ADDVANTAGE TECHNOLOGIES GROUP INC
Form 10-Q
February 10, 2015

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

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED December 31, 2014

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM________________ TO ______________

Commission File number 1-10799

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

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

1221 E. Houston
Broken Arrow, Oklahoma 74012
(Address of principal executive office)
(918) 251-9121
(Registrant's telephone number, including area code)

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 o
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 (Section 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 x	No o

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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule12b-2 of the Exchange Act.

Large accelerated filer o Accelerated filero

Non-accelerated filer o (do not check if a smaller reporting company) Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

Shares outstanding of the issuer's $.01 par value common stock as of January 31, 2015 were 10,041,206.

ADDVANTAGE TECHNOLOGIES GROUP, INC.
Form 10-Q
For the Period Ended December 31, 2014

1

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

ADDVANTAGE TECHNOLOGIES GROUP, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS
(UNAUDITED)

	December 31, 2014	September 30, 2014
Assets		
Current assets:		
Cash and cash equivalents	$6,529,181	$5,286,097
Accounts receivable, net of allowance for doubtful accounts of $200,000	5,079,630	6,393,580
Income tax refund receivable	–	220,104
Inventories, net of allowance for excess and obsolete inventory of $2,306,628 and $2,156,628, respectively	23,119,992	22,780,523
Prepaid expenses	127,464	174,873
Deferred income taxes	1,390,000	1,416,000
Total current assets	36,246,267	36,271,177
Property and equipment, at cost:		
Land and buildings	7,212,779	7,208,679
Machinery and equipment	3,374,795	3,244,153
Leasehold improvements	135,252	206,393
Total property and equipment, at cost	10,722,826	10,659,225
Less accumulated depreciation	(4,290,324)	(4,191,516)
Net property and equipment	6,432,502	6,467,709
Intangibles, net of accumulated amortization	6,418,826	6,625,278
Goodwill	3,910,089	3,910,089
Other assets	131,428	131,428
Total assets	$53,139,112	$53,405,681

See notes to unaudited consolidated condensed financial statements.

ADDVANTAGE TECHNOLOGIES GROUP, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS
(UNAUDITED)

	December 31, 2014	September 30, 2014
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$2,543,924	$2,880,761
Accrued expenses	1,576,162	1,809,878
Accrued income taxes	104,663	–
Notes payable – current portion	852,643	845,845
Other current liabilities	993,308	983,269
Total current liabilities	6,070,700	6,519,753
Notes payable, less current portion	5,024,230	5,240,066
Deferred income taxes	178,000	267,000
Other liabilities	1,978,869	1,942,889
Shareholders' equity:		
Common stock, $.01 par value; 30,000,000 shares authorized;10,541,864 shares issued; and 10,041,206 shares outstanding	105,419	105,419
Paid in capital	(5,277,464)	(5,312,881)
Retained earnings	46,059,372	45,643,449
Total shareholders' equity before treasury stock	40,887,327	40,435,987
Less: Treasury stock, 500,658 shares, at cost	(1,000,014)	(1,000,014)
Total shareholders' equity	39,887,313	39,435,973
Total liabilities and shareholders' equity	$53,139,112	$53,405,681

See notes to unaudited consolidated condensed financial statements.

ADDVANTAGE TECHNOLOGIES GROUP, INC.
CONSOLIDATED CONDENSED STATEMENTS OF INCOME
(UNAUDITED)

	Three Months Ended December 31,	
	2014	2013
Sales	$ 10,837,158	$ 6,119,733
Cost of sales	7,005,355	4,256,506
Gross profit	3,831,803	1,863,227
Operating, selling, general and administrative expenses	3,075,459	1,629,875
Income from operations	756,344	233,352
Interest expense	85,421	5,983
Income before provision for income taxes	670,923	227,369
Provision for income taxes	255,000	88,000
Income from continuing operations	415,923	139,369
Discontinued operations, net of tax	–	26,368
Net income	$ 415,923	$ 165,737
Earnings per share:		
Basic		
Continuing operations	$ 0.04	$ 0.01
Discontinued operations	–	–
Net income	$ 0.04	$ 0.02
Diluted		
Continuing operations	$ 0.04	$ 0.01
Discontinued operations	–	–
Net income	$ 0.04	$ 0.02
Shares used in per share calculation:		
Basic	10,041,206	9,998,480
Diluted	10,044,619	10,009,689

See notes to unaudited consolidated condensed financial statements.

ADDVANTAGE TECHNOLOGIES GROUP, INC.
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three Months Ended December 31, 2014	2013
Operating Activities		
Net income	$415,923	$165,737
Net income from discontinued operations	–	26,368
Net income from continuing operations	415,923	139,369
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	98,808	75,650
Amortization	206,452	–
Provision for excess and obsolete inventories	150,000	160,000
Deferred income tax benefit	(63,000)	(53,000)
Share based compensation expense	62,028	31,341
Changes in assets and liabilities:		
Accounts receivable	1,313,950	76,342
Income tax refund receivable	220,104	169,983
Inventories	(489,469)	(2,405,783)
Prepaid expenses	20,798	(12,693)
Accounts payable	(336,837)	1,560,197
Accrued expenses	(83,034)	(331,093)
Net cash provided by (used in) operating activities – continuing operations	1,515,723	(589,687)
Net cash used in operating activities – discontinued operations	–	(105,239)
Net cash provided by (used in) operating activities	1,515,723	(694,926)
Investing Activities		
Additions to machinery and equipment	(63,601)	(1,374)
Net cash used in investing activities	(63,601)	(1,374)
Financing Activities		
Payments on notes payable	(209,038)	(46,002)
Net cash used in financing activities	(209,038)	(46,002)
Net increase (decrease) in cash and cash equivalents	1,243,084	(742,302)
Cash and cash equivalents at beginning of period	5,286,097	8,476,725
Cash and cash equivalents at end of period	$6,529,181	$7,734,423
Supplemental cash flow information:		
Cash paid for interest	$53,957	$5,953
Cash paid for income taxes	$–	$–

See notes to unaudited consolidated condensed financial statements.

ADDVANTAGE TECHNOLOGIES GROUP, INC.
NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Note 1 - Basis of Presentation and Accounting Policies

Basis of presentation

The condensed consolidated financial statements include the accounts of ADDvantage Technologies Group, Inc. and its subsidiaries, all of which are wholly owned (collectively, the “Company”). Intercompany balances and transactions have been eliminated in consolidation. The Company’s reportable segments are Cable Television (“Cable TV”) and Telecommunications (“Telco”).

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial statements and do not include all the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. However, the information furnished reflects all adjustments, consisting only of normal recurring items which are, in the opinion of management, necessary in order to make the consolidated condensed financial statements not misleading. It is suggested that these consolidated condensed financial statements be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended September 30, 2014.

Recently Issued Accounting Standards

In May 2014, the FASB issued ASU No. 2014-09: “Revenue from Contracts with Customers (Topic 606)”. This guidance was issued to clarify the principles for recognizing revenue and develop a common revenue standard for U.S. GAAP and International Financial Reporting Standards (“IFRS”). The guidance is effective for the fiscal years and interim periods within those years beginning after December 15, 2016. Management is evaluating the impact that ASU No. 2014-09 will have on the Company’s consolidated financial statements.

Note 2 – Inventories

Inventories at December 31, 2014 and September 30, 2014 are as follows:

	December 31, 2014	September 30, 2014
New:		
Cable TV	$16,691,894	$16,949,713
Refurbished:		
Cable TV	3,778,007	3,982,140
Telco	4,956,719	4,005,298
Allowance for excess and obsolete inventory	(2,306,628)	(2,156,628)
	$23,119,992	$22,780,523

New inventory includes products purchased from the manufacturers plus “surplus-new”, which are unused products purchased from other distributors or multiple system operators. Refurbished inventory includes factory refurbished, Company refurbished and used products. Generally, the Company does not refurbish its used inventory until there is a sale of that product or to keep a certain quantity on hand.

The Company regularly reviews the Cable Television segment inventory quantities on hand, and an adjustment to cost is recognized 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 sold. The Company recorded charges in the Cable Television segment to allow for obsolete inventory, which increased the cost of sales during the three months ended December 31, 2014, and 2013, by approximately $0.2 million. For the Telco segment, any obsolete and excess telecommunications inventory is processed through its recycling program when it is identified.

Note 3 – Intangible Assets

Intangible assets that have finite useful lives are amortized on a straight-line basis over their estimated useful lives ranging from 3 years to 10 years. The intangible assets with their associated accumulated amortization amounts at December 31, 2014 and September 30, 2014 are as follows:

	December 31, 2014
	Gross