOGIES GROUP, INC.

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