ADDVANTAGE TECHNOLOGIES GROUP INC
Form 10QSB
May 15, 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 March 31, 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 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 May 1, 2001 is 9,990,616.

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

ADDVANTAGE TECHNOLOGIES GROUP, INC.
CONSOLIDATED BALANCE SHEET
March 31, 2001

Assets	
Current assets:	
Cash	$ 361,168
Accounts receivable	2,494,579
Inventories	16,108,930
Deferred income taxes	43,000
Total current assets	19,007,677
Property and equipment, at cost	
Machinery and equipment	1,714,451
Leasehold improvements	168,724
Other property and equipment	26,412
	1,909,587
Less accumulated depreciation and amortization	(740,450)
Net property and equipment	1,169,137
Other assets:	
Deferred income taxes	1,010,188
Investment	11,672
Goodwill, net of accumulated amortization of $185,633	1,523,287
Other assets	77,380

Total other assets	2,622,527
Total assets	$ 22,799,341

See notes to consolidated financial statements

ADDVANTAGE TECHNOLOGIES GROUP, INC.
CONSOLIDATED BALANCE SHEET
March 31, 2001

Liabilities and Stockholders' Equity	
Current liabilities:	
Accounts payable	$ 845,441
Accrued expenses	118,198
Accrued income taxes	116,502
Bank revolving line of credit	3,526,002
Note payable - current portion	217,386
Dividends payable	310,000
Stockholder loans	1,250,000
Total current liabilities	6,383,529
Note Payable	433,333
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	(4,063,474)
	16,036,643
Less: Treasury stock, 21,100 shares at cost	(54,164)
Total stockholders' equity	15,982,479
Total liabilities and stockholders' equity	$ 22,799,341

See notes to consolidated financial statements

ADDVANTAGE TECHNOLOGIES GROUP, INC.
STATEMENTS OF INCOME

	Three months ended March 31 2001	Three months ended March 31 2000	Six m[onths ended] M[arch 31] 2001
Net sales and service income	$ 4,754,311	$ 6,747,529	$ 9,570,993
Cost of sales	2,379,304	3,274,865	4,826,568
Gross profit	2,375,007	3,472,664	4,744,425
Operating expenses	1,317,320	1,357,547	2,480,856
Income from operations	1,057,687	2,115,117	2,263,569
Interest expense	(82,746)	(104,529)	(170,665
Income before income taxes	974,941	2,010,588	2,092,904
Provision for income taxes	384,055	764,113	806,728
Net income	590,886	1,246,475	1,286,176
Preferred Dividends	310,000	310,000	620,000
Net income attributable to common stockholders	$ 280,886	$ 936,475	$ 666,176
Earnings per Share:			
Basic	$ 0.03	$ 0.10	$ 0.07
Diluted	$ 0.03	$ 0.09	$ 0.07

See notes to consolidated financial statements

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

	2001	2000
Cash Flows from Operating Activities		
Net income	$ 1,286,176	$ 2,051,800
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	122,577	90,590
Provision for deferred income taxes	89,813	89,812
Change in:		
Receivables	1,384,150	72,786
Prepaid and other expense	(11,122)	211,842

Inventories	(978,440)	(1,933,950)
Accounts payable and accrued liabilities	(500,354)	258,159
Net cash provided by operating activities	1,392,800	841,039
Cash Flows from Investing Activities		
Additions to property and equipment	(67,776)	(190,818)
Proceeds from sale of investment in Ventures	657,572	-
Acquisition of stock in NCS	(1,439,000)	-
Cash acquired in NCS Acquisition	575,958	-
Cash acquired in LEE CATV merger	-	90,047
Net cash provided by investing activities	(273,246)	(100,771)
Cash Flows from Financing Activities		
Net borrowings (repayments) under line of credit	139,119	(504,926)
Advances (payment) on stockholders loan	(300,000)	74,993
Payments of Preferred Dividends	(620,000)	(310,000)
Proceeds for exercise of common stock options	-	7,437
Net cash used in financing activities	(780,881)	(732,496)
Net increase in cash	338,673	7,772
Cash, beginning of year	22,495	16,843
Cash, end of year	$ 361,168	$ 24,615

See notes to consolidated financial statements

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

	2001	2000
Supplemental Cash Flow Information		
Interest paid for the period	$ 170,665	$ 174,024
Supplemental Disclosure of Non-cash Investing and Financing Activities		
Acquisition of Lee CATV Corporation:		
Issuance of preferred stock	-	1,000,000
Working capital other than cash	-	241,017
Land and equipment	-	116,694
Intangibles and other assets	-	1,276,229
Assumption of note payable	-	723,987
Issuance of note payable	-	271,094
Acquisition of NCS, Inc:		
Working capital other than cash	957,192	-
Land and equipment	250,000	-

Intangibles and other assets	243,050	-
Assumption of note payable	289,000	-
Issuance of note payable	249,000	-

See notes to consolidated financial statements

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NOTES TO CONDENSED FINANCIAL STATEMENTS (Unaudited)

Note 1 - Basis of Presentation

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

Note 2 - Description of Business

ADDvantage Technologies Group, Inc., through its subsidiaries TULSAT Corporation, Lee Enterprise, and NCS Industries Inc. ("NCS") (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, 2001	Three months ended March 31, 2000	Six months ended March 31, 2001
Net Income attributable to common stockholders	$280,886	$936,475	$666,176
Basic EPS Computation:			
Weighted average outstanding common shares	10,011,716	9,772,448	10,011,716
Earnings per Share	$0.03	$0.10	$0.07
Diluted EPS Computation:			
Weighted average outstanding common shares	10,011,716	9,999,206	10,011,716
Earnings per Share	$0.03	$0.09	$0.07

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

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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.

Following are the unaudited pro-forma results of operations for the three and six month periods ended March 31, 2001, assuming the acquisition occurred at the beginning of the period.

	Unaudited			
	Three months ended March 31, 2001	Three months ended March 31, 2000	Six months ended March 31, 2001	Six mon ende March 200
Net Sales and Service Income	$ 5,569,311	$ 8,206,529	$ 11,424,993	$ 13,781
Net Income	$ 581,886	$ 1,391,475	$ 1,281,176	$ 2,238
Net Income attributable to common stock	$ 271,886	$ 1,081,475	$ 661,176	$ 1,618
Weighted average outstanding common shares	10,011,716	9,772,448	10,011,716	9,772

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, 2001. The Company is authorized to borrow up to

$12,000,000 at the borrowing rate of 1 1/4% below prime (6.75% at March 31, 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 March 31, 2001 is $3,526,002.

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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.

On March 2, 2001, the Company entered into a Purchase and Sale Agreement with Richard S. Grasso (the "Shareholder") and NCS Industries, Inc., a Pennsylvania corporation ("NCS"), to purchase from the Shareholder all of the issued and outstanding common stock of NCS. The consideration for the acquisition 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, and (iii) the assumption of Shareholder's obligation under a promissory note issued to a prior owner of NCS. As contemplated by the Purchase and Sale Agreement, the Shareholder entered into a three-year consulting agreement with NCS and a non-competition agreement with the Company and NCS. As a result of this transaction, NCS became a wholly owned subsidiary of the Company.

Results of Operations

Comparison of Results of Operations for the Three Months Ended March 31, 2001 and March 31, 2000

Gross profits decreased $1,097,656 or 31.6% in the second quarter of the fiscal year 2001, as compared to 2000. This decrease was primarily due to a reduction in refurbished equipment sales resulting from the overall cable industry slowdown.

Net Sales and service income. Net Sales decreased $1,993,218 or 29.5%, to $4,754,311 in the second quarter of fiscal 2001 from $6,747,529 for the same period in fiscal 2000. The decrease was primarily due to lower refurbished equipment sales, which decreased 39.2% for the quarter, partially offset by an increase in new products sales, which increased 22.7%. Sales were affected by an overall cable industry slowdown that occurred during the quarter.

Cost of Sales. Cost of goods sold decreased to $2,379,304 for the second quarter of fiscal 2001 from $3,274,865 for the same period of fiscal 2000. The decrease was primarily due to a reduction in overall sales.

Operating Expenses. Operating expenses decreased to $1,317,320 in the second quarter of fiscal 2001 from $1,357,547 in the second quarter of 2000. The decrease in operating expenses was primarily due to a reduction in legal and accounting fees.

Income from Operations. Income from operations decreased 49.9% to $1,057,687 for the second quarter of 2001 from $2,115,117 for the second quarter of 2000. This decrease was primarily due to a slowdown in the economy which impacted the overall cable industry.

Comparison of Results of Operations for the Six Months Ended March 31, 2001 and March 31, 2000

Gross profits decreased $1,320,498 or 21.8% in the first six months of the fiscal year 2001, as compared to 2000. This decrease was primarily due to a reduction in refurbished equipment sales resulting from the overall cable industry slowdown.

Net Sales and service income. Net Sales decreased $1,715,225 or 15.2%, to $9,570,993 in the first six months of fiscal year 2001 from $11,286,218 for the same period in 2000. The decrease was primarily due to lower refurbished equipment sales, which decreased 26.1% for the six month period offset by increases in new product sales of 33.8% and repair services of 21.6%. Sales were affected by an overall cable industry slowdown that occurred during the first six months of fiscal year 2001.

Cost of Sales. Cost of goods sold decreased to $4,826,568 for the six month period of fiscal 2001 from $5,221,294 for the same period of 2000. The decrease was primarily due to a reduction in overall sales.

Operating Expenses. Operating expenses decreased to $2,480,856 for the first six months of fiscal 2001 from $2,588,535 for the prior year. The decrease in operating expenses was primarily due to a reduction in legal and accounting fees.

Income from Operations. Income from operations decreased 34.9% to $2,263,569 for the first six months of 2001 from $3,476,389 for the same period last year. This decrease was primarily due to a slowdown in the economy which impacted the overall cable industry.

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 (6.75% at March 31, 2000). 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 March 31, 2001, the revolving line of credit consisted of a $3,526,002 balance outstanding due June 30, 2001, with interest payable monthly at Chase Manhattan Prime less 1.25% (6.75% at March 31, 2001). The company also owes a $101,719 balance remaining on a note resulting from the Diamond W Investments, Inc. purchase, payable quarterly at 8% to the former owners and $200,000 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 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 Forrest Ridge Golf Club on March 6, 2001. At the meeting, the following directors were elected for one year terms (with the votes as indicated):

	FOR	WITHHELD
Kenneth A. Chymiak	9,638,100	200
David E. Chymiak	9,638,100	200
Stephen J. Tyde	9,638,100	2,200
Freddie H. Gibson	9,638,100	200
Gary W. Young	9,638,100	2,200
Randy L. Weideman	9,635,300	2,300

The shareholders also approved the ratification of appointment of Tullius, Taylor, Sartain & Sartain as the Company's auditors for the 2001 fiscal year by a vote of 9,610,070 shares in favor and 2,275 against, with 25,755 shares abstaining.

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

(a) Exhibits

2.1 The Sale and Purchase Agreement, dated as of March 2, 2001, by and among ADDvantage Technologies Group, Inc., NCS Industries, Inc. and Richard S. Grasso incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission by the Company on March 16, 2001.

(b) Reports on Form 8-K

The Company filed one Form 8-K during the three months ended March 31, 2001. The report dated March 2, 2001 related to the purchase of NCS Industries, Inc.

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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.

ADDVANTAGE TECHNOLOGIES GROUP, INC.

Signature	Title	Date
/S/ Kenneth A. Chymiak Kenneth A. Chymiak	Director and President (Principal Executive Officer)	May 14, 2001
/S/ Adam R. Havig Adam R. Havig	Controller (Principal Accounting Officer)	May 14, 2001

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