ADDVANTAGE TECHNOLOGIES GROUP INC
Form 10QSB
August 14, 2001

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

FORM 10-QSB

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

For the quarterly period ended June 30, 2001

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

For the transition period ________________ to ______________

Commission File number 1-10799

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

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

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

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

Shares outstanding of the issuer's $.01 par value common stock as of August 1, 2001 is 10,048,738.

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

ADDVANTAGE TECHNOLOGIES GROUP, INC.
CONSOLIDATED BALANCE SHEET
June 30, 2001

| | |
|---|---|
| Assets | |
| Current assets: | |
| Cash | $ 4 |
| Accounts receivable | 2,6 |
| Inventories | 18,2 |
| Deferred income taxes | |
| | -------- |
| Total current assets | 21,3 |
| | |
| Property and equipment, at cost | |
| Machinery and equipment | 2,0 |
| Leasehold improvements | 1 |
| Other property and equipment | |
| | -------- |
| | 2,2 |
| Less accumulated depreciation and amortization | (7 |
| | -------- |
| Net property and equipment | 1,4 |
| | |
| Other assets: | |
| Deferred income taxes | 9 |
| Investment | |
| Goodwill, net of accumulated amortization of $202,069 | 1,5 |
| Other assets | |
| | -------- |
| Total other assets | 2,5 |
| | -------- |
| | |
| Total assets | $ 25,4 |

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See notes to consolidated financial statements



ADDVANTAGE TECHNOLOGIES GROUP, INC.
CONSOLIDATED BALANCE SHEET
June 30, 2001

| | |
|---|---|
| Liabilities and Stockholders' Equity | |
| Current liabilities: | |
| Accounts payable | $ 2,0 |
| Accrued expenses | 2 |
| Accrued income taxes | 3 |
| Bank revolving line of credit | 3,8 |
| Note payable - current portion | 1 |
| Dividends payable | 3 |
| Stockholder loans | 1,2 |
| Total current liabilities | 8,2 |
| Note Payable | 3 |
| Stockholders' equity: | |
| Preferred stock, 5,000,000 shares authorized, $1.00 par value, at stated value: | |
| Series A, 5% cumulative convertible; 200,000 shares issued and outstanding with a stated value of $40 per share | 8,0 |
| Series B, 7% cumulative; 300,000 shares issued and outstanding with a stated value of $40 per share | 12,0 |
| Common stock, $.01 par value; 30,000,000 shares authorized; 10,048,738 shares issued | 1 |
| Common stockholders' deficit | (3,2 |
| | 16, |
| Less: Treasury stock, 21,100 shares at cost | ( |
| Total stockholders' equity | 16,7 |
| Total liabilities and stockholders' equity | $ 25,4 |

See notes to consolidated financial statements



ADDVANTAGE TECHNOLOGIES GROUP, INC.
STATEMENTS OF INCOME

| | Three months ended June 30 | | Nine mont June |
|---|---|---|---|
| | 2001 | 2000 | 2001 |

| | | | |
|---|---|---|---|
| Net sales and service income | $ 7,551,120 | $ 5,330,956 | $ 17,122,114 |
| Cost of sales | 3,870,713 | 2,468,279 | 8,697,281 |
| Gross profit | 3,680,407 | 2,862,677 | 8,424,833 |
| Operating expenses | 1,895,669 | 1,328,774 | 4,376,525 |
| Income from operations | 1,784,738 | 1,533,903 | 4,048,308 |
| Interest expense | (83,428) | (101,225) | (254,093) |
| Income before income taxes | 1,701,310 | 1,432,678 | 3,794,215 |
| Provision for income taxes | 646,950 | 543,189 | 1,453,678 |
| Net income | 1,054,360 | 889,489 | 2,340,537 |
| Preferred Dividends | 310,000 | 310,000 | 930,000 |
| Net income attributable to common stockholders | $ 744,360 | $ 579,489 | $ 1,410,537 |
| Basic and Diluted Earnings per share | $ 0.07 | $ 0.06 | $ 0.14 |

See notes to consolidated financial statements



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

| | 2001 | 2000 |
|---|---|---|
| Cash Flows from Operating Activities | | |
| Net income | $ 2,340,537 | $ 2,941,289 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation and amortization | 204,778 | 143,664 |
| Provision for deferred income taxes | 134,719 | 134,718 |
| Change in: | | |
| Receivables | 1,415,330 | 404,320 |
| Prepaid and other expense | (3,047) | 202,543 |
| Inventories | ( 2,821,511) | ( 2,753,763 |
| Accounts payable and accrued liabilities | 657,353 | 204,111 |
| Net cash provided by operating activities | 1,928,159 | 1,276,882 |
| Cash Flows from Investing Activities | | |
| Additions to property and equipment | (213,295) | (164,919 |
| Proceeds from sale of investment in Ventures | 657,572 | - |
| Acquisition of stock in NCS | (1,689,000) | - |
| Cash acquired in NCS Acquisition | 575,958 | - |
| Cash acquired in Comtech Acquisition | 22,773 | - |
| Cash acquired in LEE CATV merger | - | 90,047 |
| Net cash provided by investing activities | (645,992) | (74,872 |

| | | |
|---|---|---|
| Cash Flows from Financing Activities | | |
| Net borrowings (repayments) under line of credit | 333,215 | (573,303 |
| Advances (payment) on stockholders loan | (300,000) | 74,993 |
| Payments of Preferred Dividends | (930,000) | (620,000 |
| Proceeds for exercise of common stock options | - | 7,437 |
| Net cash used in financing activities | (896,785) | (1,110,873 |
| Net increase in cash | 385,382 | 91,137 |
| Cash, beginning of period | 22,495 | 16,843 |
| Cash, end of period | $ 407,877 | $ 107,980 |

See notes to consolidated financial statements

6

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

| | 2001 | 2000 |
|---|---|---|
| Supplemental Cash Flow Information | | |
| Interest paid for the period | $ 254,093 | $ 273,74 |
| Supplemental Disclosure of Non-cash Investing and Financing Activities | | |
| Acquisition of Lee CATV Corporation: | | |
| Issuance of preferred stock | - | 1,000,00 |
| Working capital other than cash | - | 241,01 |
| Land and equipment | - | 116,69 |
| Intangibles and other assets | - | 1,276,22 |
| Assumption of note payable | - | 723,98 |
| Issuance of note payable | - | 271,09 |

See notes to consolidated financial statements

7

NOTES TO CONDENSED FINANCIAL STATEMENTS (Unaudited)

Note 1 - Basis of Presentation

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

Note 2 - Description of Business

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

Note 3 - Earnings per Share

| | Three months ended June 30, 2001 | Three months ended June 30, 2000 | Nine month ended June 30, 2001 |
|---|---|---|---|
| Net Income attributable to common stockholders | $ 744,360 | $ 579,489 | $ 1,410,53 |
| Basic and Diluted EPS Computation: | | | |
| Weighted average outstanding common shares | 10,002,957 | 9,772,448 | 9,994,73 |
| Earnings per Share | $0.07 | $0.06 | $0.1 |

Note 4 - Acquistions and other events

On March 2, 2001, the Company entered into a Purchase and Sale Agreement with Richard S. Grasso (the "Shareholder") and NCS, a Pennsylvania corporation, to purchase from the Shareholder all of the issued and outstanding common stock of NCS. The consideration for the acquisition of $1,988,000 was negotiated between the parties at arm's length and included: (i) $800,000 in cash, (ii) a promissory note payable to the Shareholder in the amount of $200,000, (iii) the assumption of Shareholder's obligation of $639,000 under a promissory note issued to a prior owner of NCS and (iv) $49,000 remaining in a payable to the shareholder. As contemplated by the Purchase and Sale Agreement, the Shareholder entered into a three-year consulting agreement with NCS for $300,000



and the Shareholder also entered into a non-competition agreement with the Company and NCS. The Company financed the purchase price through borrowings under its line of credit agreement with Bank of Oklahoma. Immediately after closing, $639,000 was paid for the assumption of the Shareholder's obligation. As a result of this transaction, NCS became a wholly owned subsidiary of the Company.

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

On May 31, 2001, the Company entered into a Purchase and Sale Agreement with Nick Ferolito and Russell Brown (the "Shareholders") and Fero-Midwest dba Comtech Services, a Missouri corporation ("Comtech"), to purchase from the Shareholders all of the issued and outstanding common stock of Comtech. The consideration for the acquisition was negotiated between the parties at arm's length for $250,000 in cash and assumption of certain liabilities as stated in the agreement. As a result of this transaction, Comtech became a wholly owned subsidiary of the Company.

Note 5 - Investment in Ventures Education System Corporation

On November 1, 2000, Ventures Education System Corporation exercised its option to repurchase 733,333 shares (after giving effect to a recent four for three stock split) of Ventures stock acquired by the company in September 1998. The exercise price consisted of $660,000 ($640,000 cash plus deposits received of $20,000) and common stock warrants to purchase 50,000 shares at $.90 per share. The warrants expire on January 31, 2004 or one year after a public offering, whichever first occurs.

Note 6 - Revolving Line of Credit

On November 4, 2000, the Bank of Oklahoma amended the Company's line of credit, which is due June 30, 2002. The Company is authorized to borrow up to $12,000,000 at the borrowing rate of 1 1/4% below prime (5.50% at June 30, 2001). This line of credit will provide the lesser of $6,000,000 or the sum of 80% of qualified accounts receivable and 40% of qualified inventory in a revolving Line of Credit for working capital purposes ($4,000,000 available at March 31, 2001), $4,000,000 for future acquisitions meeting Bank of Oklahoma credit guidelines and $2,000,000 to be used at the Company's discretion based on assets purchased. The line of credit is collateralized by inventory, accounts receivable, equipment and fixtures, and general intangibles.
The balance outstanding at June 30, 2001 is $3,894,094.



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

Overview

The Company specializes in the refurbishment of previously owned cable television ("CATV") equipment and the distribution of new and surplus equipment to CATV operators and other broadband communication companies.

On May 31, 2001, the Company entered into a Purchase and Sale Agreement with Nick Ferolito and Russell Brown (the "Shareholders") and Fero-Midwest dba Comtech Services, a Missouri corporation ("Comtech"), to purchase from the Shareholders all of the issued and outstanding common stock of Comtech. The consideration for the acquisition was negotiated between the parties at arm's length for $250,000 in cash and assumption of certain liabilities as stated in the agreement. As a result of this transaction, Comtech became a wholly owned subsidiary of the Company.

Results of Operations

Comparison of Results of Operations for the Three Months Ended June 30, 2001 and June 30, 2000

Gross profits increased $817,730 or 28.6% in the third quarter of the fiscal year 2001, as compared to 2000. This increase was primarily due to a high volume of new equipment sales sold at lower margins and repair services coupled with the acquisitions of NCS and Comtech.

Net Sales and service income. Net Sales soared $2,220,164 or 41.6%, to $7,551,120 in the third quarter of fiscal 2001 from $5,330,956 for the same period in fiscal 2000. The increase was primarily due to broadband companies looking for ways to reduce overall subscriber costs by utilizing our diverse inventory and repairing existing equipment. NCS and Comtech had combined sales of $1,355,141 for the quarter.

Cost of Sales. Cost of goods sold increased to $3,870,713 for the third quarter of fiscal 2001 from $2,468,279 for the same period of fiscal 2000. The increase was primarily due to a higher costs associated with new equipment sales.

Operating Expenses. Operating expenses increased to $1,895,669 in the third quarter of fiscal 2001 from $1,328,774 in the third quarter of 2000. The increase in operating expenses was primarily due to the acquisitions of NCS and Comtech.

Income from Operations. Income from operations increased 16.4% to $1,784,738 for the third quarter of 2001 from $1,533,903 for the third quarter of 2000. This increase was primarily due to overall revenue increase offset by higher operating expenses resulting from the recent acquisitions.



Comparison of Results of Operations for the Nine Months Ended June 30, 2001 and June 30, 2000

Gross profits decreased $345,674 or 3.9% in the first nine months of the fiscal year 2001, as compared to 2000. This decrease was primarily due to a high volume of new equipment sales sold at lower margins and lower remanufactured equipment sales, coupled with the acquisitions of NCS and Comtech.

Net Sales and service income. Net Sales increased $507,458 or 3.1%, to $17,122,114 in the first nine months of fiscal year 2001 from $16,614,656 for the same period in 2000. The increase was primarily due to higher new equipment sales and repair services offset by lower remanufactured sales. Sales were affected by an overall cable industry slowdown that occurred during fiscal year 2001.

Cost of Sales. Cost of goods sold increased to $8,697,281 for the nine month period of fiscal 2001 from $7,844,149 for the same period of 2000. The increase was primarily due to a higher costs associated with new equipment sales.

Operating Expenses. Operating expenses increased to $4,376,525 for the first nine months of fiscal 2001 from $3,813,779 for the prior year. The increase in operating expenses was primarily due to higher costs associated with the recent acquisitions.

Income from Operations. Income from operations decreased 18.3% to $4,048,308 for the first nine months of 2001 from $4,956,728 for the same period last year. This decrease was primarily due to higher percentage of new equipment sales, which are sold at lower margins, coupled with the increase in operating costs associated with the recent acquisitions.

Liquidity and Capital Resources

On November 4, 2000, the Bank of Oklahoma increased the Company's line of credit under which it is authorized to borrow up to $12,000,000 and reduced the borrowing rate to 1 1/4% below prime (5.5% at June 30, 2001). This line of credit will provide the lesser of $6,000,000 or the sum of 80% of qualified accounts receivable and 40% of qualified inventory in a revolving line of credit for working capital purposes, $4,000,000 for future acquisitions meeting Bank of Oklahoma credit guidelines and $2,000,000 to be used at the Company's discretion based on assets purchased. The line of credit is collateralized by inventory, accounts receivable, equipment and fixtures, and general intangibles.

The Company finances its operations primarily through internally generated funds and a bank line of credit totaling $6,000,000 reserved for working capital purposes. At June 30, 2001, the revolving line of credit consisted of a $3,894,094 balance outstanding due June 30, 2002, with interest payable monthly at Chase Manhattan Prime less 1.25% (5.5% at June 30, 2001). The company also owes a $67,844 balance remaining on a note resulting from the Diamond W Investments, Inc. purchase, payable quarterly at 8% to the former owners and $178,666 on a note resulting from the NCS purchase, payable quarterly at 7% to the former owner.

Stockholder loans include a $1,250,000 note bearing interest the same rate as the Company's bank line of credit, and is subordinate to the bank notes payable.



The Company has authorized the repurchase of up to $1,000,000 of its outstanding common stock from time to time in the open market at prevailing market prices or in privately negotiated transactions. The repurchased shares will be held in treasury and used for general corporate purposes including possible use in the company's employees stock plans or for acquisitions.

Forward Looking Statements

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



## PART II-OTHER INFORMATION

## OTHER INFORMATION

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

(a) Reports on Form 8-K

None.



## SIGNATURES

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

| Signature | Title | Date |
|---|---|---|
| /S/ Kenneth A. Chymiak<br>Kenneth A. Chymiak | Director and President<br>(Principal Executive Officer) | August 14, 2001 |
| /S/ Adam R. Havig<br>Adam R. Havig | Controller<br>(Principal Accounting Officer) | August 14, 2001 |