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ADVANTAGE TECHNOLOGIES GROUP INC

Form 10QSB

February 10, 2003

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

FORM 10-QSB

(Mark One)

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

For the quarterly period ended December 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)

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 ☒ No ☐

Shares outstanding of the issuer's \$.01 par value common stock as of December
31, 2002 were 10,010,414.

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

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

Assets	
Current assets:	
Cash	\$ 763,
Accounts receivable, net of allowance of \$34,920	3,221,
Refundable income taxes	156,
Inventories	19,221,
Deferred income taxes	102,

Total current assets	23,463,
Property and equipment, at cost	
Machinery and equipment	2,010,
Land and buildings	763,
Leasehold improvements	511,

	3,285,
Less accumulated depreciation and amortization	(1,096,

Net property and equipment	2,188,
Other assets:	
Deferred income taxes	1,005,
Goodwill, net of accumulated amortization of \$428,455	1,319,
Other assets	27,

Total other assets	2,351,

Total assets

\$ 28,004,

See notes to consolidated financial statements

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

Liabilities and Stockholders' Equity

Current liabilities:

Accounts payable	\$ 1,772,
Accrued expenses	429,
Accrued income taxes	556,
Bank revolving line of credit	4,668,
Notes payable - current portion	166,
Dividends payable	310,
Stockholder notes	1,060,

Total current liabilities

8,965,

Notes payable

24,

Stockholder notes

423,

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,
Series B, 7% cumulative; 300,000 shares issued and outstanding with a stated value of \$40 per share	12,000,
Common stock, \$.01 par value; 30,000,000 shares authorized; 10,030,414 shares issued	100,
Common stockholders' deficit	(1,455,

18,645,

Less: Treasury stock, 20,000 shares at cost

(54,

Total stockholders' equity

18,590,

Total liabilities and stockholders' equity

\$ 28,004,

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See notes to consolidated financial statements

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ADVANTAGE TECHNOLOGIES GROUP, INC. CONSOLIDATED STATEMENTS OF INCOME

	Three months ended December 31,	
	2002	2001
Net sales and service income	\$ 7,696,978	\$ 5,584,729
Cost of sales	4,072,922	2,919,171
Gross profit	3,624,056	2,665,558
Operating expenses	1,975,452	1,589,930
Income from operations	1,648,604	1,075,628
Interest expense	59,760	66,848
Income before income taxes	1,588,844	1,008,780
Provision for income taxes	574,669	347,000
Net income	1,014,175	661,780
Preferred dividends	310,000	310,000
Net income attributable to common stockholders	\$ 704,175	\$ 351,780
Earnings per share:		
Basic	\$ 0.07	\$ 0.04
Diluted	\$ 0.07	\$ 0.04

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See notes to consolidated financial statements

ADVANTAGE TECHNOLOGIES GROUP, INC. CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended December 31,	
	2002	2001
Cash Flows from Operating Activities		
Net income	\$ 1,014,175	\$ 661,780
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	57,678	85,080
Provision for deferred income taxes	-	44,900
Change in:		
Receivables	128,091	708,290
Inventories	(1,637,336)	(13,620)
Other assets	(242)	145,290
Accounts payable and accrued liabilities	700,722	(825,370)

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Net cash provided by operating activities	263,088	806,36
Cash Flows from Investing Activities		
Additions to property and equipment	(33,882)	(164,08
Net cash used in investing activities	(33,882)	(164,08
Cash Flows from Financing Activities		
Net borrowings (repayments) under line of credit	195,301	(358,51
Payments on stockholder loans	(75,000)	-
(Payments) proceeds on notes payable	(52,094)	31,16
Payments of preferred dividends	(310,000)	(310,00
Net cash used in financing activities	(241,793)	(637,34
Net (decrease) increase in cash	(12,587)	4,93
Cash, beginning of period	775,740	230,55
Cash, end of period	\$ 763,153	\$ 235,49

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See notes to consolidated financial statements

ADVANTAGE TECHNOLOGIES GROUP, INC. CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended December 31, 2002 2001	
Supplemental Cash Flow Information		
Cash paid for interest	\$ 59,267	\$ 66,848
Cash paid for income taxes	\$ -	\$ 671,471

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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, 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"), and Tulsat - Atlanta LLC ("Tulsat - Atlanta") (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 December 31	
	2002	2001

Net income attributable to common stockholders	\$704,175	\$351,780
Basic and Diluted EPS Computation:		
Weighted average outstanding common shares	10,004,181	9,991,776
Earnings per Share	\$0.07	\$0.04

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

At December 31, 2002, a \$4,668,981 balance is outstanding under a \$9.0 million line of credit due June 30, 2003, with interest payable monthly at Chase Manhattan Prime less 1 1/4% (3.0% at December 31, 2002). Borrowings under the line of credit are limited to the lesser of \$7.0 million or the sum of 80% of qualified accounts receivable and 40% of qualified inventory for working capital purposes and \$2.0 million for future acquisitions meeting Bank of Oklahoma credit guidelines. The line of credit agreement provides that the Company's net

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worth must be greater than \$14.0 million and net income greater than \$2.0 million. The line of credit is collateralized by inventory, accounts receivable, equipment and fixtures, and general intangibles.

Cash receipts are applied from the Company's lockbox account directly against the bank line of credit, and checks clearing the bank are funded from the line of credit. The resulting overdraft balance, consisting of outstanding checks, is \$435,945 at December 31, 2002 and is included in the bank revolving line of credit.

Stockholder loans of \$1,033,680 bear interest at rates that correspond with the line of credit (3.0% at December 31, 2002) and are subordinate to the bank notes payable.

The notes are due on demand and are classified as current. Stockholder notes of \$450,669, which were issued for purchases of real estate, bear interest at 7.5% and are due in monthly payments through 2011. Notes payable to unrelated parties of \$191,194 are due in quarterly payments through 2004 with interest at 7%.

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

Overview

We specialize 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. Within the last two years, we have become distributors for a number of different manufacturers of equipment and other products. It is through our development of these relationships that we have focused our initiative to market our products and services to the larger cable multiple system operators (MSO's). As a result, our overall sales and profits are dramatically up for the first quarter of 2003, while adding approximately \$1.6 million of inventory to further enhance our product offerings. We continue to believe that as cable companies look at expanding their services in key markets and to recover from or address the effects of a slow economy and depressed capital markets, there will be an emphasis on minimizing their costs, thus creating a higher demand for the Company's repair services and surplus-new equipment.

Results of Operations

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

Net Sales. Net sales increased \$2.1 million, or 37.8%, to \$7.7 million in the first quarter of fiscal 2003, from \$5.6 million for the same period in fiscal 2002, primarily due to the positive results of our marketing initiatives and distributor relationships discussed in the previous paragraph. New equipment sales were up 78.6% to \$4.08 million for the current period, compared with \$2.28 million for the same period of fiscal 2002. Sales from remanufactured equipment were relatively flat at \$2.46 million for the current period, compared with \$2.39 million in the same period last year. Repair service revenues were up 45.1% to \$1.21 million for the current quarter, compared with \$833,000 for the same period last year. The increase in repair services was due to the continued focus of being a leading repair service provider and the expansion of our repairs sales to our new Atlanta operations which began in June of 2002.

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Cost of Sales. Cost of sales increased to \$4.07 million for the first quarter of fiscal 2003 from \$2.91 million for the same period of fiscal 2002. The increase was primarily due to the increase in sales for the period.

Gross Profit. Gross profit climbed \$958,000 or 36.0% to \$3.62 million for the first quarter of fiscal 2003 from \$2.67 million for the same period in fiscal 2002. The gross margin percentage was 47.1% for the current quarter, compared to 47.7% for the same quarter last year.

Operating Expenses. Operating expenses increased by \$386,000 in the first quarter of fiscal 2003, to \$1.98 million from \$1.59 million for the same period in 2002, an increase of 24.2%. The increase in operating expenses was primarily due to the commencement of the operations of TULSAT-Atlanta in June 2002, coupled with an expanding sales force and other added expenses incurred to meet the marketing initiatives described previously.

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Income from Operations. Income from operations rose \$573,000, or 53.2% to \$1.65 million for the first quarter of fiscal 2003 from \$1.08 million for the same period last year. This increase was primarily due to increases in sales to the larger MSO's.

Critical Accounting Policies

Note 1 to the Consolidated Financial Statements in Form 10-KSB for fiscal year 2002 includes a summary of the significant accounting policies or methods used in the preparation of our Consolidated Financial Statements. Some of those significant accounting policies or methods require us to make estimates and assumptions that affect the amounts reported by us. We believe the following items require the most significant judgments and often involve complex estimates.

General

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

Inventory Valuation

Inventory consists of new and used electronic components for the cable television industry. Inventory is stated at the lower of cost or market. Market is defined principally as net realizable value. Cost is determined using the weighted average method.

We market our products primarily to MSO's and other users of cable

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television equipment who are seeking products for which manufacturers have discontinued production, or are seeking shipment on a same-day basis. Our position in the industry requires us to carry large inventory quantities relative to quarterly sales, but also allows us to realize high overall gross profit margins on our sales. Carrying these large inventories represents the Company's largest risk. For individual inventory items, we may carry inventory quantities that are excessive relative to market potential, or we may not be able to recover our acquisition costs for sales we are able to make in a reasonable period.

In order to address the risks associated with our investment in inventory, we regularly review inventory quantities on hand and reduce the carrying value when the loss of usefulness of an item or other factors, such as obsolete and excess inventories, indicate that cost will not be recovered when an item is

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sold. Demand for some of the items in our inventory has been impacted by recent economic conditions present in the cable industry. We wrote certain items in inventory down to their estimated market values at September 30, 2002, which resulted in a charge to cost of sales of \$1.4 million for fiscal 2002. Any significant, unanticipated changes in product demand, technological developments or continued economic trends affecting the cable industry could have a significant impact on the value of our inventory and operating results.

Accounts Receivable Valuation

Management judgments and estimates are made in connection with establishing the allowance for doubtful accounts. Specifically, we analyze the aging of accounts receivable balances, historical bad debts, customer concentrations, customer credit-worthiness, current economic trends and changes in our customer payment terms. Significant changes in customer concentration or payment terms, deterioration of customer credit-worthiness, as in the case of the bankruptcy of Adelphia and its affiliates, or weakening in economic trends could have a significant impact on the collectibility of receivables and our operating results. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. At December 31, 2002, accounts receivable, net of allowance for doubtful accounts of \$35,000, amounted to \$3.2 million.

Liquidity and Capital Resources

We have a line of credit with the Bank of Oklahoma under which we are authorized to borrow up to \$9.0 million at a borrowing rate of 1.25% below Chase Manhattan Prime (3.0% at December 31, 2002). This line of credit will provide the lesser of \$7.0 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 and \$2.0 million for future acquisitions meeting Bank of Oklahoma credit guidelines. The line of credit is collateralized by inventory, accounts receivable, equipment and fixtures, and general intangibles and had an outstanding balance at December 31, 2002 of \$4.7 million, due June 30, 2003. We intend to renew the agreement at the maturity date under similar terms and expect discussions to commence with our lender in the next couple of months.

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We finance our operations primarily through internally generated funds and a bank line of credit. We owe from the NCS purchase, a \$300,000 obligation due \$25,000 per quarter (of which \$125,000 remains payable) and a \$200,000 note, due

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quarterly at 7% (of which a balance of \$75,000 remains). Both notes are payable quarterly, with 5 quarters remaining. Notes payable to Chymiak Investments, LLC for loans used to purchase buildings at Comtech and ADDvantage Technologies Group of Texas, include two notes issued in June 2001 for \$328,000 and \$150,000, respectively (of which balances of \$317,000 and \$134,000, respectively, remain) bearing interest at 7.5% per year due monthly with a 10 year term.

Stockholder loans include a \$1.0 million 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. It is not expected that these loans will be called within the 2003 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.

Item 3. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

Within 90 days prior to this report, with the participation of management, our principal executive officer and principal financial officer evaluated our disclosure controls and procedures. Based on this evaluation, the principal executive officer and principal financial officer concluded that the disclosure controls and procedures are effective in timely alerting him to material information required to be disclosed in our periodic reports filed with the Securities and Exchange Commission.. It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

(b) Changes in internal controls.

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Subsequent to January 31, 2003 through the date of this filing of Form 10-QSB for the quarter ended December 31, 2002, there have been no significant changes in our internal controls or in other factors that could significantly affect those controls, including any significant deficiencies or material weaknesses of internal controls that would require corrective action.

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PART II-OTHER INFORMATION

OTHER INFORMATION

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

(a) Exhibit No. Description

99.1 Certification of the Chief Executive Officer and Chief Financial Officer

Pursuant to 8 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K for the quarter ended December 31, 2002:

The Company filed a current report on Form 8-K on December 30, 2002 reporting under Item 9 the issuance of a press release announcing its financial results for the fiscal year ended September 30, 2002. A copy of the press release was an exhibit to the report.

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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.
(Registrant)

/S/ Kenneth A. Chymiak

Date: February 7, 2003

Kenneth A. Chymiak,
Director and President
(Principal Executive Officer and
Principal Financial Officer)

/S/ Adam R. Havig

Date: February 7, 2003

Adam R. Havig,
Controller
(Principal Accounting Officer)

CERTIFICATION

I, Kenneth A. Chymiak, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of ADDvantage Technologies Group, Inc, (the "Company");
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact

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necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this quarterly report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Company and have;
 - a. Designed such disclosure controls and procedures to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this quarterly report is being prepared;
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- b. Evaluated the effectiveness of the Company's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c. Presented in this quarterly report my conclusions about the effectiveness of the disclosure controls and procedures based on my evaluation as of the Evaluation Date;
5. I have disclosed, based on my most recent evaluation, to the Company's auditors and the audit committee of Company's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies in the design or operation of internal controls which could adversely affect the Company's ability to record, process, summarize and report financial data and have identified for the Company's auditors any material weakness in internal controls; and
 - b. Any fraud, whether or not material that involves management or other employees who have a significant role in the Company's internal controls; and
6. I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of my most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 7, 2003

/s/ Kenneth A. Chymiak

Kenneth A. Chymiak,
Principal Executive Office and Principal
Financial Officer

