

ADVANTAGE TECHNOLOGIES GROUP INC
Form 10-K
December 10, 2013

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

FORM 10-K

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

For the fiscal year ended September 30, 2013

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

Commission file number 1-10799

ADVANTAGE TECHNOLOGIES GROUP, INC.
(Exact name of registrant as specified in its charter)

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

1221 E. Houston, Broken Arrow, Oklahoma 74012
(Address of principal executive offices) (Zip code)

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

Securities registered under Section 12(b) of the Act:

| | |
|-------------------------------|--------------------------------------|
| Title of each class | Name of exchange on which registered |
| Common Stock, \$.01 par value | NASDAQ Global Market |

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not 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-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated
 filer
 Non-accelerated filer Smaller
 reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the outstanding shares of common stock, par value \$.01 per share, held by non-affiliates computed by reference to the closing price of the registrant's common stock as of March 31, 2013 was \$11,978,905.

The number of shares of the registrant's outstanding common stock, \$.01 par value per share, was 9,998,480 as of November 30, 2013.

Documents Incorporated by Reference

The identified sections of definitive Proxy Statement to be filed as Schedule 14A pursuant to Regulation 14A in connection with the Registrant's 2014 annual meeting of shareholders are incorporated by reference into Part III of this Form 10-K. The Proxy Statement will be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Form 10-K.

ADVANTAGE TECHNOLOGIES GROUP, INC.
 FORM 10-K
 YEAR ENDED SEPTEMBER 30, 2013
 INDEX

| | Page |
|---|-----------|
| PART I | |
| Item 1. Business. | <u>3</u> |
| Item 2. Properties. | <u>8</u> |
| Item 3. Legal Proceedings. | <u>8</u> |
| PART II | |
| Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities. | <u>9</u> |
| Item 6. Selected Financial Data. | <u>10</u> |
| Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations. | <u>10</u> |
| Item 8. Financial Statements and Supplementary Data. | <u>16</u> |
| Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure. | <u>33</u> |
| Item 9A. Controls and Procedures. | <u>33</u> |
| Item 9B. Other Information. | <u>34</u> |
| PART III | |
| Item 10. Directors, Executive Officers and Corporate Governance. | <u>34</u> |
| Item 11. Executive Compensation. | <u>34</u> |
| Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters. | <u>34</u> |
| Item 13. Certain Relationships and Related Transactions, and Director Independence. | <u>34</u> |
| Item 14. Principal Accounting Fees and Services. | <u>34</u> |
| PART IV | |
| Item 15. Exhibits, Financial Statement Schedules. | <u>35</u> |
| SIGNATURES | |

PART I

Item 1. Business.

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 ADDvantage Technologies Group, Inc. (the “Company”, “We” or “ADDvantage”) operates, projections of future performance, perceived opportunities in the market and statements regarding our goals and objectives and other similar matters. The words “estimates”, “projects”, “intends”, “expects”, “anticipates”, “believes”, “goals”, “strategy”, “likely”, “may”, “should” and similar expressions often identify forward-looking statements. The 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 our control or foresight, including changes in the cable television industry, changes in customer and supplier relationships, technological developments, changes in the economic environment generally, the growth or formation of competitors, changes in governmental regulation or taxation, changes in our personnel, our ability to identify, complete and integrate acquisitions on favorable terms and other such factors. Our actual results, performance or achievements may differ significantly from the results, performance or achievements expressed or implied in the forward-looking statements. We do 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.

Background

The Company was formed in September 1989 as “ADDvantage Media Group, Inc.”. In December 1999, its name was changed to ADDvantage Technologies Group, Inc.

We (through our subsidiaries) distribute and service a comprehensive line of electronics and hardware for the cable television (“CATV”) industry. The products we sell and service are used to acquire, distribute, receive and protect the communications signals carried on fiber-optic, coaxial cable and wireless distribution systems. Our customers provide an array of communications services including television, high-speed data (internet) and telephony, to single family dwellings, apartments, businesses and institutions such as hospitals, prisons, universities, schools and others.

Our primary customers are cable operators (called multiple system operators or “MSOs”) or other resellers that sell to these customers. The MSOs are identified by overall size into three tiers, and we sell to all three of these tier groups. Examples of MSOs we sell to in these tier groups are: Tier 1) large national operators such as Comcast Corporation, Time Warner Communications Inc. and Cox Communications; Tier 2) medium-size national and regional operators such as Cable One and SuddenLink; Tier 3) smaller, local systems.

We conduct our operations through a network of regionally based subsidiaries that focus on servicing customers in different geographic markets. Our operating subsidiaries include Tulsat Corporation (“Tulsat”), Tulsat-Atlanta LLC, ADDvantage Technologies Group of Nebraska, Inc. (dba “Tulsat-Nebraska”), ADDvantage Technologies Group of Texas, Inc. (dba “Tulsat Texas”), ADDvantage Technologies Group of Missouri, Inc. (dba “ComTech Services”), NCS Industries, Inc. (“NCS”), and Adams Global Communications, LLC (“AGC”).

Several of our subsidiaries, through their long relationships with the original equipment manufacturers (“OEMs”) and specialty repair facilities, have established themselves as value-added resellers (“VARs”). Tulsat, located in Broken Arrow, Oklahoma, is a distributor of Cisco video products. Tulsat is a Cisco Premier Partner allowing it to sell Cisco’s IT related products. Tulsat is also designated as an authorized third party Cisco repair center for select video products. NCS, located in Warminster, Pennsylvania, is one of only three distributors of Arris/Motorola broadband products. AGC, located in Lenexa, Kansas, has a reseller agreement with Arris Solutions to sell cable television equipment in the United States. Our subsidiaries also sell products from other OEMs including Alpha, Blonder-Tongue, RL Drake, Corning-Gilbert, Promax, Quintech, Standard and Triveni Digital.

In addition to offering a broad range of new products, we also sell surplus-new and refurbished equipment that we purchase in the market as a result of cable operator system upgrades or an overstock in their warehouses. We maintain one of the industry's largest inventories of new and refurbished equipment, which allows us to expedite delivery of products to our customers. We continue to upgrade our new product offerings to stay in the forefront of the communications broadband technology revolution.

Most of our subsidiaries operate technical service centers that service/repair most brands of CATV equipment.

Overview of the Industry

We participate in markets for equipment sold primarily to MSOs and other communication companies. As internet usage by households continues to increase, more customers are electing to switch from dial-up access services to high-speed services, particularly those offered by MSOs in the United States. Most MSOs offer a "triple-play" bundle of services that includes voice, video and high-speed data over a single network with the objective of capturing higher average revenues per subscriber. To offer these expanded services, MSOs have invested significantly over the past several years to convert their systems to digital networks and to upgrade their cable plants to increase the speed of their communication signals. As a result, many MSOs have well-equipped networks capable of delivering symmetrical high-bandwidth video, two-way high speed data service and telephony to most of their subscribers through their existing hybrid fiber coaxial infrastructure.

The cable television industry has seen and is continuing to see several changes in recent years. The industry for the most part transitioned from analog to digital in 2009 and 2010 and upgraded its headend equipment in connection with this transition. The transition from analog to digital has significantly expanded the capacity of the cable infrastructure as a digital system can transmit two high definition channels or six to ten standard definition channels in the same capacity as it previously required for one channel on an analog system. In addition, the transition to a digital system also allowed for the reduction and consolidation of headends (the place where cable signals originate from the broadcasters). Therefore, since the transition to digital, the cable television industry has not made significant plant expansions or additional bandwidth upgrades, and we do not believe this trend will change until internet television ("IPTV") technology is fully ready to be deployed. The number of cable operators is also transitioning in that many of the larger MSOs have purchased the smaller operating systems in the United States. These same MSOs have also reduced the number of headends required for their overall systems.

We continue to provide many of the products and services sought by MSOs as they establish and expand their services and territories. Our Company resells current production CATV equipment in competition with other resellers in the market and the Original Equipment Manufacturers ("OEMs") that manufacture them. We also stock and resell refurbished current production and legacy equipment in competition with other resellers. In addition, we repair all of the CATV equipment that we sell in competition with other repair operations. We believe we have differentiated ourselves from the OEMs, other resellers and repair operations in the marketplace in the following ways: 1) we sell both new and refurbished CATV equipment as well as repair what we sell, while most of our competition does not offer all of these services; 2) we stock both new and refurbished inventory; 3) we can reconfigure new and refurbished equipment to meet the different needs of our customers; and 4) we have experienced sales support staff that have the technical know-how to assist our customers regarding solutions for various products and configurations.

In addition, we continue to expand our relationships with vendors and establish new vendors and product lines for our company. We currently offer products from the leading vendors in the cable television industry, Cisco and Arris, which now includes the Motorola Home business. We are a Premier Partner with Cisco and continue to be a leading broadband access network stocking distributor for Arris products. We are also expanding our efforts to increase our market share of Triveni Digital test equipment. In addition, we have our other existing OEM suppliers, including Alpha, Blonder-Tongue, RL Drake, Corning-Gilbert, Promax, Quintech and Standard and look to add other OEM

suppliers to satisfy our existing customers' needs.

4

Recent Business Developments

Arris Group, Inc. Acquisition of the Motorola Home Business from Google, Inc.

We have contracts with Motorola Home through our NCS subsidiary and with Arris through our AGC subsidiary. On April 17, 2013, Arris Group, Inc. purchased the Motorola Home business from Google, Inc. (the combined entity is referred to as “Arris”). We are still operating under these existing contracts, but we have been informed by Arris that they plan to combine our two contracts into one master contract under ADDvantage. We do not know what changes, if any, there will be under this master contract as compared to the existing contracts.

Business Strategy

In fiscal year 2012, our Board of Directors enacted a strategy to not only try to grow our Company via organic growth but also via acquisitions. We believe we can increase our business organically along three major fronts: 1) expand product offerings among existing OEM vendors, 2) add additional vendors to our product offering mix and 3) expand our sales force. In September 2013, we hired three industry veterans to the Company’s new sales management team to help increase our market share among existing and new customers. The new salespeople are former Motorola employees with over 10 years in the Broadband Access Network division selling cable equipment and over 20 years of sales experience in the CATV industry.

We believe that the current state of the industry may provide opportunities for expansion of our business through acquisitions. While our past acquisitions have primarily added new suppliers to our core resale business or expanded our existing customer base within our current business, we are seeking acquisition opportunities that will enable us to expand the scope of our business within the broader telecommunications industry. In fiscal year 2013, we engaged an investment banking firm to help us identify and ultimately close a strategic acquisition. We are still evaluating several companies in the telecommunications market, and are optimistic that we will identify and execute a strategic acquisition. It should be noted, however, that the identification and completion of acquisitions on terms favorable to the Company and the successful integration of acquired businesses into our existing business are matters posing some risk to any company and about which we can give no assurance.

Products and Services

We offer our customers a wide range of new, surplus-new and refurbished products across the leading OEM suppliers in the industry that are used in connection with video, telephone and internet data signals.

Headend Products – Headend products are used by a system operator for signal acquisition, processing and manipulation for further transmission. Among the products we offer in this category are satellite receivers (digital and analog), integrated receiver/decoders, demodulators, modulators, antennas and antenna mounts, amplifiers, equalizers and processors. The headend of a television signal distribution system is the “brain” of the system; the central location where the multi-channel signal is initially received, converted and allocated to specific channels for distribution. In some cases, where the signal is transmitted in encrypted form or digitized and compressed, the receiver will also be required to decode the signal.

Fiber Products – Fiber products are used to transmit the output of cable system headend to multiple locations using fiber-optic cable. In this category, we currently offer products including optical transmitters, fiber-optic cable, receivers, couplers, splitters and compatible accessories. These products convert radio frequencies to light frequencies and launch them on optical fiber. At each receiver site, an optical receiver is used to convert the signals back to RF VHF frequencies for distribution to subscribers.

Access and Transport Products – Access and transport products are used to permit signals to travel from the headend to their ultimate destination in a home, apartment, hotel room, office or other terminal location along a distribution network of fiber optic or coaxial cable. Among the products we offer in this category are transmitters, receivers, line extenders, broadband amplifiers, directional taps and splitters.

Customer Premise Equipment (CPE) – CPE includes digital converters and modems that are boxes placed inside the home that receive, record and transmit video, data and telephony signals. They are the primary interface equipment between the cable operator and the consumer.

Test Equipment – Test equipment is used in the set-up, signal testing and maintenance of electronic equipment and the overall support of the cable television plant. Test equipment is vital in maintaining the proper function and efficiency of this electronic equipment, which helps to provide high quality video, telephone and high speed data to the end user.

Hardware Equipment – We also inventory and sell to our customers other hardware such as connector and cable products.

Revenues by Geographic Area

Our revenues by geographic areas were as follows:

| | 2013 | 2012 | 2011 |
|--|--------------|--------------|--------------|
| United States | \$30,013,085 | \$29,520,146 | \$33,599,080 |
| Canada, Central America, Mexico, South America and Other | 3,344,507 | 5,696,257 | 4,480,450 |
| | \$33,357,592 | \$35,216,403 | \$38,079,530 |

Revenues attributed to geographic areas are based on the location of the customer. All of our long-lived assets are located within the United States.

Sales and Marketing

In 2013, sales of new products represented 61% of our total revenues and refurbished product sales represented 27%. Repair and other services contributed the remaining 12% of revenues.

We market and sell our products to franchise and private MSOs, telephone companies, system contractors and other resellers. Our sales and marketing are predominantly performed by the internal sales and customer service staff of our subsidiaries. We also have outside sales representatives located in various geographic areas. The majority of our sales activity is generated through personal relationships developed by our sales personnel and executives, referrals from manufacturers we represent, trade shows, advertising in trade journals, telemarketing and direct mail to our customer base in the United States. We have developed contacts with MSOs in the United States, and we are constantly in touch with these operators regarding their plans for upgrading or expansion as well as their needs to either purchase or sell equipment.

We maintain a wide breadth of inventory of new and used cable television products and many times can offer our customers same day shipments. Even though we have been decreasing the amount of inventory we carry, we still carry one of the most diverse inventories of any cable television product reseller in the country, and we have access to inventory via our various supply channels. We believe our investment in on-hand inventory, our product supply channels, our network of regional repair centers and our experienced sales and customer service team create a competitive advantage for us.

We continue to add products and services to maintain and expand our current customer base in North America, Central and South America and other international markets. We believe there is growth potential for sales of new and legacy products in the international market as some operators choose to upgrade to new larger bandwidth platforms, while other customers, specifically in developing markets, desire less expensive new and refurbished legacy products. Even though the terms of our Cisco agreement restrict our activities with respect to reselling Cisco products in international markets, we still can sell our other brands we carry and our refurbished equipment as well. We extend credit on a limited basis to international customers that purchase products on a regular basis and make timely payments. However, for most international sales we require prepayment of sales or letters of credit confirmed

by United States banks prior to shipment of products.

Suppliers

In 2013, we purchased approximately 18% of our total inventory purchases either directly from Cisco or indirectly through Cisco's primary stocking distributor and approximately 29% of our total inventory purchases directly from Motorola. In addition to purchasing inventory from OEMs, we also purchase used or surplus-new inventory from MSOs who have upgraded or are in the process of upgrading their systems.

Seasonality

Many of the products that we sell are installed outdoors and can be damaged by storms and power surges. Consequently, we experience increased demand on certain product offerings during the months between late spring and early fall when severe weather tends to be more prominent than at other times during the year.

Competition and Working Capital Practices

The CATV industry is highly competitive with numerous companies competing in various segments of the market. There are a number of competitors throughout the United States buying and selling new and refurbished CATV equipment similar to the products that we offer. However, most of these competitors do not maintain the breadth of inventory that we carry due to working capital limitations. We maintain the practice of carrying the wide breadth of inventory to meet both the customers' urgent needs and mitigate the extended lead times of our suppliers. In addition, even though we do not stock current production Cisco cable television equipment, we can still purchase directly from Cisco's stocking distributor. We also have a wide array of other equipment suppliers in the event we do not have the necessary inventory in stock. In terms of sales and inventory on hand or available via our supply channels, we believe we are one of the largest resellers in this industry, providing both sales and service of new and refurbished CATV equipment.

We also compete with our OEM suppliers as they can sell directly to our customers. Our OEM suppliers have a competitive advantage over us as they can sell products at lower prices than we offer. As a result, we are often considered a secondary supplier by large MSOs and telephone companies when they are making large equipment purchases or upgrades. However, for smaller orders or items that are needed to be delivered quickly, we often hold an advantage over our OEM suppliers as we carry most inventory in stock and can have it delivered in a shorter time frame than the OEM.

Working capital practices in the industry center on inventory and accounts receivable. We choose to carry a relatively large inventory due to our on hand-on demand business model for both new and used inventory. We have typically utilized excess cash flows to reinvest in new inventory to expand our product offerings. The greatest need for working capital occurs when we make bulk purchases of surplus-new and used inventory, or when our OEM suppliers offer additional discounts on large purchases. However, over the last two years, due to the continued economic downturn, we have continued to reduce our overall inventory levels, which helped in generating additional cash flows of \$0.9 million and \$2.5 million in 2013 and 2012, respectively. Our working capital requirements are generally met by cash flow from operations and a bank line of credit, which currently permits borrowings up to \$7.0 million. We expect to have sufficient funds available from our cash on hand, future excess cash flows and the bank line of credit to meet our working capital needs for the foreseeable future.

Significant Customers

We are not dependent on one or a few customers to support our business. Our customer base consists of approximately 1,050 active accounts. Sales to our largest customer accounted for approximately 4% of our revenues in fiscal year 2013. Approximately 18% of our revenues for fiscal years 2013 and 2012 were derived from sales of

products and services to our five largest customers. There are approximately 1,200 cable television operating companies operating approximately 5,000 cable television headends within the United States alone, each of which is a potential customer.

7

Personnel

At September 30, 2013, we had 122 employees, all full-time. Management considers its relationships with its employees to be excellent. Our employees are not unionized, and we are not subject to any collective bargaining agreements.

Item 2. Properties.

Each subsidiary owns or leases property for office, warehouse and service center facilities.

- Broken Arrow, Oklahoma – Tulsat owns a facility consisting of an office, warehouse and service center of approximately 100,000 square feet on ten acres, with an investment of \$3.3 million, financed by a loan of \$2.8 million, due in monthly payments through 2021 at an interest rate of LIBOR plus 1.4%. In 2007, Tulsat constructed a 62,500 square foot warehouse facility on the rear of its existing property in Broken Arrow, OK, with an investment of \$1.6 million, financed with cash flow from operations.
- Deshler, Nebraska – Tulsat-Nebraska owns a facility consisting of land and an office, warehouse and service center of approximately 8,000 square feet.
- Warminster, Pennsylvania – NCS owns its facility consisting of an office, warehouse and service center of approximately 12,000 square feet, with an investment of \$0.6 million. NCS also leases property of approximately 2,000 square feet, with monthly rental payments of \$1,364 through December 31, 2013. NCS also rents on a month-to-month basis another property of approximately 2,000 square feet, with monthly rental payments of \$1,325.
- Sedalia, Missouri – ComTech Services owns land and an office, warehouse and service center of approximately 24,300 square feet. In 2007, ComTech Services also constructed an 18,000 square foot warehouse facility on the back of its existing property in Sedalia, MO with an investment of \$0.4 million.
- New Boston, Texas – Tulsat-Texas owns land and an office, warehouse and service center of approximately 13,000 square feet.
- Suwanee, Georgia – Tulsat-Atlanta rents on a month-to-month basis an office and service center of approximately 5,000 square feet, with monthly rental payments of \$3,360.
- Lenexa, Kansas – ADDvantage Technologies Group purchased, in July 2011, land, an office and a warehouse of approximately 26,400 square feet to be used by AGC, with an investment of \$1.5 million.

We believe that our current facilities are adequate to meet our needs.

Item 3. Legal Proceedings.

From time to time in the ordinary course of business, we have become a party to various types of legal proceedings. We do not believe that these proceedings, individually or in the aggregate, will have a material adverse effect on our financial position, results of operations or cash flows.

PART II

Item 5. Market for Registrants Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

The table sets forth the high and low sales prices on the NASDAQ Global Market under the symbol “AEY” for the quarterly periods indicated.

| Year Ended September 30, 2013 | High | Low |
|-------------------------------|--------|--------|
| First Quarter | \$2.20 | \$1.87 |
| Second Quarter | \$2.40 | \$2.00 |
| Third Quarter | \$2.40 | \$2.19 |
| Fourth Quarter | \$2.92 | \$2.24 |
| Year Ended September 30, 2012 | High | Low |
| First Quarter | \$2.25 | \$1.90 |
| Second Quarter | \$2.55 | \$2.04 |
| Third Quarter | \$2.53 | \$1.91 |
| Fourth Quarter | \$2.36 | \$1.90 |

Holders

At November 30, 2013, we had approximately 70 shareholders of record and, based on information received from brokers, there were approximately 1,900 beneficial owners of our common stock.

Dividend policy

We have never declared or paid a cash dividend on our common stock. It has been the policy of our Board of Directors to use all available funds to finance the development and growth of our business. The payment of cash dividends in the future will be dependent upon our earnings and financial requirements and other factors deemed relevant by our Board of Directors.

Securities authorized for issuance under equity compensation plans

The information in the following table is as of September 30, 2013:

| Plan Category | Number of securities to be issued upon exercise of outstanding options, warrants and rights (a) | Weighted-average exercise price of outstanding options, warrants and rights (b) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c) |
|---------------------------------------|---|---|---|
| Equity compensation plans approved by | 363,000 | \$2.83 | 280,141 |

| | | | |
|---------------------|---------|--------|---------|
| security holders | | | |
| Equity compensation | 0 | 0 | 0 |
| plans not approved | | | |
| by security holders | | | |
| Total | 363,000 | \$2.83 | 280,141 |

9

Item 6. Selected Financial Data.

SELECTED CONSOLIDATED FINANCIAL DATA
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

| | Fiscal Year Ended September 30, | | | | |
|---|---------------------------------|----------|----------|----------|----------|
| | 2013 | 2012 | 2011 | 2010 | 2009 |
| Net sales and service income | \$33,358 | \$35,216 | \$38,080 | \$47,306 | \$42,244 |
| Income from operations | \$2,732 | \$3,130 | \$4,925 | \$7,554 | \$5,768 |
| Net income applicable to common shareholders | \$1,670 | \$1,250 | \$2,536 | \$4,186 | \$3,019 |
| Earnings per share | | | | | |
| Basic | \$0.17 | \$0.12 | \$0.25 | \$0.41 | \$0.30 |
| Diluted | \$0.17 | \$0.12 | \$0.25 | \$0.41 | \$0.30 |
| Total assets | \$43,116 | \$42,033 | \$52,888 | \$52,260 | \$49,433 |
| Long-term obligations inclusive of current maturities | \$1,503 | \$1,687 | \$12,058 | \$13,872 | \$15,857 |

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis of financial condition and results of operations should be read in conjunction with our consolidated historical financial statements and the notes to those statements that appear elsewhere in this report. Certain statements in the discussion contain forward-looking statements based upon current expectations that involve risks and uncertainties, such as plans, objectives, expectations and intentions. Actual results and the timing of events could differ materially from those anticipated in these forward-looking statements as a result of a number of factors.

General

We have established ourselves, through our subsidiaries' long relationships with OEMs, as distributors and/or value-added resellers of these OEM products. Tulsat is a Premier Partner for Cisco's products, which allows Tulsat to sell both video-related and IT-related products in the United States. NCS Industries is a leading distributor of Arris/Motorola broadband products. AGC is a reseller of Arris cable television equipment in the United States. We also distribute products from other OEMs including Alpha, Blonder-Tongue, RL Drake, Corning-Gilbert, Promax, Quintech, Standard and Triveni Digital. We also specialize in the sale of surplus-new and refurbished previously-owned CATV equipment to CATV operators and other broadband communication companies. It is through our development of these vendor relationships that we have focused much of our efforts to market our products and services to the cable MSOs and telecommunication companies. These customers provide an array of different communications services as well as compete in their ability to offer subscribers "triple play" transmission services which comprises data, voice and video.

We also operate technical service centers specializing in Cisco video-related products, Motorola, Magnavox and power supply repairs.

Recent Business Developments

Arris Group, Inc. Acquisition of the Motorola Home Business from Google, Inc.

We have contracts with Motorola Home through our NCS subsidiary and with Arris through our AGC subsidiary. On April 17, 2013, Arris Group, Inc. purchased the Motorola Home business from Google, Inc. (the combined entity is referred to as "Arris"). We are still operating under these existing contracts, but we have been informed by Arris that they plan to combine our two contracts into one master contract under ADDvantage. We do not know what changes, if any, there will be under this master contract as compared to the existing contracts.

Business Strategy

In fiscal year 2012, our Board of Directors enacted a strategy to not only try to grow our Company via organic growth but also via acquisitions. We believe we can increase our business organically along three major fronts: 1) expand product offerings among existing OEM vendors, 2) add additional vendors to our product offering mix and 3) expand our sales force. In September 2013, we hired three industry veterans to the Company's new sales management team to help increase our market share among existing and new customers. The new salespeople are former Motorola employees with over 10 years in the Broadband Access Network division selling cable equipment and over 20 years of sales experience in the CATV industry.

We believe that the current state of the industry may provide opportunities for expansion of our business through acquisitions. While our past acquisitions have primarily added new suppliers to our core resale business or expanded our existing customer base within our current business, we are seeking acquisition opportunities that will enable us to expand the scope of our business within the broader telecommunications industry. In fiscal year 2013, we engaged an investment banking firm to help us identify and ultimately close a strategic acquisition. We are still evaluating several companies in the telecommunications market, and are optimistic that we will identify and execute a strategic acquisition. It should be noted, however, that the identification and completion of acquisitions on terms favorable to the Company and the successful integration of acquired businesses into our existing business are matters posing some risk to any company and about which we can give no assurance.

Results of Operations

Year Ended September 30, 2013, compared to Year Ended September 30, 2012 (all references are to fiscal years)

Total Net Sales. Total net sales decreased \$1.8 million, or 5%, to \$33.4 million for 2013 from \$35.2 million for 2012. The decrease in equipment sales was primarily due to the continued decrease in plant expansions and bandwidth upgrades in the cable television industry, partially offset by increased equipment sales as a result of Hurricane Sandy. New equipment sales decreased \$0.8 million, or 4%, to \$20.3 million for 2013 from \$21.1 million for 2012. Net refurbished sales decreased \$0.8 million, or 8%, to \$9.0 million for 2013 from \$9.8 million for the same period last year. Net repair service revenues decreased \$0.3 million, or 8%, to \$4.0 million for 2013 from \$4.3 million for the same period last year.

Cost of Sales. Cost of sales includes (i) the costs of new and refurbished equipment, on a weighted average cost basis, sold during the period, (ii) the equipment costs used in repairs, (iii) the related transportation costs, and (iv) the labor and overhead directly related to these sales. Cost of sales decreased \$1.1 million, or 4%, to \$23.8 million for 2013 from \$24.9 million for 2012. The decrease in cost of sales was primarily due to lower overall net sales. Cost of sales was also impacted by an increase in the provision for excess and obsolete inventory of \$0.4 million to \$1.0 million for 2013 from \$0.6 million for 2012. Cost of sales as a percent of revenue was 71% for both 2013 and 2012.

Gross Profit. Gross profit decreased \$0.8 million, or 8%, to \$9.6 million for 2013 from \$10.4 million for 2012. Gross profit margins were 29% for 2013 and 2012.

Operating, Selling, General and Administrative Expenses. Operating, selling, general and administrative expenses include all personnel costs, which include fringe benefits, insurance and business taxes, as well as occupancy, communication and professional services, among other less significant cost categories. Operating, selling, general and administrative expenses decreased \$0.4 million, or 4%, to \$6.8 million for 2013 compared to \$7.2 million for 2012. The decrease was due primarily to decreased personnel costs of \$0.4 million.

Income from Operations. Income from operations decreased \$0.4 million, or 13%, to \$2.7 million for 2013 from \$3.1 million for 2012 for the reasons described above.

Interest Expense. Interest expense decreased \$1.1 million to \$26,000 for 2013 from \$1.1 million for the same period last year. The decrease was due primarily to lower interest expense as a result of the March 2012 payoff of the outstanding amount of \$9.4 million under the second term loan under the Amended and Restated Revolving Credit and Term Loan Agreement and a \$0.8 million payment made in order to terminate the associated interest rate swap agreement. The interest rate swap agreement termination payment was recorded as interest expense in 2012.

Income Taxes. The provision for income taxes increased by \$0.2 million to \$1.0 million, or an effective rate of 38.3%, for 2013 from \$0.8 million, or an effective rate of 38.0%, for the same period last year.

Year Ended September 30, 2012, compared to Year Ended September 30, 2011

Total Net Sales. Total net sales decreased \$2.9 million, or 8%, to \$35.2 million for 2012 from \$38.1 million for 2011. New equipment sales decreased \$4.8 million, or 19%, to \$21.1 million for 2012 from \$25.9 million for 2011. The decrease in new equipment sales was primarily due to the continued decrease in plant expansions and bandwidth upgrades in the cable television industry, partially offset by \$2.0 million of revenue from Adams Global Communications, which was acquired in May 2011. Net refurbished sales increased \$2.4 million, or 32%, to \$9.8 million for 2012 from \$7.4 million for the same period last year. The increase in refurbished equipment sales was primarily due to revenues from Adams Global Communications. Net repair service revenues decreased \$0.5 million, or 10%, to \$4.3 million for 2012 from \$4.8 million for the same period last year.

Cost of Sales. Cost of sales includes (i) the costs of new and refurbished equipment, on a weighted average cost basis, sold during the period, (ii) the equipment costs used in repairs, (iii) the related transportation costs, and (iv) the labor and overhead directly related to these sales. Cost of sales decreased \$1.7 million, or 6%, to \$24.9 million for 2012 from \$26.5 million for 2011. The decrease in cost of sales was primarily due to lower overall net sales. Cost of sales was also impacted by an increase in the provision for excess and obsolete inventory of \$0.2 million to \$0.6 million for 2012 from \$0.4 million for 2011. Cost of sales as a percent of revenue was 71% for 2012 and 70% for the same period last year. The increase in cost of sales as percent of revenue was due primarily to increased sales from Adams Global Communications of customer premise equipment, which typically yields a lower margin than most of our other product lines.

Gross Profit. Gross profit decreased \$1.2 million, or 10%, to \$10.4 million for 2012 from \$11.6 million for 2011. The decrease in gross profit was primarily due to the overall decline in net sales and reduced margins resulting from increased sales of customer premise equipment as discussed above. Gross profit margins were 29% for 2012 as compared to 30% for the same period last year.

Operating, Selling, General and Administrative Expenses. Operating, selling, general and administrative expenses include all personnel costs, which include fringe benefits, insurance and business taxes, as well as occupancy, communication and professional services, among other less significant cost categories. Operating, selling, general and administrative expenses increased \$0.6 million, or 9%, to \$7.2 million for 2012 compared to \$6.6 million for 2011. The increase was due primarily to increased personnel costs of \$0.5 million resulting primarily from the acquisition of Adams Global Communications.

Income from Operations. Income from operations decreased \$1.8 million, or 36%, to \$3.1 million for 2012 from \$4.9 million for 2011 for the reasons described above.

Interest Expense. Interest expense increased \$0.4 million to \$1.1 million for 2012 from \$0.7 million for the same period last year. The increase was due primarily to the \$0.8 million payment made in order to terminate the interest rate swap agreement in March 2012 in connection with paying off the associated term loan, partially offset by lower interest expense of \$0.4 million for 2012 as a result of paying off the term loan. The interest rate swap agreement termination payment was recorded as interest expense.

Income Taxes. The provision for income taxes decreased by \$0.9 million to \$0.8 million, or an effective rate of 38.0%, for 2012 from \$1.7 million, or an effective rate of 40.0%, for the same period last year.

Liquidity and Capital Resources

We finance our operations primarily through internally generated funds, and we also have available to us a bank line of credit of \$7.0 million. During 2013, we generated \$4.0 million of cash flow from operations. The cash flow from operations was also favorably impacted by \$0.9 million from a net decrease in inventory due primarily to management's efforts to continue to reduce overall inventory purchases.

During 2013, we made principal payments totaling \$0.2 million on our first term loan under our Amended and Restated Revolving and Term Loan Agreement ("Credit and Term Loan Agreement") with our primary lender. On March 12, 2012, we paid off the outstanding amount owed of \$9.4 million under the second term loan in the Credit and Term Loan Agreement. In connection with the loan payoff, the Company also terminated the associated interest rate swap agreement for \$0.8 million. Therefore, the remaining debt on our balance sheet is the first term loan with a balance of \$1.5 million at September 30, 2013. The first term loan requires monthly payments of \$15,334 plus accrued interest through November 2021.

We expect that our cash and cash equivalents of \$8.4 million at September 30, 2013 will be sufficient to finance our working capital needs and scheduled debt payments in the near-term. The \$7.0 million line of credit can also be used to finance our working capital requirements as necessary. At September 30, 2013, there was not a balance outstanding under the line of credit. The lesser of \$7.0 million or the total of 80% of the qualified accounts receivable plus 50% of qualified inventory is available to us under the revolving credit facility (\$7.0 million at September 30, 2013). The entire outstanding balance on the revolving credit facility is due on maturity.

We believe that our cash flow from operations, current cash balances and our existing line of credit provide sufficient liquidity and capital resources to meet our working capital and debt payment needs.

Subsequent to September 30, 2013, the Company signed the Third Amendment to the Amended and Restated Revolving Credit and Term Loan Agreement with its primary financial lender dated November 29, 2013. This amendment extended the Line of Credit maturity to November 28, 2014. The Line of Credit remains at \$7.0 million, and the interest rate remains at the prevailing 30-day LIBOR rate plus 2.75%.

Critical Accounting Policies and Estimates

Note 1 to the Consolidated Financial Statements in this Form 10-K for fiscal year 2013 includes a summary of the significant accounting policies or methods used in the preparation of our Consolidated Financial Statements. Some of those significant accounting policies or methods require us to make estimates and assumptions that affect the amounts reported by us. We believe the following items require the most significant judgments and often involve complex estimates.

General

The preparation of financial statements in conformity with United States 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 revenues and expenses during the reporting period. We base our estimates and judgments on historical experience, current market conditions, and various other factors we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates under different assumptions or conditions. The most significant estimates and assumptions relate to the carrying value of our inventory and, to a lesser extent, the adequacy of our allowance for doubtful accounts.

Inventory Valuation

Our position in the industry requires us to carry large inventory quantities relative to annual sales, but it also allows us to realize high overall gross profit margins on our sales. We market our products primarily to MSOs and other users of cable television equipment who are seeking products for which manufacturers have discontinued production or cannot ship new equipment on a same-day basis. Carrying these large inventory quantities represents our largest risk.

Our inventory consists of new and used electronic components for the cable television industry. Inventory is stated at the lower of cost or market, with cost determined using the weighted-average method. At September 30, 2013, we had total inventory of \$22.5 million, consisting of \$16.5 million in new products and \$6.0 million in used or refurbished products against which we have a reserve of \$1.8 million for excess and obsolete inventory, leaving us a net inventory of \$20.7 million.

We are required to make judgments as to future demand requirements from our customers. We regularly review the value of our inventory in detail with consideration given to rapidly changing technology which can significantly affect future customer demand. For individual inventory items, we may carry inventory quantities that are excessive relative to market potential, or we may not be able to recover our acquisition costs for sales that we do make. In order to address the risks associated with our investment in inventory, we review inventory quantities on hand and reduce the carrying value when the loss of usefulness of an item or other factors, such as obsolete and excess inventories, indicate that cost will not be recovered when an item is sold. During 2013, we increased our reserve for excess and obsolete inventory by approximately \$1.0 million and wrote down the carrying value of certain inventory items by approximately \$0.3 million to reflect deterioration in the market demand of that inventory. If actual market conditions are less favorable than those projected by management, and our estimates prove to be inaccurate, we could be required to increase our inventory reserve and our gross margins could be materially adversely affected.

Inbound freight charges are included in cost of sales. Purchasing and receiving costs, inspection costs, warehousing costs, internal transfer costs and other inventory expenditures are included in operating expenses, since the amounts involved are not considered material.

Accounts Receivable Valuation

Management judgments and estimates are made in connection with establishing the allowance for doubtful accounts. Specifically, we analyze the aging of accounts receivable balances, historical bad debts, customer concentrations, customer credit-worthiness, current economic trends and changes in our customer payment terms. Significant changes in customer concentration or payment terms, deterioration of customer credit-worthiness, or weakening in economic trends could have a significant impact on the collectability of receivables and our operating results. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, an additional provision to the allowance for doubtful accounts may be required. The reserve for bad debts was \$0.3 million at September 30, 2013 and September 30, 2012. At September 30, 2013, accounts receivable, net of allowance for doubtful accounts, was \$3.0 million.

Goodwill

Goodwill represents the excess of purchase price of acquisitions over the acquisition date fair value of the net assets of businesses acquired. Goodwill and intangible assets with indefinite useful lives are not amortized and are tested at least annually for impairment. We perform our annual analysis during the fourth quarter of each fiscal year and in any other period in which indicators of impairment warrant additional analysis. Goodwill is evaluated for impairment by first comparing our estimate of the fair value of the reporting unit, or operating segment, with the reporting unit's carrying value, including goodwill. Our reporting unit for purposes of the goodwill impairment calculation is our consolidated entity.

Management utilizes a discounted cash flow analysis to determine the estimated fair value of our reporting unit. Significant judgments and assumptions including the discount rate and anticipated revenue growth rate, gross margins and operating expenses are inherent in these fair value estimates, which are based on historical operating results. As a result, actual results may differ from the estimates utilized in our discounted cash flow analysis. The use of alternate judgments and/or assumptions could result in the recognition of different levels of impairment charges in the financial

statements. If the carrying value of the reporting unit exceeds its fair value, a computation of the implied fair value of goodwill would then be compared to its related carrying value. If the carrying value of the reporting unit's goodwill exceeds the implied fair value of goodwill, an impairment loss would be recognized in the amount of the excess. If an impairment charge is incurred, it would negatively impact our results of operations and financial position.

We did not record a goodwill impairment for our reporting unit in the three year period ended September 30, 2013. Although we do not anticipate a future impairment charge, certain events could occur that might adversely affect the reported value of goodwill. Such events could include, but are not limited to, economic or competitive conditions, a

significant change in technology, the economic condition of the customers and industries we serve, a significant decline in the real estate markets we operate in, and a material negative change in the relationships with one or more of our significant customers or equipment suppliers. If our judgments and assumptions change as a result of the occurrence of any of these events or other events that we do not currently anticipate, our expectations as to future results and our estimate of the implied value of our reporting unit also may change.

We performed our annual impairment test in the fourth quarter to determine whether an impairment existed and to determine the amount of headroom at September 30, 2013. Headroom is defined as the percentage difference between the carrying value of the goodwill and its fair value. At September 30, 2013, headroom for the reporting unit was 233%.

Off-Balance Sheet Arrangements

None.

Item 8. Financial Statements and Supplementary Data.

| Index to Financial Statements | Page |
|---|-----------|
| Report of Independent Registered Public Accounting Firm | <u>17</u> |
| Consolidated Balance Sheets, September 30, 2013 and 2012 | <u>18</u> |
| Consolidated Statements of Income and Comprehensive Income, Years ended September 30, 2013, 2012 and 2011 | <u>20</u> |
| Consolidated Statements of Changes in Shareholders' Equity, Years ended September 30, 2013, 2012 and 2011 | <u>21</u> |
| Consolidated Statements of Cash Flows, Years ended September 30, 2013, 2012 and 2011 | <u>22</u> |
| Notes to Consolidated Financial Statements | <u>23</u> |

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
ADDvantage Technologies Group, Inc.

We have audited the accompanying consolidated balance sheets of ADDvantage Technologies Group, Inc. and subsidiaries as of September 30, 2013 and 2012, and the related consolidated statements of income and comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended September 30, 2013. Our audits of the consolidated financial statements also included the financial statement schedules of ADDvantage Technologies Group, Inc., listed in Item 15(a). These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of ADDvantage Technologies Group, Inc. and subsidiaries as of September 30, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2013, in conformity with U.S. generally accepted accounting principles in the United States of America. Also, in our opinion, the financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ HOGANTAYLOR LLP

December 10, 2013
Tulsa, Oklahoma

ADVANTAGE TECHNOLOGIES GROUP, INC.
CONSOLIDATED BALANCE SHEETS

| | September 30, | |
|--|---------------------|---------------------|
| | 2013 | 2012 |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$8,366,657 | \$5,191,514 |
| Accounts receivable, net of allowance of \$300,000 | 3,020,853 | 3,050,796 |
| Income tax refund receivable | 272,380 | 409,386 |
| Inventories, net of allowance for excess and obsolete inventory of \$1,750,000 and \$1,000,000, respectively | 20,730,453 | 22,666,385 |
| Prepaid expenses | 122,283 | 129,357 |
| Deferred income taxes | 1,066,000 | 920,000 |
| Total current assets | 35,578,626 | 32,367,438 |
| Property and equipment, at cost: | | |
| Land and buildings | 8,794,272 | 8,794,272 |
| Machinery and equipment | 3,125,422 | 2,953,949 |
| Leasehold improvements | 9,633 | 9,633 |
| Total property and equipment, at cost | 11,929,327 | 11,757,854 |
| Less accumulated depreciation and amortization | (3,963,444) | (3,666,327) |
| Net property and equipment | 7,965,883 | 8,091,527 |
| Other assets: | | |
| Goodwill | 1,560,183 | 1,560,183 |
| Other assets | 11,428 | 13,778 |
| Total other assets | 1,571,611 | 1,573,961 |
| Total assets | \$43,116,120 | \$42,032,926 |

See notes to audited consolidated financial statements.

ADVANTAGE TECHNOLOGIES GROUP, INC.
CONSOLIDATED BALANCE SHEETS

| | September 30, | |
|---|---------------------|---------------------|
| | 2013 | 2012 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$1,308,869 | \$1,437,492 |
| Accrued expenses | 934,856 | 1,030,174 |
| Notes payable – current portion | 184,008 | 184,008 |
| Total current liabilities | 2,427,733 | 2,651,674 |
| Notes payable, less current portion | 1,318,604 | 1,502,612 |
| Deferred income taxes | 193,000 | 62,000 |
| Shareholders' equity: | | |
| Common stock, \$.01 par value; 30,000,000 shares authorized; 10,499,138 and 10,465,323 shares issued, respectively; 9,998,480 and 10,189,120 shares outstanding, respectively | 104,991 | 104,653 |
| Paid in capital | (5,578,500) | (5,748,503) |
| Retained earnings | 45,650,306 | 43,980,590 |
| Total shareholders' equity before treasury stock | 40,176,797 | 38,336,740 |
| Less: Treasury stock, 500,658 and 276,203 shares, respectively, at cost | (1,000,014) | (520,100) |
| Total shareholders' equity | 39,176,783 | 37,816,640 |
| Total liabilities and shareholders' equity | \$43,116,120 | \$42,032,926 |

See notes to audited consolidated financial statements.

ADVANTAGE TECHNOLOGIES GROUP, INC.
CONSOLIDATED STATEMENTS OF INCOME AND
COMPREHENSIVE INCOME

| | Years ended September 30, | | |
|---|---------------------------|--------------------|--------------------|
| | 2013 | 2012 | 2011 |
| Sales: | | | |
| Net new sales income | \$20,347,041 | \$21,093,370 | \$25,886,494 |
| Net refurbished sales income | 9,031,954 | 9,814,763 | 7,430,603 |
| Net service income | 3,978,597 | 4,308,270 | 4,762,433 |
| Total net sales | 33,357,592 | 35,216,403 | 38,079,530 |
| Cost of sales | 23,784,272 | 24,854,960 | 26,528,682 |
| Gross profit | 9,573,320 | 10,361,443 | 11,550,848 |
| Operating, selling, general and administrative expenses | 6,841,273 | 7,231,097 | 6,625,907 |
| Income from operations | 2,732,047 | 3,130,346 | 4,924,941 |
| Interest expense | 25,980 | 1,113,854 | 696,634 |
| Income before income taxes | 2,706,067 | 2,016,492 | 4,228,307 |
| Provision for income taxes | 1,036,351 | 766,000 | 1,692,000 |
| Net income attributable to common shareholders | 1,669,716 | 1,250,492 | 2,536,307 |
| Other comprehensive loss: | | | |
| Unrealized gain on interest rate swap, net of \$0, \$370,000, and \$106,000 tax provision, respectively | – | 587,258 | 189,425 |
| Comprehensive income | \$1,669,716 | \$1,837,750 | \$2,725,732 |
| Earnings per share: | | | |
| Basic | \$0.17 | \$0.12 | \$0.25 |
| Diluted | \$0.17 | \$0.12 | \$0.25 |
| Shares used in per share calculation: | | | |
| Basic | 10,052,359 | 10,196,241 | 10,175,213 |
| Diluted | 10,052,359 | 10,197,496 | 10,178,763 |

See notes to audited consolidated financial statements.

ADVANTAGE TECHNOLOGIES GROUP, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years ended September 30, 2013, 2012 and 2011

| | Common Stock | | Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Treasury Stock | Total |
|--|--------------|------------|--------------------|----------------------|---|-------------------|---------------|
| | Shares | Amount | | | | | |
| Balance, September 30, 2010 | 10,367,934 | \$ 103,679 | \$ (6,070,986) | \$ 40,193,791 | \$ (776,683) | \$ (406,279) | \$ 33,043,522 |
| Net income | – | – | – | 2,536,307 | – | – | 2,536,307 |
| Restricted stock issuance | 58,920 | 590 | 169,410 | – | – | – | 170,000 |
| Stock options exercised | 4,500 | 45 | 6,706 | – | – | – | 6,751 |
| Net unrealized loss on interest swap | – | – | – | – | 189,425 | – | 189,425 |
| Share based compensation expense | – | – | 10,349 | – | – | – | 10,349 |
| Balance, September 30, 2011 | 10,431,354 | \$ 104,314 | \$ (5,884,521) | \$ 42,730,098 | \$ (776,683) | \$ (406,279) | \$ 35,956,354 |
| Net income | – | – | – | 1,250,492 | – | – | 1,250,492 |
| Restricted stock issuance | 31,969 | 320 | 69,680 | – | – | – | 70,000 |
| Stock options exercised | 2,000 | 20 | 1,600 | – | – | – | 1,620 |
| Net unrealized gain on interest swap | – | – | – | – | 587,258 | – | 587,258 |
| Share based compensation expense | – | – | 64,738 | – | – | – | 64,738 |
| Purchase of common stock | – | – | – | – | – | (113,821) | (113,821) |
| Balance, September 30, 2012 | 10,465,323 | \$ 104,653 | \$ (5,748,503) | \$ 43,980,590 | \$ (587,258) | \$ (520,100) | \$ 37,816,640 |
| Net income | – | – | – | 1,669,716 | – | – | 1,669,716 |
| | 31,815 | 318 | 69,682 | – | – | – | 70,000 |

| | | | | | | | |
|----------------------------------|------------|------------|----------------|---------------|------|----------------|---------------|
| Restricted stock issuance | | | | | | | |
| Stock options exercised | 2,000 | 20 | 3,280 | – | – | – | 3,300 |
| Share based compensation expense | – | – | 97,041 | – | – | – | 97,041 |
| Purchase of common stock | – | – | – | – | – | (479,914) | (479,914) |
| Balance, September 30, 2013 | 10,499,138 | \$ 104,991 | \$ (5,578,500) | \$ 45,650,306 | \$ – | \$ (1,000,014) | \$ 39,176,783 |

See notes to audited consolidated financial statements.

ADVANTAGE TECHNOLOGIES GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Years ended September 30, | | |
|---|---------------------------|--------------|---------------|
| | 2013 | 2012 | 2011 |
| Operating Activities | | | |
| Net income | \$ 1,669,716 | \$ 1,250,492 | \$ 2,536,307 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 330,467 | 356,091 | 370,965 |
| Provision for excess and obsolete inventories | 1,044,913 | 580,587 | 407,303 |
| (Gain) loss on disposal of property and equipment | (5,950) | 114,071 | (1,350) |
| Deferred income tax provision (benefit) | (15,000) | 234,000 | 533,000 |
| Share based compensation expense | 167,041 | 201,404 | 109,516 |
| Cash provided (used) by changes in operating assets and liabilities: | | | |
| Accounts receivable | 29,943 | 1,193,253 | 892,459 |
| Income tax refund receivable | 137,006 | (59,641) | (146,340) |
| Inventories | 891,019 | 2,530,775 | 1,896,005 |
| Prepaid expenses | 7,074 | (18,538) | (52,451) |
| Other assets | 2,350 | 5,467 | 74,825 |
| Accounts payable | (128,623) | (1,238,415) | (403,790) |
| Accrued expenses | (95,318) | (210,050) | (199,782) |
| Net cash provided by operating activities | 4,034,638 | 4,939,496 | 6,016,667 |
| Investing Activities | | | |
| Acquisition of net operating assets, net of cash acquired | - | - | (549,785) |
| Additions to machinery and equipment | (211,223) | (97,333) | (23,132) |
| Additions of land and buildings | - | (110,594) | (1,475,000) |
| Disposals of machinery and equipment | 12,350 | - | 43,011 |
| Net cash used in investing activities | (198,873) | (207,927) | (2,004,906) |
| Financing Activities | | | |
| Payments on notes payable | (184,008) | (10,371,508) | (1,814,008) |
| Purchase of treasury stock | (479,914) | (113,821) | - |
| Proceeds from stock options exercised | 3,300 | 1,620 | 6,750 |
| Net cash used in financing activities | (660,622) | (10,483,709) | (1,807,258) |
| Net increase (decrease) in cash and cash equivalents | 3,175,143 | (5,752,140) | 2,204,503 |
| Cash and cash equivalents at beginning of year | \$ 5,191,514 | 10,943,654 | 8,739,151 |
| Cash and cash equivalents at end of year | \$ 8,366,657 | \$ 5,191,514 | \$ 10,943,654 |
| Supplemental cash flow information: | | | |
| Cash paid for interest | \$ 26,137 | \$ 1,164,522 | \$ 704,878 |
| Cash paid for income taxes | \$ 971,000 | \$ 622,210 | \$ 1,344,399 |

See notes to audited consolidated financial statements.

ADVANTAGE TECHNOLOGIES GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Description of Business and Summary of Significant Accounting Policies

Description of business

ADDvantage Technologies Group, Inc. through its subsidiaries (collectively, the “Company”) sells new, surplus-new, and refurbished cable television equipment throughout North America, Central America, South America and, to a substantially lesser extent, other international regions that utilize the same technology. In addition, the Company is also a repair center for various cable companies.

Summary of Significant Accounting Policies

Principles of consolidation and segment reporting

The consolidated financial statements include the accounts of ADDvantage Technologies Group, Inc. and its wholly owned subsidiaries: Tulsat Corporation, Tulsat-Atlanta LLC, ADDvantage Technologies Group of Nebraska, Inc. (dba Tulsat-Nebraska), ADDvantage Technologies Group of Texas, Inc. (dba Tulsat-Texas), NCS Industries, Inc., ADDvantage Technologies Group of Missouri, Inc. (dba ComTech Services) and Adams Global Communications, LLC. All significant inter-company balances and transactions have been eliminated in consolidation. In addition, each subsidiary represents a separate operating segment of the Company and is aggregated for segment reporting purposes.

Cash and cash equivalents

Cash and cash equivalents includes demand and time deposits, money market funds and other marketable securities with maturities of three months or less when acquired.

Accounts receivable

Trade receivables are carried at original invoice amount less an estimate made for doubtful accounts. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer’s financial condition, credit history and current economic conditions. Trade receivables are written off against the allowance when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received. The Company generally does not charge interest on past due accounts.

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 with market defined principally as net realizable value. Cost is determined using the weighted-average method. The Company records inventory reserve provisions to reflect inventory at its estimated realizable value based on a review of inventory quantities on hand, historical sales volumes and technology changes. These reserves are to provide for items that are potentially slow-moving, excess or obsolete.

Property and equipment

Property and equipment consists of software, office equipment, warehouse and service equipment and buildings with estimated useful lives generally of 3 years, 5 years, 10 years and 40 years, respectively. Depreciation is provided using the straight-line method over the estimated useful lives of the related assets. Leasehold improvements are

amortized over the remainder of the lease agreement. Gains or losses from the ordinary sale or retirement of property and equipment are recorded in other income (expense). Repairs and maintenance costs are generally expensed as incurred, whereas major improvements are capitalized. Depreciation and amortization expense was \$0.3 million, \$0.4 million and \$0.4 million for each of the years ended September 30, 2013, 2012 and 2011, respectively.

Goodwill

Goodwill represents the excess of cost over fair value of the assets of businesses acquired. Goodwill is evaluated at least annually for impairment by first comparing our estimate of the fair value of the reporting unit, or operating segment, with the reporting unit's carrying value, including goodwill. If the carrying value of the reporting unit exceeds its fair value, a computation of the implied fair value of goodwill would then be compared to its related carrying value. If the carrying value of the reporting unit's goodwill exceeds the implied fair value of goodwill, an impairment loss would be recognized in the amount of the excess. Judgments and assumptions are inherent in our estimate of future cash flows used to determine the estimate of the reporting unit's fair value. The use of alternate judgments and/or assumptions could result in the recognition of different levels of impairment charges in the financial statements. At September 30, 2013 and 2012, the fair value of our reporting unit exceeded its carrying value, so goodwill was not impaired.

Income taxes

The Company provides for income taxes in accordance with the liability method of accounting. 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 a valuation allowance against deferred tax assets for amounts which are not considered "more likely than not" to be realized.

Revenue recognition and product line reporting

The Company's principal sources of revenues are from sales of new, refurbished or used equipment and repair services. As a distributor for several cable television equipment manufacturers, the Company offers a broad selection of inventoried and non-inventoried products. The Company's sales of different products fluctuate from year to year as its customers' needs change. Because the Company's product line sales change from year to year, the Company does not report sales by product line for management reporting purposes and does not disclose sales by product line in these consolidated financial statements.

The Company recognizes revenue for product sales when title transfers, the risks and rewards of ownership have been transferred to the customer, the fee is fixed and determinable and the collection of the related receivable is probable, which is generally at the time of shipment. The stated shipping terms are FOB shipping point per the Company's sales agreements with its customers. Accruals are established for expected returns based on historical activity. Revenue for services is recognized when the repair is completed and the product is shipped back to the customer.

Derivatives

Derivatives, whether designated in hedging relationships or not, are recorded on the balance sheet at fair value. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. If the derivative is designated as a cash flow hedge, the effective portions of the changes in the fair value of the derivative are recorded in Other Comprehensive Income and are recognized in the income statement when the hedged item affects earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized in other income (expense). The Company's objective of holding derivatives was to minimize the risk of interest rate fluctuation. As of September 30, 2012, the Company no longer holds derivatives.

Freight

Amounts billed to customers for shipping and handling represent revenues earned and are included in net new sales income, net refurbished sales income and net service income in the accompanying consolidated statements of income and comprehensive income. Actual costs for shipping and handling of these sales are included in cost of sales.

Advertising costs

Advertising costs are expensed as incurred. Advertising expense was \$0.2 million for each of the years ended September 30, 2013, 2012 and 2011, respectively.

Management estimates

The preparation of financial statements in conformity with United States 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.

Any significant, unanticipated changes in product demand, technological developments or continued economic trends affecting the cable industry could have a significant impact on the value of the Company's inventory and operating results.

Concentrations of credit risk

The Company holds cash with one major financial institution, which at times exceeds FDIC insured limits. Historically, the Company has not experienced any losses due to such concentration of credit risk.

Other 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. The Company had no customer in 2013, 2012 or 2011 that contributed in excess of 10% of the total net sales. The Company's sales to foreign (non-U.S. based customers) were approximately \$3.3 million, \$5.7 million and \$4.5 million for the years ended September 30, 2013, 2012 and 2011, respectively. In 2013, the Company purchased approximately 18% of its inventory either directly from Cisco or indirectly through their primary stocking distributor and approximately 29% of its inventory from Motorola. The concentration of suppliers of the Company's inventory subjects the Company to risk.

Employee stock-based awards

Share-based payments to employees, including grants of employee stock options, are recognized in the financial statements based on their grant date fair value over the requisite service period. The Company determines the fair value of the options issued, using the Black-Scholes valuation model, and amortizes the calculated value over the vesting term of the stock options. Compensation expense for stock-based awards is included in the operating, selling, general and administrative expense section of the consolidated statements of income and comprehensive income.

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 cash and cash equivalents, accounts receivable and accounts payable approximate fair value due to their short maturities. The carrying value of the Company's line of credit and term debt approximates fair value since their interest rates fluctuate periodically based on a floating interest rate.

Note 2 – Inventories

Inventories at September 30, 2013 and 2012 are as follows:

| | 2013 | 2012 |
|---|--------------|--------------|
| New | \$16,355,035 | \$17,283,788 |
| Refurbished | 6,125,418 | 6,382,597 |
| Allowance for excess and obsolete inventory | (1,750,000) | (1,000,000) |
| | \$20,730,453 | \$22,666,385 |

New inventory includes products purchased from the manufacturers plus “surplus-new”, which are unused products purchased from other distributors or multiple system operators. Refurbished inventory includes factory refurbished, Company refurbished and used products. Generally, the Company does not refurbish its used inventory until there is a sale of that product or to keep a certain quantity on hand.

The Company regularly reviews inventory quantities on hand, and an adjustment to cost is recognized when the loss of usefulness of an item or other factors, such as obsolete and excess inventories, indicate that cost will not be recovered when an item is sold. The Company recorded charges to allow for obsolete inventory during the fiscal years ended September 30, 2013, 2012 and 2011, increasing the cost of sales by approximately \$1.0 million, \$0.6 million and \$0.4 million, respectively.

Note 3 – Income Taxes

The provision (benefit) for income taxes for the years ended September 30, 2013, 2012 and 2011 consists of:

| | 2013 | 2012 | 2011 |
|----------|-------------|-----------|-------------|
| Current | \$1,051,351 | \$532,000 | \$1,159,000 |
| Deferred | (15,000) | 234,000 | 533,000 |
| | \$1,036,351 | \$766,000 | \$1,692,000 |

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 years ended September 30, 2013, 2012 and 2011:

| | 2013 | 2012 | 2011 |
|---|---------|---------|--------|
| Statutory tax rate | 34.0 % | 34.0 % | 34.0 % |
| State income taxes, net of U.S. federal tax benefit | 5.4 % | 3.5 % | 4.6 % |
| Charges without tax benefit | 1.2 % | 1.4 % | 0.7 % |
| Tax credits and other exclusions | (2.3 %) | (0.9 %) | 0.7 % |
| Company’s effective tax rate | 38.3 % | 38.0 % | 40.0 % |

The tax effects of temporary differences related to deferred taxes at September 30, 2013 and 2012 consist of the following:

| | 2013 | 2012 |
|--|-----------|-----------|
| Deferred tax assets: | | |
| Net operating loss carryforwards | \$414,000 | \$500,000 |
| Accounts receivable | 116,000 | 115,000 |
| Inventory | 842,000 | 639,000 |
| Other, net | 232,000 | 196,000 |
| | 1,604,000 | 1,450,000 |
| Deferred tax liabilities: | | |
| Financial basis in excess of tax basis of certain assets | 731,000 | 592,000 |
| Net deferred tax asset | \$873,000 | \$858,000 |

The above net deferred tax asset is presented in the Company's consolidated balance sheets at September 30, 2013 and 2012 as follows:

| | 2013 | 2012 |
|---|-------------|-----------|
| Deferred tax asset – current | \$1,066,000 | \$920,000 |
| Deferred tax asset (liability) – noncurrent | (193,000) | (62,000) |
| | \$873,000 | \$858,000 |

Utilization of the Company's net operating loss carryforward, totaling approximately \$1.1 million at September 30, 2013, to reduce future taxable income is limited to an annual deductible amount of approximately \$0.3 million. The net operating loss carryforward expires in varying amounts in 2019 and 2020.

The Company records net deferred tax assets to the extent the Company believes these assets will more likely than not be realized. In making such determination, the Company considers all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial performance. The Company has concluded, based on its historical earnings and projected future earnings, that it will be able to realize the full effect of the deferred tax assets and no valuation allowance is needed.

Based upon a review of its income tax positions, the Company believes that its positions would be sustained upon an examination by the Internal Revenue Service and does not anticipate any adjustments that would result in a material change to its financial position. Therefore, no reserves for uncertain income tax positions have been recorded. Generally, the Company is no longer subject to examinations by the U.S. federal, state or local tax authorities for tax years before 2010.

Note 4 – Accrued Expenses

Accrued expenses at September 30, 2013 and 2012 are as follows:

| | 2013 | 2012 |
|-----------------------------|-----------|-------------|
| Employee costs | \$766,201 | \$823,978 |
| Taxes other than income tax | 154,616 | 176,296 |
| Interest | 996 | 1,153 |
| Other, net | 13,043 | 28,747 |
| | \$934,856 | \$1,030,174 |

Note 5 – Line of Credit and Notes Payable

Notes Payable

The Company has an Amended and Restated Revolving Credit and Term Loan Agreement (“Credit and Term Loan Agreement”). The only outstanding term loan under the Credit and Term Loan Agreement has an outstanding balance of \$1.5 million at September 30, 2013 and is due on November 20, 2021, with monthly principal payments of \$15,334 plus accrued interest. The interest rate is the prevailing 30-day LIBOR rate plus 1.4% (1.58% at September 30, 2013) and is reset monthly. This term loan is collateralized by inventory, accounts receivable, equipment and fixtures and general intangibles.

The aggregate minimum maturities of notes payable for each of the next five years are as follows:

| | |
|------------|-------------|
| 2014 | \$184,008 |
| 2015 | 184,008 |
| 2016 | 184,008 |
| 2017 | 184,008 |
| 2018 | 184,008 |
| Thereafter | 582,572 |
| Total | \$1,502,612 |

Line of Credit

The Company has a \$7.0 million Revolving Line of Credit (“Line of Credit”) under the Credit and Term Loan Agreement with its primary financial lender. At September 30, 2013, the Company had no amount outstanding under the Line of Credit. The Line of Credit requires quarterly interest payments based on the prevailing 30-day LIBOR rate plus 2.75% (2.93% at September 30, 2013), and the interest rate is reset monthly. Any future borrowings under the Line of Credit are due on November 29, 2013. Future borrowings under the Line of Credit are limited to the lesser of \$7.0 million or the net balance of 80% of qualified accounts receivable plus 50% of qualified inventory. Under these limitations, the Company’s total Line of Credit borrowing base was \$7.0 million at September 30, 2013. Among other financial covenants, the Line of Credit agreement provides that the Company must maintain a fixed charge ratio of coverage (EBITDA to total fixed charges) of not less than 1.25 to 1.0, determined quarterly. The Line of Credit is collateralized by inventory, accounts receivable, equipment and fixtures and general intangibles.

Subsequent to September 30, 2013, the Company signed the Third Amendment to the Amended and Restated Revolving Credit and Term Loan Agreement with its primary financial lender dated November 29, 2013. This amendment extended the Line of Credit maturity to November 28, 2014. The Line of Credit remains at \$7.0 million, and the interest rate remains at the prevailing 30-day LIBOR rate plus 2.75%.

Note 6 – Stock-Based Compensation and Preferred Stock

Plan Information

The 1998 Incentive Stock Plan (the “Plan”) provides for awards of stock options and restricted stock to officers, directors, key employees and consultants. 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, 2013, 1,024,656 shares of common stock were reserved for the exercise of, or lapse of restrictions on, stock awards under the Plan. Of these reserved shares, 280,141 shares were available for future grants.

Stock Options

Share-based payments to employees, including grants of employee stock options, are recognized in financial statements based on their grant date fair value over the requisite service period. Compensation expense for stock-based awards is included in the operating, selling, general and administrative expense section of the consolidated statements of income and comprehensive income.

Stock options are valued at the date of the award, which does not precede the approval date, and compensation cost is recognized on a straight-line basis over the vesting period. Stock options granted to employees generally become exercisable over a four or five-year period from the date of grant and generally expire ten years after the date of grant. Stock options granted to the Board of Directors generally become exercisable on the date of grant and generally expire ten years after the date of grant.

A summary of the status of the Company's stock options at September 30, 2013 and changes during the year then ended is presented below:

| | Options | Weighted Average Exercise Price | Aggregate Intrinsic Value |
|-----------------------------------|-----------|--|---------------------------------|
| Outstanding at September 30, 2012 | 370,000 | \$2.83 | |
| Granted | 30,000 | \$2.33 | |
| Exercised | (2,000) | \$1.65 | \$940 |
| Expired | – | \$– | |
| Forfeited | (35,000) | \$2.43 | |
| Outstanding at September 30, 2013 | 363,000 | \$2.83 | \$0 |
| Exercisable at September 30, 2013 | 163,000 | \$3.30 | \$0 |

The total intrinsic value of options exercised was \$940, \$2,640 and \$5,670 for the years ended September 30, 2013, 2012 and 2011, respectively.

Information about the Company's outstanding and exercisable stock options at September 30, 2013 is as follows:

| Exercise Price | Stock Options Outstanding | Exercisable Stock Options Outstanding | Remaining Contractual Life |
|----------------|---------------------------|---------------------------------------|----------------------------|
| \$2.450 | 250,000 | 50,000 | 8.5 years |
| \$3.001 | 65,000 | 65,000 | 4.9 years |
| \$3.450 | 15,000 | 15,000 | 3.4 years |
| \$5.780 | 15,000 | 15,000 | 2.4 years |
| \$4.620 | 15,000 | 15,000 | 1.4 years |
| \$4.400 | 3,000 | 3,000 | 0.4 years |
| | 363,000 | 163,000 | |

The Company granted nonqualified stock options totaling 30,000 shares and 250,000 shares for fiscal years ended September 30, 2013 and 2012, respectively. No nonqualified stock options were granted in fiscal year 2011. The Company estimated the fair value of the options granted using the Black-Scholes option valuation model and the assumptions shown in the table below. The Company estimated the expected term of options granted based on the historical grants and exercises of the Company's options. The Company estimated the volatility of its common stock at the date of the grant based on both the historical volatility as well as the implied volatility on its common stock. The Company based the risk-free rate that was used in the Black-Scholes option valuation model on the implied yield in effect at the time of the option grant on U.S. Treasury zero-coupon issues with equivalent expected terms. The Company has never paid cash dividends on its common stock and does not anticipate paying any cash dividends in the foreseeable future. Consequently, the Company used an expected dividend yield of zero in the Black-Scholes option valuation model. The Company amortizes the resulting fair value of the options ratably over the vesting period of the awards. The Company used historical data to estimate the pre-vesting options forfeitures and records share-based expense only for those awards that are expected to vest.

The estimated fair value at date of grant for stock options utilizing the Black-Scholes option valuation model and the assumptions that were used in the Black-Scholes option valuation model for the fiscal years 2013 and 2012 stock option grants are as follows:

| | 2013 | 2012 | | |
|---|----------|-----------|---|---|
| Estimated fair value of options at grant date | \$29,040 | \$267,925 | | |
| Black-Scholes model assumptions: | | | | |
| Average expected life (years) | 6 | 6 | | |
| Average expected volatility factor | 41 | % 41 | % | % |
| Average risk-free interest rate | 2.95 | % 2.99 | % | % |
| Average expected dividends yield | — | — | | |

Compensation expense related to stock options recorded for the years ended September 30, 2013, 2012 and 2011 is as follows:

| | 2013 | 2012 | 2011 |
|----------------------------|----------|----------|----------|
| Fiscal year 2008 grant | \$— | \$3,562 | \$10,349 |
| Fiscal year 2012 grant | 95,560 | 61,176 | — |
| Fiscal year 2013 grant | 1,481 | — | — |
| Total compensation expense | \$97,041 | \$64,738 | \$10,349 |

The Company records compensation expense over the vesting term of the related options. At September 30, 2013, compensation costs related to these unvested stock options not yet recognized in the statements of income and comprehensive income was \$111,189.

Restricted stock

The Company granted restricted stock in March 2013 and 2012 to its Board of Directors totaling 31,815 shares and 31,969 shares, respectively, and in March and May 2011 to its Board of Directors and certain employees totaling 58,920 shares. The restricted stock grants were valued at market value on the date of grant. The restricted shares are delivered to the directors and employees at the end of the 12 month holding period. The fair value of the shares upon issuance totaled \$70,000, \$70,000 and \$170,000 for the 2013, 2012 and 2011 fiscal year grants, respectively. The grants are amortized over the 12 month holding period as compensation expense. Compensation expense related to restricted stock recorded for the years ended September 30, 2013, 2012 and 2011 is as follows:

| | 2013 | 2012 | 2011 |
|------------------------|----------|-----------|----------|
| Fiscal year 2010 grant | \$– | \$– | \$25,000 |
| Fiscal year 2011 grant | – | 95,833 | 74,167 |
| Fiscal year 2012 grant | 29,167 | 40,833 | – |
| Fiscal year 2013 grant | 40,833 | – | – |
| | \$70,000 | \$136,666 | \$99,167 |

Note 7 – Retirement Plan

The Company sponsors a 401(k) plan that allows participation by all employees who are at least 21 years of age and have completed one year of service. The Company's contributions to the plan consist of a matching contribution as determined by the plan document. Costs recognized under the 401(k) plan were \$0.2 million for each of the years ended September 30, 2013, 2012 and 2011.

Note 8 – Earnings per Share

Basic and diluted earnings per share for the years ended September 30, 2013, 2012 and 2011 are:

| | 2013 | 2012 | 2011 |
|--|-------------|-------------|-------------|
| Net income attributable to common shareholders | \$1,669,716 | \$1,250,492 | \$2,536,307 |
| Basic weighted average shares | 10,052,359 | 10,196,241 | 10,175,213 |
| Effect of dilutive securities: | | | |
| Stock options | – | 1,255 | 3,550 |
| Diluted weighted average shares | 10,052,359 | 10,197,496 | 10,178,763 |
| Earnings per common share: | | | |
| Basic | \$0.17 | \$0.12 | \$0.25 |
| Diluted | \$0.17 | \$0.12 | \$0.25 |

The table below includes information related to stock options that were outstanding at the end of each respective year but have been excluded from the computation of weighted-average stock options for dilutive securities due to the option exercise price exceeding the average market price per share of our common stock for the fiscal year.

| | 2013 | 2012 | 2011 |
|--|---------|---------|---------|
| Stock options excluded | 363,000 | 368,000 | 118,000 |
| Weighted average exercise price of stock options | \$2.83 | \$2.84 | \$3.65 |

| | | | |
|--------------------------------------|--------|--------|--------|
| Average market price of common stock | \$2.24 | \$2.22 | \$2.73 |
|--------------------------------------|--------|--------|--------|

Note 9 – Related Parties

The Company leased on a month-to-month basis one warehouse in Oklahoma from a company owned by David E. Chymiak and Kenneth A. Chymiak. The total payments made on the lease to this company were \$0.1 million for each of the years ended September 30, 2012 and 2011.

David E. Chymiak and Kenneth A. Chymiak beneficially owned 26% and 22%, respectively, of the Company's outstanding common stock at September 30, 2013.

Note 10 – Commitments and Contingencies

The Company leases and rents various office and warehouse properties in Georgia, North Carolina and Pennsylvania. The terms on its operating leases vary but all mature in less than one year and contain renewal options or are rented on a month-to-month basis.

Rental payments associated with leased properties totaled approximately \$37,000, \$0.2 million and \$0.2 million for the years ended September 30, 2013, 2012 and 2011, respectively. The Company's minimum annual future obligations as of September 30, 2013 under all existing operating leases are \$4,000 for fiscal year 2014. The Company has no further minimum annual future obligations as all of its existing operating leases expire in fiscal year 2014.

Note 11 – Quarterly Results of Operations (Unaudited)

The following is a summary of the quarterly results of operations for the years ended September 30, 2013, 2012 and 2011:

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|--|------------------|-------------------|------------------|-------------------|
| Fiscal year ended 2013 | | | | |
| Net sales and service income | \$9,616,198 | \$8,225,039 | \$7,155,201 | \$8,361,154 |
| Gross profit | \$3,145,828 | \$2,145,797 | \$2,028,862 | \$2,252,833 |
| Net income (loss) | \$797,417 | \$296,309 | \$235,520 | \$340,470 |
| Basic earnings (loss) per common share | \$0.08 | \$0.03 | \$0.02 | \$0.03 |
| Diluted earnings (loss) per common share | \$0.08 | \$0.03 | \$0.02 | \$0.03 |
| Fiscal year ended 2012 | | | | |
| Net sales and service income | \$9,004,395 | \$9,230,956 | \$8,498,773 | \$8,482,279 |
| Gross profit | \$2,739,021 | \$2,527,319 | \$2,587,836 | \$2,507,267 |
| Net income | \$446,780 | \$(76,279) | \$459,298 | \$420,693 |
| Basic earnings per common share | \$0.04 | \$(0.01) | \$0.05 | \$0.04 |
| Diluted earnings per common share | \$0.04 | \$(0.01) | \$0.05 | \$0.04 |
| Fiscal year ended 2011 | | | | |
| Net sales and service income | \$9,229,446 | \$8,896,705 | \$8,695,205 | \$11,258,174 |
| Gross profit | \$2,879,565 | \$2,684,710 | \$2,567,397 | \$3,419,176 |
| Net income | \$740,635 | \$598,706 | \$467,577 | \$729,389 |
| Basic earnings per common share | \$0.07 | \$0.06 | \$0.05 | \$0.07 |
| Diluted earnings per common share | \$0.07 | \$0.06 | \$0.05 | \$0.07 |

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures.

We maintain disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e) and 15d-15(e)) that are designed to ensure that information required to be disclosed by us in the reports that we file or submit to the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified by the Commission's rules and forms, and that information is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Our Chief Executive Officer and Chief Financial Officer evaluated our disclosure controls and procedures as of September 30, 2013. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective.

Management's Annual Report on Internal Control over Financial Reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) and for the assessment of the effectiveness of internal control over financial reporting. Our internal control system was designed to provide reasonable assurance to our management and board of directors regarding the preparation and fair presentation of financial statements in accordance with accounting principles generally accepted in the United States. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorization of our management and board of directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of September 30, 2013. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control — Integrated Framework (1992). Based on our assessment, we believe that, as of September 30, 2013, our internal control over financial reporting is effective based on those criteria.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit us to provide only management's report in this annual report.

Changes in Internal Control over Financial Reporting.

During the fourth quarter ended September 30, 2013, there has been no change in our internal controls over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by this item concerning our officers, directors, compliance with Section 16(a) of the Securities Exchange Act of 1934, as amended, Code of Business Conduct and Ethics and Audit Committee is incorporated by reference to the information in the sections entitled “Identification of Officers,” “Election of Directors,” “Section 16(a) Beneficial Ownership Reporting Compliance,” “Code of Ethics” and “Audit Committee,” respectively, of our Proxy Statement for the 2013 Annual Meeting of Shareholders to be filed with the Securities and Exchange Commission within 120 days after the end of our fiscal year ended September 30, 2013 (the “Proxy Statement”). A copy of our Code of Business Conduct and Ethics is posted on our website at www.advantagetechologies.com.

Item 11. 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 Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this item regarding security ownership and equity compensation plans is incorporated by reference to the information set forth in the section entitled “Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters” of the Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by this item regarding certain relationships and related transactions and director independence is incorporated by reference to the information set forth in the section entitled “Certain Relationships and Related Transactions” and “Board of Directors,” respectively, of the Proxy Statement.

Item 14. Principal Accounting Fees and Services.

The information required by this item regarding principal accounting fees and services is incorporated by reference to the information set forth in the section entitled “Principal Accounting Fees and Services” of the Proxy Statement.

PART IV

Item 15. Exhibits, Financial Statements Schedules.

(a) 1. The following financial statements are filed as part of this report in Part II, Item 8.

Report of Independent Registered Public Accounting Firm as of September 30, 2013 and 2012, and for each of the three years in the period ended September 30, 2013, 2012 and 2011.

Consolidated Balance Sheets as of September 30, 2013 and 2012.

Consolidated Statements of Income and Comprehensive Income for the years ended September 30, 2013, 2012 and 2011.

Consolidated Statements of Changes in Shareholders' Equity for the years ended September 30, 2013, 2012 and 2011.

Consolidated Statements of Cash Flows for the years ended September 30, 2013, 2012 and 2011.

Notes to Consolidated Financial Statements.

2. The following financial statement Schedule II – Valuation and Qualifying Accounts for the years ended September 30, 2013, 2012 and 2011 is filed as part of this report. All other financial statement schedules have been omitted because they are not applicable or are not required or the information required to be set forth therein is included in the financial statements or notes thereto contained in Part II, Item 8 of this current report.

Schedule II – Valuation and Qualifying Accounts

| | Balance at Beginning of Year | Charged to Costs and Expenses | Write offs | Recoveries | Balance at End of Year |
|---|------------------------------------|-------------------------------------|--------------|------------|------------------------------|
| Year Ended September 30, 2013 | | | | | |
| Allowance for Doubtful Accounts | \$300,000 | – | (5,692) | 5,692 | \$300,000 |
| Allowance for Excess and Obsolete Inventory | \$1,000,000 | 1,044,913 | (294,913) | – | \$1,750,000 |
| Year Ended September 30, 2012 | | | | | |
| Allowance for Doubtful Accounts | \$300,000 | – | (2,404) | 2,404 | \$300,000 |
| Allowance for Excess and Obsolete Inventory | \$1,556,000 | 580,587 | (1,136,587) | – | \$1,000,000 |
| Year Ended September 30, 2011 | | | | | |
| Allowance for Doubtful Accounts | \$300,000 | 3,453 | (3,453) | – | \$300,000 |
| Allowance for Excess and Obsolete Inventory | \$2,545,000 | 415,808 | (1,404,808) | – | \$1,556,000 |

3. The following documents are included as exhibits to this Form 10-K.

Exhibit Description

- 3.1 Certificate of Incorporation of the Company and amendments thereto incorporated by reference to Exhibit 3.1 to the Annual Report on Form 10-KSB filed with the Securities and Exchange Commission by the Company on January 10, 2003.
- 3.2 Bylaws of the Company, as amended, incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission by the Company on December 31, 2007.
- 4.1 Certificate of Designation, Preferences, Rights and Limitations of ADDvantage Media Group, Inc. Series A 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 and Exchange Commission by the Company on October 14, 1999.
- 10.1 The ADDvantage Media Group, Inc. 1998 Incentive Stock Plan, incorporated by reference to Appendix A to the Company's Proxy Statement relating to the Company's 1998 Annual Meeting, filed with the Securities and Exchange Commission on April 28, 1998.
- 10.2 First Amendment to ADDvantage Media Group, Inc. 1998 Incentive Stock Plan, incorporated by reference to Exhibit 4.4 to the Company's Registration Statement on Form S-8 filed with the Securities and Exchange Commission on November 20, 2003.
- 10.3 Senior Management Incentive Compensation Plan, incorporated by reference to the Current Report on Form 8-K filed with the Securities and Exchange Commission by the Company on March 9, 2007.
- 10.4 Employment Contract between the Company and Scott A. Francis, incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission by the Company on September 18, 2008.
- 10.5 Amended and Restated Revolving Credit and Term Loan Agreement dated November 30, 2010, incorporated by reference to Exhibit 10.6 to the Company's Form 10-K filed with the Securities and Exchange Commission on December 14, 2010.
- 10.6 Amendment One to Amended and Restated Revolving Credit and Term Loan Agreement dated November 30, 2011, incorporated by reference to Exhibit 10.6 to the Company's Form 10-K filed with the Securities and Exchange Commission on December 15, 2011.
- 10.7 Employment Agreement dated April 2, 2012 between the Company and David L. Humphrey, incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission by the Company on April 6, 2012.
- 10.8 Form of Non-Qualified Stock Option Agreement under the Company's 1998 Incentive Stock Plan as amended, incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed with the Securities and Exchange Commission by the Company on April 6, 2012.
- 10.9 Change in Control Agreement dated April 2, 2012 between the Company and Scott A. Francis, incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed with the Securities and Exchange Commission

by the Company on April 6, 2012.

10.10 Form of Restricted Stock Agreement under the Company's 1998 Incentive Stock Plan as amended, incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K filed with the Securities and Exchange Commission by the Company on April 6, 2012.

10.11 Amendment Two to Amended and Restated Revolving Credit and Term Loan Agreement dated November 30, 2012, incorporated by reference to Exhibit 10.11 to the Company's Form 10-K filed with the Securities and Exchange Commission on December 11, 2012.

10.12 Amendment Three to Amended and Restated Revolving Credit and Term Loan Agreement dated November 29, 2013.

21.1 Listing of the Company's subsidiaries.

23.1 Consent of HoganTaylor LLP.

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002.

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002.

32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS XBRL Instance Document.

101.SCH XBRL Taxonomy Extension Schema.

101.CAL XBRL Taxonomy Extension Calculation Linkbase.

101.DEF XBRL Taxonomy Extension Definition Linkbase.

101.LAB XBRL Taxonomy Extension Label Linkbase.

101.PRE XBRL Taxonomy Extension Presentation Linkbase.

INDEX TO EXHIBITS

The following documents are included as exhibits to this Form 10-K.

Exhibit Description

- 3.1 Certificate of Incorporation of the Company and amendments thereto incorporated by reference to Exhibit 3.1 to the Annual Report on Form 10-KSB filed with the Securities and Exchange Commission by the Company on January 10, 2003.
- 3.2 Bylaws of the Company, as amended, incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission by the Company on December 31, 2007.
- 4.1 Certificate of Designation, Preferences, Rights and Limitations of ADDvantage Media Group, Inc. Series A 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 and Exchange Commission by the Company on October 14, 1999.
- 10.1 The ADDvantage Media Group, Inc. 1998 Incentive Stock Plan, incorporated by reference to Appendix A to the Company's Proxy Statement relating to the Company's 1998 Annual Meeting, filed with the Securities and Exchange Commission on April 28, 1998.
- 10.2 First Amendment to ADDvantage Media Group, Inc. 1998 Incentive Stock Plan, incorporated by reference to Exhibit 4.4 to the Company's Registration Statement on Form S-8 filed with the Securities and Exchange Commission on November 20, 2003.
- 10.3 Senior Management Incentive Compensation Plan, incorporated by reference to the Current Report on Form 8-K filed with the Securities and Exchange Commission by the Company on March 9, 2007.
- 10.4 Employment Contract between the Company and Scott A. Francis, incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission by the Company on September 18, 2008.
- 10.5 Amended and Restated Revolving Credit and Term Loan Agreement dated November 30, 2010, incorporated by reference to Exhibit 10.6 to the Company's Form 10-K filed with the Securities and Exchange Commission on December 14, 2010.
- 10.6 Amendment One to Amended and Restated Revolving Credit and Term Loan Agreement dated November 30, 2011, incorporated by reference to Exhibit 10.6 to the Company's Form 10-K filed with the Securities and Exchange Commission on December 15, 2011.
- 10.7 Employment Agreement dated April 2, 2012 between the Company and David L. Humphrey, incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission by the Company on April 6, 2012.
- 10.8 Form of Non-Qualified Stock Option Agreement under the Company's 1998 Incentive Stock Plan as amended, incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed with the Securities and Exchange Commission by the Company on April 6, 2012.

- 10.9 Change in Control Agreement dated April 2, 2012 between the Company and Scott A. Francis, incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed with the Securities and Exchange Commission by the Company on April 6, 2012.
- 10.10 Form of Restricted Stock Agreement under the Company's 1998 Incentive Stock Plan as amended, incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K filed with the Securities and Exchange Commission by the Company on April 6, 2012.
- 10.11 Amendment Two to Amended and Restated Revolving Credit and Term Loan Agreement dated November 30, 2012, incorporated by reference to Exhibit 10.11 to the Company's Form 10-K filed with the Securities and Exchange Commission on December 11, 2012.
- 10.12 Amendment Three to Amended and Restated Revolving Credit and Term Loan Agreement dated November 29, 2013.

21.1 Listing of the Company's subsidiaries.

23.1 Consent of HoganTaylor LLP.

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002.

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002.

32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS XBRL Instance Document.

101.SCH XBRL Taxonomy Extension Schema.

101.CAL XBRL Taxonomy Extension Calculation Linkbase.

101.DEF XBRL Taxonomy Extension Definition Linkbase.

101.LAB XBRL Taxonomy Extension Label Linkbase.

101.PRE XBRL Taxonomy Extension Presentation Linkbase.

