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ADVANTAGE TECHNOLOGIES GROUP INC
Form 10QSB
May 14, 2002

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

FORM 10-QSB

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

For the quarterly period ended March 31, 2002

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

For the transition period _____ to _____

Commission File number 1-10799

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

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

1605 E. Iola
Broken Arrow, Oklahoma 74012
(Address of principal executive office) (Zip Code)

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

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

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

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

Part I - Financial Information

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Financial Information:

Item 1. Financial Statements

Consolidated Balance Sheet
March 31, 2002

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

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

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| | |
|--------------------|---------------|
| Total other assets | 2,357,131 |
| | ----- |
| Total assets | \$ 24,987,958 |
| | ===== |

See notes to consolidated financial statements

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

Liabilities and Stockholders' Equity

Current liabilities:

| | |
|---------------------------------|------------|
| Accounts payable | \$ 582,266 |
| Accrued expenses | 251,760 |
| Bank revolving line of credit | 4,103,661 |
| Notes payable - current portion | 189,377 |
| Dividends payable | 310,000 |
| Stockholder loans | 1,210,000 |
| | ----- |

Total current liabilities

6,647,064

Notes Payable

583,460

Stockholders' equity:

| | |
|---|-------------|
| Preferred stock, 5,000,000 shares authorized, \$1.00 par value, at stated value: | |
| Series A, 5% cumulative convertible; 200,000 shares issued and outstanding with a stated value of \$40 per share | 8,000,000 |
| Series B, 7% cumulative; 300,000 shares issued and outstanding with a stated value of \$40 per share | 12,000,000 |
| Common stock, \$.01 par value; 30,000,000 shares authorized; 10,011,716 shares issued | 100,117 |
| Common stockholders' deficit | (2,288,519) |
| | ----- |

17,811,598

Less: Treasury stock, 20,000 shares at cost

(54,164)

Total stockholders' equity

17,757,434

Total liabilities and stockholders' equity

\$ 24,987,958

=====

See notes to consolidated financial statements

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ADVANTAGE TECHNOLOGIES GROUP, INC.
STATEMENTS OF INCOME

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| | Three months ended March 31 | | Six months ended March 31 | |
|---|--------------------------------|--------------|------------------------------|---------------|
| | 2002 | 2001 | 2002 | 2001 |
| Net sales and service income | \$ 5,843,964 | \$ 4,754,311 | \$ 11,428,693 | \$ 10,250,000 |
| Cost of sales | 2,862,187 | 2,379,304 | 5,781,358 | 5,000,000 |
| Gross profit | 2,981,777 | 2,375,007 | 5,647,335 | 5,250,000 |
| Operating expenses | 1,746,111 | 1,317,320 | 3,336,041 | 3,000,000 |
| Income from operations | 1,235,667 | 1,057,687 | 2,311,294 | 2,250,000 |
| Interest expense | 48,522 | 82,746 | 115,370 | 100,000 |
| Income before income taxes | 1,187,144 | 974,941 | 2,195,924 | 2,150,000 |
| Provision for income taxes | 407,000 | 384,055 | 754,000 | 700,000 |
| Net income | 780,144 | 590,886 | 1,441,924 | 1,450,000 |
| Preferred Dividends | 310,000 | 310,000 | 620,000 | 620,000 |
| Net income attributable to common stockholders | \$ 470,144 | \$ 280,886 | \$ 821,924 | \$ 830,000 |
| Earnings per Share: Basic and Diluted | \$ 0.05 | \$ 0.03 | \$ 0.08 | \$ 0.05 |

See notes to consolidated financial statements

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

| | 2002 | 2001 |
|---|--------------|--------------|
| Cash Flows from Operating Activities | | |
| Net income | \$ 1,441,924 | \$ 1,286,000 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation and amortization | 148,918 | 122,000 |
| Provision for deferred income taxes | 89,813 | 89,000 |
| Change in: | | |
| Receivables | 225,336 | 1,384,000 |
| Prepays and other expense | (117,467) | (11,000) |
| Inventories | 256,500 | (978,000) |
| Accounts payable and accrued liabilities | (1,002,382) | (500,000) |
| Net cash provided by operating activities | 1,042,641 | 1,392,000 |
| Cash Flows from Investing Activities | | |
| Additions to property and equipment | (379,960) | (67,000) |
| Proceeds from sale of investment in Ventures | - | 657,000 |

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

See notes to consolidated financial statements

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

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

See notes to consolidated financial statements

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NOTES TO CONDENSED FINANCIAL STATEMENTS (Unaudited)

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Note 1 - Basis of Presentation

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

Note 2 - Description of Business

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

Note 3 - Earnings per Share

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

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

At March 31, 2002, a \$4.1 million balance is outstanding under a \$6.0 million line of credit due June 30, 2002, with interest payable monthly at Chase Manhattan Prime less 1 1/4% (3.5% at March 31, 2002). Borrowings under the line of credit are limited to the lesser of \$6.0 million or the sum of 80% of qualified accounts receivable and 40% of qualified inventory for working capital purposes, \$4.0 million for future acquisitions meeting Bank of Oklahoma credit guidelines and \$2.0 million to be used at the Company's discretion based on assets purchased. The line of credit is collateralized by inventory, accounts receivable, equipment and fixtures, and general intangibles.

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

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

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

Overview

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

Results of Operations

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

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

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

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

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

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

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

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

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

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

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

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

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

Liquidity and Capital Resources

The company has a line of credit with the Bank of Oklahoma under which it is authorized to borrow up to \$12.0 million at a borrowing rate of 1.25% below Chase Manhattan Prime (3.5% at March 31, 2002). This line of credit will

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provide the lesser of \$6.0 million or the sum of 80% of qualified accounts receivable and 40% of qualified inventory in a revolving line of credit for working capital purposes, \$4.0 million for future acquisitions meeting Bank of Oklahoma credit guidelines and \$2.0 million to be used at the Company's discretion based on assets purchased. The line of credit is collateralized by inventory, accounts receivable, equipment and fixtures, and general intangibles and had an outstanding balance at March 31, 2002 of \$4.1 million, due June 30, 2002.

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

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

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

Forward Looking Statements

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

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PART II-OTHER INFORMATION

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OTHER INFORMATION

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

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

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

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

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

(a) Reports on Form 8-K

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

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SIGNATURES

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

ADVANTAGE TECHNOLOGIES GROUP, INC.

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

