OMNI ENERGY SERVICES CORP
Form 10-Q
May 07, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarterly period ended March 31, 2009

or

¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period to

COMMISSION FILE NUMBER 0-23383

OMNI ENERGY SERVICES CORP.

(Exact name of registrant as specified in its charter)

LOUISIANA	**72-1395273**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

4500 N.E. EVANGELINE THRUWAY

CARENCRO, LOUISIANA	**70520**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (337) 896-6664

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 x 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 (§232.405 of this chapter) 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 whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	¨	Accelerated filer	x
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 Exchange Act). Yes ¨ No x

As of May 4, 2009 there were 20,663,996 shares of the Registrant s common stock, $0.01 par value per share, outstanding.

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OMNI ENERGY SERVICES CORP

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2009

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

OMNI ENERGY SERVICES CORP.

CONSOLIDATED BALANCE SHEETS

	December 31, 2008	March 31, 2009
	(Dollars in thousands, except per share amounts)	
		(unaudited)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 2,043	$ 1,472
Restricted cash	942	
Trade receivables, net	33,848	24,896
Other receivables	682	84
Parts and supplies inventory	7,897	7,444
Prepaid expenses and other current assets	5,789	3,742
Deferred tax assets	384	
Due from related party	204	195
Assets held for sale	900	900
Total current assets	52,689	38,733
PROPERTY, PLANT AND EQUIPMENT, net	80,654	78,524
OTHER ASSETS:		
Goodwill	8,614	8,614
Customer intangible assets, net	2,726	2,607
Licenses, permits and other intangible assets, net	13,626	13,374
Loan closing costs, net	4,963	4,674
Other assets	250	250
Total other assets	30,179	29,519
TOTAL ASSETS	$ 163,522	$ 146,776
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 12,005	$ 6,631
Accrued expenses	7,599	6,417
Line of credit	9,801	5,000
Current maturities of long-term debt	17,564	18,418
Insurance notes payable	1,710	859
Total current liabilities	48,679	37,325
LONG-TERM LIABILITIES:		
Long-term debt, less current maturities	45,710	39,316
Other long-term liabilities	527	440

Deferred tax liabilities	17,597	17,478
Total long-term liabilities	63,834	57,234
Total liabilities	112,513	94,559
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS EQUITY:		
Convertible Preferred stock, no par value, 5,000,000 shares authorized; 29 shares of Series B issued and outstanding at December 31, 2008 and March 31, 2009 and 5,396 shares of Series C issued and outstanding at December 31, 2008 and March 31, 2009, respectively, liquidation preference of $1,000 per share	1,074	1,074
Common stock, $0.01 par value, 45,000,000 shares authorized; 20,647,496 and 20,663,996 issued and outstanding at December 31, 2008 and March 31, 2009, respectively	206	206
Preferred stock dividends declared	3	3
Additional paid-in capital	99,045	99,443
Accumulated deficit	(49,319)	(48,509)
Total stockholders equity	51,009	52,217
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 163,522	$ 146,776

The accompanying notes are an integral part of these consolidated financial statements.

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OMNI ENERGY SERVICES CORP.

CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2009
	(in thousands, except per share amounts)	
Operating revenue		
Services	$ 32,590	$ 25,981
Rentals	8,371	8,923
Total operating revenue	40,961	34,904
Operating expenses:		
Direct costs (exclusive of depreciation and amortization shown separately below)		
Services	24,975	18,178
Rentals	4,124	4,453
Depreciation and amortization	2,814	3,337
General and administrative expenses	8,778	6,172
Total operating expenses	40,691	32,140
Operating income	270	2,764
Interest expense	(1,990)	(1,040)
Other expense, net	(246)	(10)
Income (loss) before income tax expense	(1,966)	1,714
Provision for income tax (expense) benefit	562	(784)
Net income (loss)	(1,404)	930
Dividends on preferred stock	(123)	(120)
Net income (loss) available to common stockholders	$ (1,527)	$ 810
Basic income (loss) per share:		
Net income (loss) available to common stockholders	$ (0.08)	$ 0.04
Diluted income (loss) per share:		
Net income (loss) available to common stockholders	$ (0.08)	$ 0.04
Weighted average common shares outstanding:		
Basic	19,070	20,577
Diluted	19,070	24,226

The accompanying notes are an integral part of these consolidated financial statements.

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OMNI ENERGY SERVICES CORP.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

FOR THE THREE MONTHS ENDED MARCH 31, 2009

(unaudited)

(in thousands, except share amounts)

	Preferred Stock		Common Stock	
	Shares	Amount	Shares	Amount
BALANCE, December 31, 2008	5,425	$ 1,074	20,647,496	$ 206
Stock based compensation				
Restricted stock awards, net of forfeitures			16,500	
Preferred stock dividends declared				
Net income				
BALANCE, March 31, 2009	5,425	$ 1,074	20,663,996	$ 206

	Preferred Stock Dividends Declared	Additional Paid-In Capital	Accumulated Deficit	Total
BALANCE, December 31, 2008	$ 3	$ 99,045	$ (49,319)	$ 51,009
Stock based compensation		398		398
Restricted stock awards, net of forfeitures				
Preferred stock dividends declared			(120)	(120)
Net income			930	930
BALANCE, March 31, 2009	$ 3	$ 99,443	$ (48,509)	$ 52,217

The accompanying notes are an integral part of these consolidated financial statements.

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OMNI ENERGY SERVICES CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	Three Months Ended March 31, 2008	2009
	(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ (1,404)	$ 930
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	2,814	3,337
Amortization of deferred loan issuance costs	259	289
Loss on fixed asset dispositions	292	16
Stock based compensation expense	195	398
Accretion of discount on convertible notes and other	38	13
Provision for doubtful accounts	66	64
Deferred income taxes	(756)	769
Changes in operating assets and liabilities:		
Trade receivables	(1,585)	8,889
Other receivables	13	607
Parts and supplies inventory	(657)	453
Prepaid expenses and other current assets	1,306	1,542
Other assets	(242)	
Accounts payable and accrued expenses	7,119	(6,553)
Other long term liabilities		(100)
Net cash provided by operating activities	7,458	10,654
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(2,850)	(935)
Proceeds from disposal of property, plant and equipment	15	82
Acquisitions, net of cash received	(7,109)	
Decrease in restricted cash	489	942
Net cash provided by (used in) investing activities	(9,455)	89
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term debt	(6,193)	(6,391)
Loan closing costs	(100)	
Preferred stock dividends paid in cash	(124)	(122)
Principal payments on line of credit	(55,056)	(51,035)
Borrowings on line of credit	56,995	46,234
Net cash used in financing activities	(4,478)	(11,314)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(6,475)	(571)
Cash and cash equivalents, at beginning of period	13,431	2,043
Cash and cash equivalents, at end of period	$ 6,956	$ 1,472

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OMNI ENERGY SERVICES CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

(unaudited)

	Three Months Ended March 31, 2008	2009
	(in thousands)	
SUPPLEMENTAL CASH FLOW DISCLOSURES:		
Cash paid for interest	$ 1,739	$ 715
Cash paid for taxes	$ 175	$ 765
NON-CASH TRANSACTIONS:		
Application of restricted cash to capital lease payable and other	$ 625	$
Notes payable issued to former owners of acquired entities	$ 4,000	$

The accompanying notes are an integral part of these consolidated financial statements.

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OMNI ENERGY SERVICES CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The financial statements included herein, which have not been audited pursuant to the rules and regulations of the Securities and Exchange Commission (SEC), reflect all adjustments which, in the opinion of management, are necessary for a fair presentation of our financial position, results of operations and cash flows for the interim periods on a basis consistent with the annual audited statements. All such adjustments are of a normal recurring nature. The results of operations for interim periods are not necessarily indicative of the results that may be expected for any other interim period of a full year. Certain information, accounting policies and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been omitted pursuant to such rules and regulations, although we believe that the disclosures are adequate to make the information presented not misleading. These financial statements should be read in conjunction with our audited financial statements included in our Annual Report on Form 10-K, for the year ended December 31, 2008 filed with the SEC on March 13, 2009.

IMPAIRMENT OF LONG-LIVED ASSETS

We review our long lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable in accordance with Statement of Financial Accounting Standards (SFAS) No. 144 *Accounting for the Impairment and Disposal of Long-Lived Assets*. If the carrying amount of the asset, including any intangible assets associated with that asset, exceeds its estimated undiscounted net cash flow, before interest, we will recognize an impairment loss equal to the difference between its carrying amount and its estimated fair value.

CASH AND CASH EQUIVALENTS

We consider highly liquid investments with an original maturity of 90 days or less to be cash equivalents. The $0.9 million included in restricted cash at December 31, 2008 represents cash deposited into an irrevocable trust as part of a legal settlement which was paid to the trust beneficiary in January 2009.

STOCK BASED COMPENSATION

We follow the provisions of SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS No. 123R) which requires that compensation cost relating to share-based payment transactions be recognized in the financial statements. The cost is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the employee s requisite service period (generally the vesting period of the equity award).

ACCOUNTING PRONOUNCEMENTS RECENTLY ADOPTED

In September 2006, the Financial Accounting Standards Board (the FASB) issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157). This statement defines fair value, establishes a framework for measuring fair value under U.S. generally accepted accounting principles and requires enhanced disclosures about fair value measurements. It does not require any new fair value measurements. SFAS No. 157 was effective for our fiscal years beginning January 1, 2008 for financial assets and liabilities and January 1, 2009 for non-financial assets and liabilities. Our adoption of SFAS No. 157 for financial assets and liabilities on January 1, 2008 and non-financial assets and liabilities on January 1, 2009 did not have a material impact on our consolidated financial statements.

In December 2007, the FASB issued SFAS 141 (revised 2007), *Business Combinations* (SFAS 141R), to change how an entity accounts for the acquisition of a business. SFAS 141R replaces existing SFAS 141 in its entirety for business combinations. SFAS 141R carries forward the existing requirements to account for all business combinations using the acquisition method (formerly called the purchase method). In general, SFAS 141R changes the accounting for business combinations, including the measurement of acquirer shares issued in consideration for a business combination, the recognition of contingent consideration, the accounting for preacquisition gain and loss contingencies, the recognition of capitalized in-process research and development costs, the accounting for acquisition-related restructuring cost accruals, the treatment of acquisition related transaction costs and the recognition of changes in the acquirer s income tax valuation allowance. The new measurement requirements result in the recognition of the full amount of acquisition-date goodwill, which includes amounts attributable to noncontrolling interests. The acquirer recognizes in income any gain or loss on the remeasurement to acquisition-date fair value of consideration transferred or of previously acquired equity interests in the acquiree. Neither the direct costs incurred to effect a business combination nor the costs the acquirer expects to incur under a plan to restructure an acquired business may be included as part of the business combination accounting. As a result, those costs are charged to expense when incurred, except for debt or equity issuance costs, which are accounted for in accordance

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with other generally accepted accounting principles. SFAS 141R also changes the accounting for contingent consideration, in process research and development, and restructuring costs. In addition, after SFAS 141R is adopted, changes in uncertain tax positions or valuation allowances for deferred tax assets acquired in a business combination are recognized as adjustments to income tax expense or contributed capital, as appropriate, even if the deferred tax asset or tax position was initially acquired prior to the effective date of SFAS 141R. We adopted SFAS 141R as of the required effective date of January 1, 2009 and will apply its provisions prospectively to business combinations that occur after January 1, 2009. In April 2009, the FASB issued FASB Staff Position No. FAS 141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination that Arise from Contingencies*, (FSP No. FAS 141(R)-1). FSP No. FAS 141(R)-1 amends and clarifies the accounting, measurement and recognition provisions and the related disclosures arising from contingencies in a business combination under FAS No. 141(R). FSP No. FAS 141(R)-1 is effective for us for any business combination that is completed subsequent to January 1, 2009.

We did not have any business combinations during the three months ended March 31, 2009 and thus the adoption of Statement 141R did not have a significant effect on our consolidated financial statements. Additionally, there were no changes in our previously acquired deferred tax assets or uncertain tax positions.

In December 2007, the FASB issued SFAS No. 160 *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51* (SFAS No. 160). This Statement changes the accounting for noncontrolling (minority) interests in consolidated financial statements, including the requirements to classify noncontrolling interests as a component of consolidated stockholders equity, and the elimination of minority interest accounting in results of operations with earnings attributable to noncontrolling interests reported as part of consolidated earnings. Additionally, SFAS No. 160 revises the accounting for both increases and decreases in a parent s controlling ownership interest. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008, with early adoption prohibited. At this time, we have no noncontrolling interests therefore we have no impact from the adoption of this statement.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (SFAS No. 161). SFAS No. 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity s financial position, financial performance, and cash flows. SFAS No. 161 is effective for us beginning on January 1, 2009. There was not a material impact on our financial statements as a result of our adoption of SFAS No. 161.

In May 2008, the FASB issued its Staff Position APB No. 14-1 (FSP APB No. 14-1) *Accounting for Convertible Debt Instruments That May Be Settled Upon Conversion (Including Partial Cash Settlement).* FSP APB No. 14-1 requires the proceeds from the issuance of exchangeable debt instruments to be allocated between a liability component (issued at a discount) and an equity component. The resulting debt discount will be amortized over the period the convertible debt is expected to be outstanding as additional non-cash interest expense. The provisions of FSP APB No. 14-1 are effective for us beginning on January 1, 2009 and requires retrospective application. The impact on our consolidated financial statements as a result of the adoption of FSP APB No. 14-1 is immaterial.

ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS No. 162). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements. SFAS No. 162 is effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles* . The adoption of this standard is not expected to have a material impact on our consolidated financial statements.

In April 2009, the FASB issued FASB Staff Position No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability have Significantly Decreased and Identifying Transactions that are not Orderly*, (FSP No. FAS 157-4). FSP No. FAS 157-4 provides additional guidance for estimating fair value under FAS No. 157 when the volume and level of market activity for an asset or liability have significantly decreased when compared with normal market activity for the asset or liability. If there is a significant decrease in the volume and activity for the asset or liability, transactions or quoted prices may not be determinative of fair value in an orderly transaction and further analysis and adjustment of the transactions or quoted prices may be necessary. FSP No. FAS 157-4 is effective for the quarter ended June 30, 2009 and we do not anticipate any significant adjustments to our estimates of fair value for assets and liabilities measured at fair value upon adoption.

In April 2009, the FASB issued FASB Staff Position No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*, (FSP No. FAS 115-2 and FAS 124-2). FSP No. FAS 115-2 and FAS 124-2 amends the method for determining whether an other-than-temporary impairment exists and the classification of the impairment

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charge for debt securities and the related disclosures. FSP No. FAS 115-2 and FAS 124-2 is effective for the quarter ended June 30, 2009 and we do not anticipate any significant adjustments to our consolidated financial statements upon adoption.

In April 2009, the FASB issued FASB Staff Position No. FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*, (FSP No. FAS 107-1 and APB 28-1). FSP No. FAS 107-1 and APB 28-1 amends SFAS No. 107, *Disclosures about Fair Value of Financial Instruments* to require disclosures about the fair value of financial instruments for interim reporting periods. FSP No. FAS 107-1 and APB 28-1 is effective for the quarter ended June 30, 2009 and we do not anticipate that this staff position will have a significant effect on our consolidated financial statements.

NOTE 2. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, net, consists of the following at December 31, 2008 and March 31, 2009, respectively:

	December 31, 2008	March 31, 2009
	(In thousands)	
Land	$ 493	$ 493
Building and improvements	9,103	9,121
Drilling, field and support equipment	105,894	106,644
Shop equipment	721	723
Office equipment	2,387	2,387
Vehicles	4,991	4,931
Construction in progress	751	690
	124,340	124,989
Less: accumulated depreciation	(43,686)	(46,465)
Total property, plant and equipment, net	$ 80,654	$ 78,524

NOTE 3. LONG-TERM DEBT AND LINE OF CREDIT

At December 31, 2008 and March 31, 2009, long-term debt consists of the following:

	December 31, 2008	March 31, 2009
	(In thousands)	
Notes payable to a bank with interest payable at prime plus 1.50% (6.50% at December 31, 2008 and 4.75 % at March 31, 2009) maturing July 31, 2023, secured by real estate	$ 1,243	$ 1,228
Promissory notes payable to certain former owners of acquired companies with interest at 5%, maturing at various dates through April 2011	6,000	5,850
Convertible promissory notes payable to certain former stockholders of acquired companies with interest at 5%, maturing at various dates through April 2011	11,500	8,167
Promissory notes payable to finance companies secured by vehicles and equipment	492	452
Capital leases payable to finance companies secured by an aircraft and equipment	39	37
Term Loan payable to a bank, variable interest rate at 30-day LIBOR plus 3.00% (3.71% at December 31, 2008 and 3.52% at March 31, 2009), secured by various equipment, maturing April 23, 2013	44,000	42,000
Total	63,274	$ 57,734
Less: current maturities	(17,564)	(18,418)
Long-term debt, less current maturities	$ 45,710	$ 39,316

SENIOR CREDIT FACILITY

Effective April 24, 2008, we increased our credit facility to $90.0 million (Senior Credit Facility), including a $50.0 million term loan (the Term Loan), a $25.0 million working capital revolving line of credit (the Revolver), and a $15.0 million delayed draw term loan available to fund future acquisitions. The Revolver replaced our previous line of credit (the Line). Availability under the Revolver is the lower of: (i) $25.0 million or (ii) the sum of eligible accounts receivable and inventory, as defined under the agreement governing the Revolver. The Revolver accrues interest at the 30-day LIBOR plus 2.50% (3.22% at December 31, 2008 and 3.02% at March 31, 2009) and matures in April 2013. The Revolver is collateralized by accounts receivable and inventory. As of December 31, 2008 and March 31, 2009 we had $9.8 million and $5.0 million, respectively, outstanding under the Revolver, with approximately $12.0 million and $9.2 million, respectively, available for future borrowings. Due to the lock-box arrangement and the subjective acceleration clause in the agreements

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governing the Revolver and the Line, the debt under the Line and the Revolver have been classified as a current liability as of December 31, 2008 and March 31, 2009, as required by Emerging Issues Task Force (EITF) No. 95-22, *Balance Sheet Classification of Borrowings Outstanding under Revolving Credit Agreements that include both a Subjective Acceleration Clause and a Lock-box Arrangement.*

On August 28, 2008, the Senior Credit Facility was amended to remove the $15.0 million delayed draw term loan. As an accommodation to our lender, we agreed to remove the delayed draw portion of the Senior Credit Facility in order to make syndication of the loan more manageable.

Under the terms of the Term Loan, the funding limits are limited to the lesser of $50.0 million and 80% of the orderly liquidation value of our equipment. In addition, the Term Loan matures in April 2013 and will be repaid quarterly in equal payments of $2.0 million, with interest paid monthly in arrears and accrues interest at the 30-day LIBOR plus 3.00% (3.71% at December 31, 2008 and 3.52% at March 31, 2009). The Term Loan contains customary financial covenants and limitations on capital expenditures. As of December 31, 2008 and March 31, 2009, we were in compliance with these covenants. With the proceeds from the Senior Credit Facility, we (i) repaid approximately $28.7 million of outstanding principal balance under our previous term loan; (ii) repaid approximately $2.1 million of outstanding principal balance under our previous capital expenditure loan; (iii) repaid the balance on the Line; and (iv) closed the acquisition of Industrial Lift Truck and Equipment Co., Inc. (Industrial Lift). The balance of the proceeds available under the Senior Credit Facility was used to pay fees and expenses of the aforementioned transaction and to provide additional working capital. As of December 31, 2008 and March 31, 2009, we had $44.0 million and $42.0 million, respectively, outstanding under the Term Loan.

CAPITAL LEASES

In March 2007, we acquired equipment under a capital lease maturing in 2012. The cost and related accumulated depreciation of assets held under capital lease were nominal at December 31, 2008 and March 31, 2009.

Depreciation expense for the three months ended March 31, 2008 was approximately $0.03 million and nominal for the three months ended March 31, 2009 for all assets held under capital lease.

PREHEAT NOTES

In connection with the purchase of all of the issued and outstanding stock of Preheat, Inc. in February 2006, we issued $4.0 million in 5% promissory notes payable to certain Preheat stockholders (Preheat Notes). The Preheat Notes consist of three separate notes with $2.7 million maturing in February 2008 and $1.3 million maturing in February 2009. One of the Preheat Notes maturing in February 2009 in the amount of $0.8 million (Preheat Retention Note) was tied to the retention of certain employees who joined the Company at the time of the acquisition of Preheat. Upon the maturity of the Preheat Retention Note, $0.15 million was paid to employees who had completed three years of uninterrupted service with the Company in accordance with an agreement executed in connection with the Preheat Retention Note. At December 31, 2008 and March 31, 2009, the Preheat Notes had a balance of $4.0 million and $3.85 million, respectively. In February 2008, we terminated the employment of one of the Preheat stockholders for cause, and the other Preheat stockholder subsequently resigned. The terms of the Preheat Notes provide that a termination for cause or resignation of either of the Preheat stockholders employment results in the cancellation of the Preheat Notes, other than those payments due to certain employees under the Preheat Retention Note. The Preheat stockholders are contesting our assertion and have filed a lawsuit against the Company. Consequently, the Preheat Notes remain recorded as a liability in the financial statements pending resolution of the matter.

CHARLES HOLSTON NOTES

In connection with the acquisition of BMJ Industrial Investments, L.L.C. and its wholly-owned subsidiary, Charles Holston, Inc. (Holston) in March 2007, we issued $5.0 million in 5% promissory notes payable to certain Holston owners (Holston Notes). The Holston Notes consist of three separate notes with $1.0 million maturing in February 2008, $2.0 million maturing in February 2009 and $2.0 million maturing in February 2010. The Holston Notes maturing in 2009 and 2010 are convertible into shares of our common stock at a price of $9.24 per share. Based upon the stock valuation at the time of issuance, no beneficial conversion feature existed. At December 31, 2008 and March 31, 2009, the Holston Notes had a balance of $4.0 million and $2.0 million, respectively.

CYPRESS NOTES

In connection with the acquisition of certain assets of Cypress Consulting Services, Inc. d/b/a Cypress energy Services (Cypress) in February 2007, we issued $3.0 million in a 5% promissory note payable to a certain Cypress stockholder (Cypress Note). The Cypress Note is payable over three years with $1.0 million maturing in February 2008, $1.0 million maturing in February 2009 and $1.0 million maturing in February 2010. In November 2008, as an accommodation to the holder of the note, we paid the $1.0 million due in February 2009 in exchange for a discounted payment by $0.1 million. This discount was reflected as a gain on early extinguishment of debt in the financial statements in 2008. At December 31, 2008 and March 31, 2009, the Cypress Note had a balance of $1.0 million.

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BAILEY NOTE

In connection with the acquisition of certain assets of Bailey Operating, Inc. (BOI) in June 2007, we issued $0.5 million in a 5% promissory note payable to BOI (Bailey Note). The Bailey Note is payable on or before May 31, 2010. At December 31, 2008 and March 31, 2009, the Bailey Note had a balance of $0.5 million.

BEG NOTES

In connection with the acquisition of certain assets of B.E.G. Liquid Mud Services, Inc. (BEG) in January 2008, we issued $4.0 million of 5% promissory notes payable to certain shareholders of BEG (BEG Notes). The BEG Notes are payable over three years with $1.3 million maturing in January 2009, $1.3 million maturing in January 2010 and $1.4 million maturing in January 2011 and are convertible into shares of our common stock at a price of $3.70 per share under certain circumstances. Based upon the stock valuation at the time of the issuance, no beneficial conversion feature exists. At December 31, 2008 and March 31, 2009, the BEG Notes had a balance of $4.0 million and $2.7 million, respectively.

ILT NOTES

In connection with the acquisition of Industrial Lift in April 2008, we issued $4.0 million of promissory notes payable to the shareholders of Industrial Lift (ILT Notes). $3.5 million of the ILT Notes are payable over three years and interest at 5% per annum, payable in arrears with $2.0 million maturing in April 2009, $1.0 million maturing in April 2010 and $0.5 million maturing in April 2011. This $3.5 million of the ILT Notes are convertible into shares of our common stock at a price of $10.50 per share under certain circumstances. Based upon the stock valuation at the time of the issuance, no beneficial conversion feature exists. The remaining $0.5 million in ILT Notes, which are non-convertible, non-interest bearing and mature in April 2011. At December 31, 2008 and March 31, 2009, the ILT Notes had a balance of $4.0 million.

INSURANCE NOTES PAYABLE

A portion of our property and casualty insurance premiums are financed through certain short-term installment loan agreements. The insurance notes are payable in monthly installments through June 2009 and accrue interest at 3.97%.

NOTE 4. COMMITMENTS AND CONTINGENCIES

INSURANCE RESERVES

We maintain reserves for workers compensation and general liability on our balance sheet based on our judgment and the adjusters best estimates based on claims incurred. Estimated workers compensation and general liability claims are determined by an outside adjuster on a case-by-case basis. We maintain insurance policies for workers compensation and general liability claims. These insurance policies carry retention limits or deductibles on a per occurrence basis. The retention limits or deductibles are accounted for in our process for all workers compensation and general liability claims. As of March 31, 2009 and December 31, 2008, we have recorded $0.2 million and $0.05 million, respectively, of insurance reserves related to workers compensation and general liability claims. We feel that the liabilities we have recorded are appropriate based on the known facts and circumstances and do not expect further losses materially in excess of the amounts already accrued for existing claims.

EMPLOYMENT AGREEMENTS

We have employment agreements with our executive officers and some former shareholders of companies we acquired. These agreements generally last two to four years and have renewal provisions at our option.

OTHER CONTINGENCIES

On May 1, 2008, the former owners of Preheat, Inc., which we acquired in February 2006, filed a lawsuit in federal court in the United States District Court for the Western District of Louisiana in Lafayette, Louisiana, against us, our directors, our current Chief Executive Officer, our current Senior Vice President/Chief Financial Officer, one of our investment advisors, and a principal of the investment advisor. The lawsuit seeks, among other things, (i) a declaratory judgment that the Preheat purchase agreement executed in December 2005 is null because of alleged inducement to enter into the purchase agreement by criminal or fraudulent conduct, securities fraud and bad faith breach of the purchase agreement and that one of the former owner s ERISA rights be clarified, (ii) injunctive relief to halt alleged securities disclosure violations by us and to remove three board members, and (iii) damages resulting from the nullification of the Preheat purchase agreement. At this point, we are unable to assess the ultimate impact of this litigation on our financial position, results of operations or cash flows. We, together with the other defendants, have filed a motion to dismiss the lawsuit and that motion remains pending with the court. We believe the claims against us are without merit and are vigorously contesting the legal action.

In the normal course of our business, we become involved in various litigation matters including, among other things, claims by third parties for alleged property damages, personal injuries and other matters. While we believe we have meritorious defenses against these claims, management has used estimates in determining our potential exposure and has recorded reserves in our financial statements related thereto where appropriate. It is possible that a change in our estimates of that exposure could occur, but we do not expect such changes in estimated costs will have a material effect on our financial position or results of operations.

NOTE 5. STOCKHOLDERS EQUITY

PREFERRED STOCK

At December 31, 2008 and March 31, 2009, 29 shares of Series B Preferred remain outstanding and are convertible into 7,733 shares of our common stock.

On May 17, 2005, we entered into a Securities Purchase Agreement with certain of our affiliates and executive officers to issue up to $5.0 million of Series C 9% Convertible Preferred Stock (Series C Preferred) in conjunction with the completion of a senior credit facility at the time. Our Series C Preferred is convertible into shares of our common stock at a conversion price of $1.95 per share and includes detachable warrants to purchase up to 6,550,000 additional shares of our common stock at exercise prices ranging between $1.95 and $3.50 per share. The conversion prices of our Series C Preferred and the warrant exercise prices were supported by a fairness opinion issued by a third party. The transactions contemplated by the Securities Purchase Agreement closed in two tranches. On May 17, 2005, we issued an aggregate of 3,500 shares of Series C Preferred and warrants to acquire 4,585,000 shares of our common stock, in exchange for $3.3 million, net of offering costs of $0.2 million. The proceeds of the issuance were allocated to the warrants and preferred stock based on the relative fair value of each instrument. The value attributed to the warrants was $2.9 million ($2.7 million net of offering costs) and was recorded as additional paid in capital while $0.6 million was the remaining allocated value to the preferred stock. In addition, the conversion terms of the preferred stock result in a beneficial conversion feature valued at approximately $0.7 million. As a result of the terms of conversion, we recorded a one time charge to retained earnings for this amount representing a deemed dividend to the preferred stockholders with the offset recorded in additional paid in capital.

On August 29, 2005, the remainder of the Series C Preferred and warrants were issued generating gross proceeds of $1.5 million. The proceeds of the issuance of the second tranche were allocated to the warrants and preferred stock based on the relative fair value of each instrument. The entire value of $1.5 million was attributed to the fair value of the warrants and was recorded as additional paid in capital. In addition, the conversion terms of the preferred stock issued in the second tranche resulted in no beneficial conversion feature.

The prior term loan agreement and the senior credit facility restricted the payment of cash dividends. Consequently, the 9% dividend obligation related to the Series C Preferred had been satisfied through the issuance of payment-in-kind (PIK) dividends. The PIK dividends are paid through the issuance of additional shares of Series C Preferred. These additional shares of preferred stock do not have warrants attached to them. During the year ended December 31, 2007, 256 shares of Series C Preferred were issued as PIK dividends. In addition, the conversion terms of the preferred stock issued as PIK dividends resulted in a beneficial conversion feature resulting in a one time charge to retained earnings representing a dividend to the preferred stockholders with the offset recorded in additional paid in capital.

Effective April 29, 2007, the loan and security agreement governing our previous term loan was amended to remove the restriction on cash dividend payments on the preferred equity shares, provided we had sufficient availability under our Revolver and were in compliance with all other loan covenants. Consequently, the accrued dividends since April 2007 have been paid in cash, $0.1 million for each of the three month periods ended March 31, 2008 and 2009.

During 2007, a total of 379 shares of our Series C Preferred were converted into 194,359 shares of our common stock. Additionally, a total of 618,000 warrants were exercised during 2007 resulting in proceeds to the Company of approximately $1.4 million. During 2008, a total of 88 shares of our Series C Preferred were converted into 44,615 shares of our common stock. Additionally, a total of 1,050,000 warrants were exercised during 2008 resulting in proceeds to the Company of approximately $2.6 million.

At December 31, 2008 and March 31, 2009, 5,396 shares of Series C Preferred remain outstanding and are convertible into 2,767,179 shares of our common stock at a conversion rate of $1.95 per share.

STOCK BASED COMPENSATION

We have two stock-based compensation plans available to grant nonqualified stock options, incentive stock options, stock appreciation rights, restricted units and restricted stock to key employees. The Seventh Amended and Restated OMNI Energy Services Corp. Stock Incentive Plan (Stock Plan), provides for 4,250,000 shares of our common stock. The principal awards outstanding under our stock-based compensation plans include non-qualified stock options. In addition, we have the 1999 Stock Option Plan (the 1999 Plan) which became effective on November 11, 1999 and was not approved by the stockholders. The total shares of our common stock available for issuance under the 1999 Plan is 100,000 shares.

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The exercise price, term and other conditions applicable to each stock option granted under the stock plans are generally determined by the Compensation Committee of the Board of Directors. The exercise price of stock options is set on the grant date and may not be less than the fair market value per share of our stock on that date. The options generally become exercisable over a three-year period and expire after ten years.

There was $0.2 million and $0.4 million of compensation cost related to non-qualified stock options recognized in operating results (included in general and administrative expenses) for the three months ended March 31, 2008 and March 31, 2009, respectively.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model. Expected volatility is based on implied volatilities from historical trading of our stock. We used the simplified method to derive an expected term. The expected term represents an estimate of the time that options are expected to remain outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. treasury yield curve in effect at the time of grant. The following table sets forth the assumptions used to determine compensation cost for our non-qualified stock options consistent with the requirements of SFAS No. 123R. There were no options granted during the three months ended March 31, 2009. The weighted average fair value at date of grant for options granted during the first quarter of 2008 was $2.35 per option.

	Three Months Ended March 31, 2008
Expected volatility	50.65%
Expected annual dividend yield	0.00%
Risk free rate of return	2.53%
Expected option term (years)	6.50

The following table summarizes information about stock option activity for the three months ended March 31, 2009 (in thousands, except option amounts):

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at December 31, 2008	1,554,137	$ 5.59		
Granted				
Exercised				
Lapsed or canceled	(27,707)	5.96		
Outstanding at March 31, 2009	1,526,430	$ 5.59	8.0	$
Exercisable at March 31, 2009	910,598	$ 5.53	7.6	$

WARRANTS

A summary of our warrants as of March 31, 2009 and changes during the three months then ended are presented below:

	WEIGHTED AVERAGE EXERCISE PRICE	WARRANTS
Balance at December 31, 2008	$ 2.84	5,192,650
Granted		
Exercised		
Forfeited		
Balance at March 31, 2009	$ 2.84	5,192,650

Exercisable	$	2.84	5,192,650

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RESTRICTED STOCK

The following table summarizes activity of unvested restricted stock awards for the three months ended March 31, 2009:

	SHARES	WEIGHTED AVERAGE GRANT DATE FAIR VALUE	AGGREGATE INTRINSIC VALUE (in thousands)
Unvested at December 31, 2008	70,833	$ 4.53	
Granted	16,500	$ 1.16	
Vested	(24,477)	$ 4.45	
Unvested at March 31, 2009	62,856	$ 3.68	$ 82

At March 31, 2009, $0.2 million of total unrecognized compensation cost related to the unvested portion of the restricted stock awards is expected to be recognized over a weighted average period of two years.

EARNINGS PER SHARE

Basic earnings per share (EPS) is determined by dividing income available to common stockholders by the weighted average number of shares of common stock outstanding during the period. Diluted EPS reflects the potential dilution that could occur if options and other contracts to issue shares of common stock were exercised or converted into common stock.

As of March 31, 2008 and 2009, we had 1,232,097 and 1,488,284 options and restricted shares, respectively, and 6,242,650 and 5,192,650 warrants, respectively, that were excluded from the calculation of Diluted EPS as they were antidilutive. In addition, Holston Notes convertible into 432,900 and 358,345 shares of common stock, BEG Notes convertible into 867,241 and 0 shares of common stock and ILT Notes convertible into 867,241 and 333,333 shares of common stock were excluded from the calculation for the three months ended March 31, 2008 and 2009, respectively. Further, promissory notes that we issued in connection with our acquisition of Rig Tools, Inc. in November 2006 and were convertible into 125,000 and 0 shares of common stock were excluded from the calculation for the three months ended March 31, 2008 and 2009, respectively. Also, preferred stock convertible into 2,820,041 and 0 shares of common stock were excluded from the calculation of diluted EPS at March 31, 2008 and 2009, respectively, because they were antidilutive.

The following table reconciles net income (loss) available to common stockholders and common equivalent shares for the Basic EPS calculation to net income available to common stockholders and common equivalent shares for the Diluted EPS calculation for the three months ended March 31, 2008 and 2009, respectively:

		Three Months Ended March 31, 2008		Three Months Ended March 31, 2009	
		Dollars	Weighted Average Shares	Dollars	Weighted Average Shares
		(in thousands)			
Basic EPS net income (loss) available to common stockholders		$ (1,527)	19,070	$ 810	20,577
Add:	Stock Options				
	Warrants				
	Contingently issuable shares				81
	Preferred stock			120	2,775
	Shareholder notes			22	793
Total dilutive effect				142	3,649

Diluted EPS net income (loss) available to common stockholders and common equivalent shares	$ (1,527)	19,070	$ 952	24,226

NOTE 6. SEGMENT INFORMATION

SFAS No. 131, *Disclosures About Segments of an Enterprise and Related Information,* requires that companies disclose segment data based on how management makes decisions about allocating resources to segments and measuring their performance. Currently, we conduct our operations principally in five segments Seismic Services, Transportation, Environmental Services, Equipment Leasing, and Other Services, all of which operate exclusively in North America. The Seismic Services segment is comprised of three divisions Drilling, Survey and Permitting. All remaining assets, primarily our corporate offices, warehouses and underlying real estate, also are located in North America. The segment classified as corporate includes all other operating activities to support the executive offices, capital structure and costs of being a public registrant. These costs are not allocated to the business segments by management when determining segment profit or loss.

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Drilling revenue is derived primarily from drilling and loading of the source points for seismic analysis. Survey revenue is recorded after the customer has determined the placement of source and receiving points, and after survey crews are sent into the field to plot each source and receiving point prior to drilling. Permitting revenue is derived from services provided in conjunction with obtaining permits from landowners. Transportation revenues are billed by the hour, load or barrel. Environmental revenue is earned from tank, vessel and rig pit cleaning. Equipment leasing revenue is derived from the rental of various pieces of oilfield equipment to offshore and land-based oil production rigs. Other services revenue is comprised of metal stress relieving, wellhead installation and offshore painting and blasting services.

The following table shows segment information (net of intercompany transactions) for the three months ended March 31, 2009 and 2008 (in thousands):

Three Months Ended March 31,	Seismic Services	Fluid and Transportation Services(1)	Environmental Services	Equipment Leasing(2)	Other Services	Corporate	Total
2009							
Operating revenues	$ 9,729	$ 7,070	$ 7,933	$ 8,923	$ 1,249	0; -	

(1) Shares become exercisable on March 6, 2007.

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SHAREHOLDER RETURN PERFORMANCE GRAPH

Set forth below is a line graph comparing the yearly percentage change in the cumulative total shareholder return on our common stock (symbol: AEY) against the cumulative total return of the American Stock Exchange (symbol: XAX) and the Index for the Nasdaq Telecommunications Stocks (symbol: IXUT) for the period of five fiscal years commencing October 1, 2001 and ending September 30, 2006. The graph assumes that the value of the investment in our common stock and each index was $100 on September 30, 2001.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among ADDvantage Technologies Group, Inc., and the NASDAQ Telecommunications Index and the American Stock Exchange Index

* $100 invested on September 30, 2001 in our stock or on September 30, 2001 in each index - including reinvestment of dividends.

	Cumulative Total Return					
	9/28/01	9/30/02	9/30/03	9/30/04	9/30/05	9/30/06
ADDvantage Technologies Group, Inc.	$100.00	$68.63	$372.55	$377.45	$381.37	$411.76
American Stock Exchange	100.00	102.29	122.51	157.25	214.76	235.77
Nasdaq Telecommunications	100.00	43.54	76.88	85.18	94.58	101.85

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PROPOSAL NO. 2
Ratification Of Independent Auditors

We recommend that you vote for the ratification of the appointment of Hogan & Slovacek.

Our Audit Committee has selected the accounting firm of Hogan & Slovacek as our independent auditors to examine our financial statements for the fiscal year ending September 30, 2007. Hogan & Slovacek has been our independent auditor since they were engaged by our Audit Committee on January 26, 2006. Prior to their engagement, Tullius Taylor Sartain & Sartain had been our independent auditor since 1994.

Representatives from Hogan and Slovacek will attend the Annual Meeting to answer appropriate questions and make statements if they desire.

Change in Company's Certifying Accountant

On January 17, 2006, we and the Chairman of the Audit Committee of our Board of Directors were advised by letter of the same date that Tullius Taylor Sartain & Sartain LLP ("Tullius"), the principal accountant engaged to audit our financial statements, would resign as our independent registered public accounting firm. The effective date of the resignation was the date of completion of Tullius' review of our Quarterly Report on Form 10-Q for the first quarterly period ended December 31, 2005, which we filed on February 13, 2006.

The reports of Tullius on our consolidated financial statements for each of the two fiscal years ended September 30, 2005, did not contain an adverse opinion or a disclaimer of opinion, and were not qualified as to uncertainties, audit scope or accounting principles.

The Audit Committee was informed of, but neither recommended nor approved, the termination of the client-auditor relationship with Tullius.

During our two fiscal years ended September 30, 2005, and for the period from October 1, 2005, through the date of Tullius' letter of resignation, there were no disagreements with Tullius on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Tullius, would have caused them to make reference to the subject matter of their disagreement in their reports on our consolidated financial statements for such periods.

During the period of October 1, 2005, through the date of Tullius' letter of resignation, there were no reportable events as defined by paragraph (a)(1)(v) of Item 304 of Regulation S-K promulgated by the SEC.

We provided Tullius with copies of both of our Current reports on Form 8-K reporting this event and asked Tullius to furnish us with letters addressed to the SEC stating whether Tullius agrees with the statements we made by and, if not, stating the respects in which it does not agree. Tullius furnished such letters to us, indicating to the SEC that it was in agreement with our statements concerning Tullius.

On January 26, 2006, the Audit Committee engaged Hogan & Slovacek to serve as the principal accountant to audit our financial statements for the current fiscal year.

During our two fiscal years ended September 30, 2005, and for the period from October 1, 2005, through the date of such engagement, we did not consult with Hogan & Slovacek regarding the application of accounting principles to a specific transaction, either completed or proposed, or the type of audit opinion that might be rendered on our financial statements, or any other matters or reportable events described in Items 304(a)(2)(i) and (ii) of Regulation S-K.

PRINCIPAL ACCOUNTING FEES AND SERVICES

Hogan & Slovacek ("Hogan") served as our independent auditor since they were engaged by our Audit Committee on January 26, 2006 and examined our financial statements for the fiscal year ended September 30, 2006. Tullius served as our independent auditor from 1994 until its resignation discussed above, and examined our financial statements for the fiscal year ended September 30, 2005. Our Audit Committee considered whether the provisions for the tax services and other services by both Hogan and Tullius were compatible with maintaining their independence and determined that they were.

Fees Incurred by the Company for Tullius Taylor Sartain & Sartain LLP and Hogan & Slovacek

The following table shows the fees for professional audit services provided by Hogan and Tullius for the audits of our annual financial statements for the years ended September 30, 2006 and 2005 and fees billed for other services during those periods.

	2006		2005	
	Hogan	Tullius	Hogan	Tullius
Audit Fees	$ 71,500	$ 8,600	-	$ 63,710
Audit -Related Fees	3,600	3,000	-	1,410
Tax Fees	18,620	0	-	9,275
All Other Fees	-	-	-	-
Total	$ 93,720	$ 11,600	-	$ 74,395

Notes to Table:

(1) Audit fees represent fees for professional services provided in connection with the audit of our financial statements and review of our quarterly financial statements and audit services provided in connection with the issuance of comfort letters, consents, and assistance with review of documents filed with the SEC.

Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditor

Consistent with SEC policies regarding auditor independence, the Audit Committee has responsibility for appointing, setting compensation and overseeing the work of the independent registered public accounting firm. In recognition of this responsibility, the Audit Committee has established a policy to pre-approve all audit and permissible non-audit services provided by the independent registered public accounting firm. During the year the Audit Committee approved all of the services performed by the independent accounting firms. The fees billed for these services approximated 100% of the pre-approved amounts.

Before engagement of the independent registered public accounting firm for the next year's audit, management will submit a list of services and related fees expected to be rendered during that year within each of the following four categories of services to the Audit Committee for approval:

1. ***Audit*** services include audit work performed on the financial statements, internal control over financial reporting, as well as work that generally only the independent registered public accounting firm can reasonably be expected to provide, including comfort letters, statutory audits, and discussions surrounding the proper application of financial accounting and/or reporting standards.

2. ***Audit-Related*** services are for assurance and related services that are traditionally performed by the independent registered public accounting firm, including due diligence related to mergers and acquisitions, employee benefit plan audits, and special procedures required to meet certain regulatory requirements.

3. ***Tax*** services include all services, except those services specifically related to the audit of the financial statements, performed by the independent registered public accounting firm's tax personnel, including tax analysis; assisting with coordination of execution of tax related activities, primarily in the area of corporate development; supporting other tax related regulatory requirements; and tax compliance and reporting.

4. ***Other Fees*** are those associated with services not captured in the other categories. We generally don't request such services from the independent registered public accounting firm.

Before engagement, the Audit Committee pre-approves the independent registered public accounting firm's services within each category. During the year, circumstances may arise when it may become necessary to engage the independent registered public accounting firm for additional services not contemplated in the original pre-approval categories. In those instances, the Audit Committee requires specific pre-approval before engaging the independent registered public accounting firm.

The Audit Committee may delegate pre-approval authority to one or more of its members. The member to whom such authority is delegated must report, for informational purposes only, any pre-approval decisions to the Audit Committee at its next scheduled meeting.

SHAREHOLDER PROPOSALS FOR 2008 ANNUAL MEETING

If you want to include a shareholder proposal in the proxy statement for the 2008 annual meeting, it must be delivered to our executive offices, 1221 East Houston, Broken Arrow, Oklahoma, 74012, on or before October 8, 2007. In addition, if you wish to present a proposal at the 2008 annual meeting that will not be included in our proxy statement and you fail to notify us by December 22, 2007, then the proxies solicited by our Board for the 2008 annual meeting will include discretionary authority to vote on your proposal in the event that it is properly brought before the meeting.

OTHER MATTERS

At the date of mailing of this proxy statement, we are not aware of any business to be presented at the annual meeting other than the proposal discussed above. If other proposals are properly brought before the meeting, any proxies returned to us will be voted as the proxyholders see fit.

You can obtain a copy of our Annual Report on Form 10-K for the year ended September 30, 2006 at no charge by writing to us at 1221 East Houston, Broken Arrow, Oklahoma, 74012. This document and other information may also be accessed from our website at www.addvantagetech.com.

Only one annual report and proxy statement are being delivered to multiple shareholders who share one address, unless we have received instructions to the contrary. We will provide a separate copy of the annual report and proxy statement to a shareholder at a shared address to which single copies were delivered upon request sent in writing to 1221 East Houston, Broken Arrow, Oklahoma, 74012, or by calling (918) 251-9121. If you wish to receive a separate annual report and proxy statement in the future, or if you currently receive multiple copies of the annual report and proxy statement and wish to request delivery of only single copies, you may notify us at the same address or phone number.