ADDVANTAGE TECHNOLOGIES GROUP INC
Form 10-Q
August 14, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED June 30, 2017

OR

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

Large accelerated filer Accelerated filer
Non-accelerated filer (do not check if a smaller reporting company) 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

Shares outstanding of the issuer's $.01 par value common stock as of July 31, 2017 were 10,192,244.

ADDVANTAGE TECHNOLOGIES GROUP, INC.
Form 10-Q
For the Period Ended June 30, 2017

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	June 30, 2017	September 30, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 3,744,508	$ 4,508,126
Accounts receivable, net of allowance for doubtful accounts of $250,000	6,024,786	4,278,855
Income tax receivable	101,754	480,837
Inventories, net of allowance for excess and obsolete inventory of $2,984,641 and $2,570,868, respectively	22,660,271	21,524,919
Prepaid expenses	332,421	323,289
Total current assets	32,863,740	31,116,026
Property and equipment, at cost:		
Land and buildings	7,218,678	7,218,678
Machinery and equipment	4,017,887	3,833,230
Leasehold improvements	202,017	151,957
Total property and equipment, at cost	11,438,582	11,203,865
Less: Accumulated depreciation	(5,320,592)	(4,993,102)
Net property and equipment	6,117,990	6,210,763
Investment in and loans to equity method investee	288,703	2,588,624
Intangibles, net of accumulated amortization	8,860,798	4,973,669
Goodwill	5,970,244	3,910,089
Deferred income taxes	1,490,000	1,333,000
Other assets	136,412	135,988
Total assets	$ 55,727,887	$ 50,268,159

See notes to unaudited consolidated condensed financial statements.

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

	June 30, 2017	September 30, 2016
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$3,350,598	$1,857,953
Accrued expenses	1,590,339	1,324,652
Notes payable – current portion	6,828,961	899,603
Other current liabilities	660,919	963,127
Total current liabilities	12,430,817	5,045,335
Notes payable, less current portion	–	3,466,358
Other liabilities	1,358,627	131,410
Total liabilities	13,789,444	8,643,103
Shareholders' equity:		
Common stock, $.01 par value; 30,000,000 shares authorized; 10,692,902 and 10,634,893 shares issued, respectively; 10,192,244 and 10,134,235 shares outstanding, respectively	106,929	106,349
Paid in capital	(4,764,953)	(4,916,791)
Retained earnings	47,596,481	47,435,512
Total shareholders' equity before treasury stock	42,938,457	42,625,070
Less: Treasury stock, 500,658 shares, at cost	(1,000,014)	(1,000,014)
Total shareholders' equity	41,938,443	41,625,056
Total liabilities and shareholders' equity	$55,727,887	$50,268,159

See notes to unaudited consolidated condensed financial statements.

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2017	2016	2017	2016
Sales	$12,989,990	$10,060,242	$36,380,572	$28,897,097
Cost of sales	9,234,039	6,594,091	24,836,563	19,080,954
Gross profit	3,755,951	3,466,151	11,544,009	9,816,143
Operating, selling, general and administrative expenses	3,757,027	3,062,288	11,031,276	8,987,316
Income (loss) from operations	(1,076)	403,863	512,733	828,827
Other income (expense):				
Other income	–	70,517	–	180,071
Interest income	–	28,950	–	31,122
Income (loss) from equity method investment	–	63,977	–	(77,021)
Interest expense	(85,787)	(54,221)	(279,764)	(184,289)
Total other income (expense), net	(85,787)	109,223	(279,764)	(50,117)
Income (loss) before income taxes	(86,863)	513,086	232,969	778,710
Provision (benefit) for income taxes	(20,000)	197,000	72,000	293,000
Net income (loss)	$(66,863)	$316,086	$160,969	$485,710
Earnings (loss) per share:				
Basic	$(0.01)	$0.03	$0.02	$0.05
Diluted	$(0.01)	$0.03	$0.02	$0.05
Shares used in per share calculation:				
Basic	10,192,244	10,134,235	10,160,017	10,098,564
Diluted	10,192,244	10,135,607	10,160,582	10,103,054

See notes to unaudited consolidated condensed financial statements.

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

	Nine Months Ended June 30,	
	2017	2016
Operating Activities		
Net income	$160,969	$485,710
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	328,673	312,403
Amortization	953,871	619,353
Provision for excess and obsolete inventories	433,579	450,000
Deferred income tax benefit	(157,000)	(20,000)
Share based compensation expense	130,390	142,040
Loss from equity method investment	–	77,021
Changes in assets and liabilities:		
Accounts receivable	(629,035)	(1,444,754)
Income tax receivable/payable	379,083	(69,597)
Inventories	(420,337)	1,499,557
Prepaid expenses	14,078	(55,183)
Other assets	(424)	(1,310)
Accounts payable	908,972	641,268
Accrued expenses	93,613	25,776
Other liabilities	88,312	(6,127)
Net cash provided by operating activities	2,284,744	2,656,157
Investing Activities		
Acquisition of net operating assets	(6,643,540)	(178,000)
Guaranteed payments for acquisition of business	(1,000,000)	(1,000,000)
Loan repayments from (investment in and loans to) equity method investee	2,299,921	(1,592,742)
Purchases of property and equipment	(169,560)	(199,715)
Disposals of property and equipment	1,817	–
Net cash used in investing activities	(5,511,362)	(2,970,457)
Financing Activities		
Proceeds from notes payable	4,000,000	–
Debt issuance costs	(16,300)	–
Payments on notes payable	(1,520,700)	(652,912)
Net cash provided by (used in) financing activities	2,463,000	(652,912)
Net decrease in cash and cash equivalents	(763,618)	(967,212)
Cash and cash equivalents at beginning of period	4,508,126	6,110,986
Cash and cash equivalents at end of period	$3,744,508	$5,143,774
Supplemental cash flow information:		
Cash paid for interest	$256,882	$153,531
Cash paid for (received from) income taxes	$(200,000)	$351,200

Supplemental noncash investing activities:		
Deferred guaranteed payments for acquisition of business	$(1,836,105)	$–

See notes to unaudited consolidated condensed financial statements.

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

Note 1 - Basis of Presentation and Accounting Policies

Basis of presentation

The consolidated condensed 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, 2016.

Reclassification

Certain prior period amounts have been reclassified to conform to the current period presentation. These reclassifications had no effect on previously reported results of operations or retained earnings.

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”). In addition, in August 2015, the FASB issued ASU No. 2015-14: “Revenue from Contracts with Customers (Topic 606). This update was issued to defer the effective date of ASU No. 2014-09 by one year. Therefore, the effective date of ASU No. 2014-09 is for annual reporting periods beginning after December 15, 2017. Management is evaluating the impact that ASU No. 2014-09 will have on the Company’s consolidated financial statements. Based on management’s initial assessment of ASU 2014-09, management does not expect that ASU No. 2014-09 will have a material impact on the Company’s consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02: “Leases (Topic 842)” which is intended to improve financial reporting about leasing transactions. The ASU will require organizations (“lessees”) that lease assets with lease terms of more than twelve months to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Organizations that own the assets leased by lessees (“lessors”) will remain largely unchanged from current GAAP. In addition, the ASU will require disclosures to help investors and other financial statement users better understand the amount, timing and uncertainty of cash flows arising from leases. The guidance is effective for annual periods beginning after December 15, 2018 and early adoption is permitted. Management is evaluating the impact that ASU No. 2016-02 will have on the Company’s consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09: “Compensation – Stock Compensation (Topic 718)” which is intended to improve employee share-based payment accounting. This ASU identifies areas for simplification involving several aspects of accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, an option to recognize gross stock compensation expense with actual forfeitures recognized as they occur, as well as certain classifications on the statement of cash flows. The guidance is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted. Management is evaluating the impact that ASU No. 2016-09 will have on the Company's consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15: "Statement of Cash Flows (Topic 230) – Classification of Certain Cash Receipts and Cash Payments." This ASU addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. The amendments in this ASU are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. Management is evaluating the impact that ASU No. 2016-15 will have on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01: "Business Combinations (Topic 805) – Clarifying the definition of a Business." This ASU clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The guidance is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. Management is evaluating the impact that ASU 2017-01 will have on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04: "Intangibles – Goodwill and Other (Topic 350) – Simplifying the Test for Goodwill Impairment." This ASU eliminates the second step in the goodwill impairment test which requires an entity to determine the implied fair value of the reporting unit's goodwill. Instead, an entity should recognize an impairment loss if the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, with the impairment loss not to exceed the amount of goodwill allocated to the reporting unit. This ASU is effective for annual and interim goodwill impairment tests conducted in fiscal years beginning after December 15, 2019, with early adoption permitted. Management is evaluating the impact that ASU No. 2017-04 will have on the Company's consolidated financial statements.

Note 2 – Acquisition

As part of the Company's growth strategy, the Company is pursuing an acquisition strategy to expand into the broader telecommunications industry. The Company formed a new subsidiary called ADDvantage Triton, LLC ("Triton Datacom") which on October 14, 2016 acquired substantially all of the net assets of Triton Miami, Inc. ("Triton Miami"). Triton Datacom is a provider of new and refurbished enterprise networking products, including IP desktop phones, enterprise switches and wireless routers. This acquisition, along with its retained management team, is part of the overall growth strategy of the Company in that it further diversifies the Company into the broader telecommunications industry by reselling refurbished products into the enterprise customer market.

The purchase price for Triton Miami includes the following:

Upfront cash payment	$6,500,000
Deferred guaranteed payments (a)	1,836,105
Working capital purchase adjustment	143,540
Net purchase price	$