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ADVANTAGE TECHNOLOGIES GROUP INC
Form 10KSB/A
February 25, 2004

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB/A
Amendment No. 2

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended September 30, 2002

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-10799

ADVANTAGE TECHNOLOGIES GROUP, INC.
(Name of small business issuer in its charter)

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

| | |
|---|------------------------------|
| 1605 East Iola Broken Arrow, Oklahoma ----- (Address of principal executive offices) | 74012 ----- (Zip code) |
|---|------------------------------|

Issuer's telephone number: (918) 251-9121

Securities registered under Section 12(b) of the Act: None

Securities registered under Section 12(g) of the Act:
Common Stock, \$.01 par value

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities 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 |
| ----- | | ----- |

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

The issuer's revenues for its most recent fiscal year are \$25,408,931.

The aggregate market value of the shares of common stock, par value \$.01 per share, held by non-affiliates of the issuer was \$1,196,204 as of December 26, 2002.

As of the latest practicable date, the number of the registrant's common stock, \$.01 par value per share, outstanding was 10,010,414 as of December 26, 2002.

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The definitive Proxy Statement to be filed pursuant to Regulation 14A in connection with the Registrant's 2003 annual meeting of shareholders is incorporated by reference in Part III, Items 9, 10, 11 and 12 of this Form 10-KSB. The Proxy Statement will be filed with the Securities and Exchange Commission within 120 days after the close of the registrant's most recent fiscal year.

TRANSITIONAL SMALL BUSINESS DISCLOSURE
FORMAT (CHECK ONE): Yes [] No [x]

This Amendment No. 2 to our Annual Report on Form 10-KSB for the year ended September 30, 2002 is being filed for the purpose of amending and restating the disclosures under Items 6 and 7 of Part II of Form 10-KSB.

PART II

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of financial condition and results of operations should be read in conjunction with our consolidated historical financial statements and the notes to those statements that appear elsewhere in this report. Certain statements in the discussion contain forward-looking statements based upon current expectations that involve risks and uncertainties, such as plans, objectives, expectations and intentions. Actual results and the timing of events could differ materially from those anticipated in these forward-looking statements as a result of a number of factors, including those set forth under "Risk Factors" and "Business" and elsewhere in this report.

General -----

ADDvantage Technologies Group, Inc and its subsidiaries, TULSAT, Lee CATV Corporation, NCS Industries, Comtech Services, TULSAT - Texas and TULSAT - Atlanta comprise an organization involved in the re-manufacture, repair and sale of previously owned cable television ("CATV") equipment and the distribution of new and surplus equipment to CATV operators. New sales are defined as products that are purchased from the manufacturer, and includes new surplus, which is defined as inventory items purchased from other distributors or MSO's with excess equipment that have never been used. Re-manufactured sales are defined as used inventory that is updated to meet customer needs and requirements.

Overview -----

It is difficult to time the placing of orders in our business due to cyclical conditions that exist in the broadband and cable industry and present economic conditions that affect it. Last year continued to be a challenging business environment in the industry due to a significant reduction in capital spending that began in the first quarter of fiscal 2001. We believe we are in a unique position to service those MSO's, which are looking to minimize costs. We have an abundance of inventory and we offer repair services, which are available to our customers, who include some of the largest cable operators of the industry. The industry conditions have affected all equipment suppliers, and we have worked to minimize the negative impact of these conditions on our financial results and operations. We have aggressively sought to stimulate sales by marketing our products and services to the larger MSO's and we have managed our receivables to minimize any bad debt write-offs. Our efforts have

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resulted in increasing sales in a down economy (11.0% over last year), minimizing the impact of the Adelphia bankruptcy (a \$96,000 bad debt write-off, representing approximately 5% of sales to Adelphia, where the impact for other companies had been more severe) and minimizing the overall impact of bad debts written off in total compared to net income (\$136,000, representing less than 7% of net income). However, our largest risk is our investment in inventory.

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After consideration of continued analysis, review, and evaluation of our inventory, we recorded an inventory write-down of \$1.4 million due to a reduction of market prices on certain items of used and new inventory. We expect fiscal 2003 to be significantly improved based on preliminary results from increased sales in the first quarter of 2003 compared to first quarter 2002. However, there is no assurance that revenues in fiscal 2003 will continue to exceed those for comparable periods in fiscal 2002 due to the factors discussed elsewhere in this report.

Set forth below is a description of how the business has performed over the last two years. The acquisitions of NCS (March 2001), Comtech and the formation of TULSAT-Texas (May 2001) and TULSAT-Atlanta (June 2002), have changed business operations significantly and we have seen a positive impact from these additions as they implement our management philosophies and strategies.

Results of Operations

Year Ended September 30, 2002 Compared to Year Ended September 30, 2001
(all references to years are to fiscal years)

Net Sales. Net sales climbed \$2.5 million or 11.0%, to \$25.4 million for the year from \$22.9 million for 2001. Despite the decrease in overall capital spending in the industry and the bankruptcies of several cable operators, new sales increased 31.7% from \$9.0 million last year to \$11.8 million this year as a result of our new distributorship with Scientific-Atlanta and the acquisition of NCS. Our focus on increasing repair revenue has resulted in an 18.5% increase in those revenues, from \$3.3 million last year to \$3.9 million this year primarily due to the acquisitions of Comtech and NCS. Although we are pleased with the results of repair services, they were severely impacted by the tightening of credit for the small cable operators and bankruptcy filings of several of our customers. Our revenue generated by sales of re-manufactured equipment has also been impacted by the economic slowdown. Revenue from re-manufactured equipment sales dropped 4.4% from \$10.2 million last year to \$9.8 million this year. The collective impact NCS, Comtech, and Tulsat-Texas had on sales in those 2002 months which correspond to the same months in 2001 prior to the acquisitions of those companies was \$1.4 million.

Costs of Sales. Costs of sales includes the costs of new and refurbished equipment, on a weighted average cost basis, sold during the period, the equipment costs used in repairs, and the related transportation costs. Cost of sales this year was 56.6% of net sales compared to 51.9% last year. Costs of sales for new and refurbished equipment rose to 63.8% of net sales for 2002 from 59.0% of net sales for 2001. This was primarily due to the write-down of inventory of \$1.4 million discussed above. Cost of sales for repair services increased to 16.9% of net sales for 2002 from 10.3% of net sales for 2001. This increase was due primarily to the fact that we performed repairs on more high-end hybrid and fiber optic equipment that has a higher cost of material relative to sales.

Operating, Selling, General and Administrative Expenses. Operating,

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selling, general and administrative expenses includes all personnel costs, including fringe benefits, insurance and taxes, occupancy, transportation (other than freight-in), communication and professional services, among other less significant accounts. Operating, selling, general and administrative expenses increased \$1.34 million, or 23.0% in 2002 over the previous year. Most of this increase was directly attributable to operating expenses (primarily salaries and wages) associated with NCS, Comtech, Tulsat - Texas and the addition of the new facility, Tulsat - Atlanta, in 2002.

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Income from Operations. Income from operations decreased 27.0 %, to \$3.5 million for 2002 from \$4.9 million for 2001. This decrease was primarily due to the inventory write-down and operating costs associated with the recent acquisitions offset by higher net sales.

Interest Expense. Interest expense for fiscal 2002 was \$245,000 compared to \$337,000 in fiscal 2001. The decrease was primarily attributable to a lower average interest rate on the Company's line of credit.

Income Taxes. The provision for income taxes for fiscal 2002 decreased to \$1.1 million from \$1.7 million in fiscal 2001. The decrease was primarily due to lower pre-tax earnings coupled with a favorable impact from changes in the deferred tax valuation allowance.

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.

Inbound freight charges are included in Costs of Sales. Purchasing and

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receiving costs, inspection costs, warehousing costs, internal transfer costs and other inventory expenditures are included in operating expenses.

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We market our products primarily to MSO's and other users of cable 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 annual 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 sold. Demand for some of the items in our inventory has been impacted by recent economic conditions present in the cable industry. Rather than using the allowance method for excess and slow moving inventory, a direct write-off method is utilized to present inventory at lower of cost or market. We wrote certain items in inventory down to their estimated market values at September 30, 2002, increasing the cost of sales by \$1,442,938. 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. The reserve for bad debts increased from \$0 at September 30, 2001 to \$85,212 at September 30, 2002. The increase resulted from changes in the industry and the general downturn in the economy causing us to experience an increase in delays in receiving payments and defaults. At September 30, 2002, accounts receivable, net of allowance for doubtful accounts of \$85,000, amounted to \$3.3 million.

Liquidity and Capital Resources

We finance our operations primarily through internally generated funds and a bank line of credit.

During 2002, we generated in excess of \$2.4 million cash flow from operations, which we used to meet our preferred dividend obligations of \$1.24 million, repay debt, and increase cash by \$545,000.

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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 (3.5% at September 30, 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 September 30, 2002 of \$4.5 million, due June 30, 2003.

Our board of directors has authorized the repurchase of up to \$1.0 million of our 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. We did not repurchase any shares during the fiscal year.

We believe that cash flow from operations, existing cash balances and our existing line of credit provide sufficient liquidity and capital resources to meet our needs.

We lease various properties from a company owned by our principal shareholders. Future minimum lease payments under these leases are as follows:

| | |
|------|------------|
| 2003 | \$ 437,700 |
| 2004 | 384,840 |
| 2005 | 105,840 |
| 2006 | 17,640 |
| | ----- |
| | \$ 946,020 |
| | ===== |

Cash used in financing activities in 2002 was primarily used to pay dividends on our Series A and Series B Preferred Stock. Dividends on these preferred stocks total \$1,240,000 annually. The outstanding common and preferred stock is beneficially owned by our principal shareholders as reflected in the following table.

Stock Ownership

| Name of Beneficial Owner ----- | Percent of Common Stock Beneficially Owned ----- | Percent of Series A Preferred Stock Beneficially Owned (A) ----- | Percent of Series B Preferred Stock Beneficially Owned (A) ----- |
|--------------------------------------|---|--|--|
| David E. Chymiak | 41.6% | 50.0% | 50.0% |
| Kenneth A. Chymiak | 40.0% | 50.0% | 50.0% |

(A) The two series of outstanding preferred stock have an aggregate preference upon liquidation of \$20,000,000 plus accrued and unpaid dividends.

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In June 2001, the FASB issued Statements of Financial Accounting Standards No. 141, "Business Combinations" (SFAS 141), Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (SFAS 142), and Statement No. 143, "Accounting for Asset Retirement Obligations" (SFAS 143). SFAS 141 requires all business combinations to be accounted for using the purchase method of accounting and is effective for all business combinations initiated after June 30, 2001. The Company is currently not affected by SFAS 141, as there are no transactions covered by this pronouncement.

Under SFAS 142, goodwill and indefinite lived intangible assets are no longer amortized but are reviewed annually or more frequently if impairment indicators arise, for impairment. Separable intangible assets that have finite lives will continue to be amortized over their useful lives. SFAS 142 is effective for fiscal years beginning after December 15, 2001. The Company will discontinue the amortization of its goodwill balances and intangible assets with indefinite useful lives effective October 1, 2002. The Company has goodwill from recent acquisitions and has not recorded any impairment at this time. The Company is currently evaluating the impact of SFAS 142 on its consolidated financial statements.

SFAS 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred and a corresponding increase in the carrying amount of the related long-lived asset. Statement No. 143 is effective for fiscal years beginning after June 15, 2002. The Company does not expect SFAS 143 to have a material impact on its financial condition and results of operations.

In August 2001, the FASB issued Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144). SFAS 144 supersedes Statement 121, "Accounting for the Impairment of Long-Lived assets and Long-Lived Assets to Be Disposed Of" and the accounting and reporting provisions of Accounting Principals Board Opinion No. 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" for the disposal of a segment of a business. Goodwill is excluded from the scope of Statement No. 144. Additionally, Statement No. 144 utilizes a probability-weighted cash flow estimation approach and establishes a "primary-asset" approach to determine the cash flow estimation period for a group of assets. Statement No. 144 is effective for fiscal years beginning after December 15, 2001. The Company does not expect SFAS 144 to have a material impact on its financial condition and results of operations.

In April 2002, the FASB issued Statement of Financial Accounting Standards No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" (SFAS 145). This Statement rescinds FASB Statement No. 4, Reporting Gains and Losses from Extinguishment of Debt, and an amendment of that Statement, FASB Statement No. 64, Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements. This Statement also rescinds FASB Statement No. 44, Accounting for Intangible Assets of Motor Carriers. This Statement amends FASB Statement No. 13, Accounting for Leases, to eliminate an inconsistency between the required accounting for sale-

leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. This Statement also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. The Company does not expect SFAS 145 to have a material impact on its financial condition and results

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of operations.

In June 2002, the FASB issued Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (SFAS 146). This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The Company is currently not affected by SFAS 146 as there are no transactions covered by these pronouncements.

In October 2002, the Financial Accounting Standards Board issued FASB Statement No. 147, Accounting for Acquisitions of Certain Financial Institutions - an amendment of FASB Statements No. 72 and 144 and FASB Interpretation No. 9 (SFAS 147). SFAS 147 amends SFAS 72 and no longer requires financial institutions to recognize, and subsequently amortize, any excess of the fair value of liabilities assumed over the fair value of tangible and identifiable intangible assets acquired as an unidentifiable intangible asset. In addition, SFAS 147 amends SFAS 144 to include in its scope long-term customer-relationship intangible assets of financial institutions such as depositor and borrower relationship intangible assets and credit cardholder intangible assets. Management does not anticipate that the adoption of SFAS 147 will have any material impact on the financial statements.

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ITEM 7. FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

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The Stockholders of
ADDvantage Technologies Group, Inc.

We have audited the accompanying consolidated balance sheet of ADDvantage Technologies Group, Inc. (the "Company") as of September 30, 2002 (as restated), and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years ended September 30, 2002 and 2001 (as restated). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of September 30, 2002 (as restated), and the consolidated results of its operations and its cash flows for the years ended September 30, 2002 and 2001 (as restated), in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 11 to the financial statements, the Company restated the financial statements for the years ended September 30, 2002 and 2001 to revise its accounting for the series of capital transactions associated with the merger of TULSAT Corporation and ADDvantage Technologies Group, Inc.

/s/ TULLIUS TAYLOR SARTAIN & SARTAIN LLP

Tulsa, Oklahoma
December 12, 2002
except for Note 11, as to which the date
is February 24, 2004

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ADVANTAGE TECHNOLOGIES GROUP, INC.
CONSOLIDATED BALANCE SHEET
September 30, 2002
(Restated)

Assets

Current assets:

| | | |
|---|----|------------|
| Cash | \$ | 775,740 |
| Accounts receivable, net of allowance of \$85,212 | | 3,349,108 |
| Refundable income taxes | | 156,190 |
| Inventories | | 17,584,237 |
| Deferred income taxes | | 102,000 |
| | | ----- |

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| | |
|--|---------------|
| Total current assets | 21,967,275 |
| Property and equipment, at cost: | |
| Machinery and equipment | 1,994,045 |
| Land and buildings | 763,007 |
| Leasehold improvements | 496,508 |
| | ----- |
| | 3,253,560 |
| Less accumulated depreciation and amortization | (1,040,989) |
| | ----- |
| Net property and equipment | 2,212,571 |
| Other assets: | |
| Deferred income taxes | 1,005,000 |
| Goodwill, net of accumulated amortization of \$398,531 | 1,150,060 |
| Other assets | 26,858 |
| | ----- |
| Total other assets | 2,181,918 |
| | ----- |
| Total assets | \$ 26,361,764 |
| | ===== |

See notes to consolidated financial statements.

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ADVANTAGE TECHNOLOGIES GROUP, INC.
CONSOLIDATED BALANCE SHEET
September 30, 2002
(Restated)

| | |
|---|--------------|
| Liabilities and Stockholders' Equity | |
| Current liabilities: | |
| Accounts payable | \$ 1,471,672 |
| Accrued expenses | 586,598 |
| Accrued income taxes | - |
| Bank revolving line of credit | 4,473,681 |
| Notes payable - current portion | 166,667 |
| Dividends payable | 310,000 |
| Stockholder notes | 1,135,702 |
| | ----- |
| Total current liabilities | 8,144,320 |
| Notes payable | 76,620 |
| Stockholder notes | 423,647 |
| Stockholders' equity: | |
| Preferred stock, 5,000,000 shares authorized, | |

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| | |
|--|---------------|
| \$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 |
| Paid-in capital | (7,389,010) |
| Retained earnings | 5,060,234 |
| | ----- |
| | 17,771,341 |
| Less: Treasury stock, 20,000 shares at cost | (54,164) |
| | ----- |
| Total stockholders' equity | 17,717,177 |
| | ----- |
| Total liabilities and stockholders' equity | \$ 26,361,764 |
| | ===== |

See notes to consolidated financial statements.

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ADVANTAGE TECHNOLOGIES GROUP, INC.
CONSOLIDATED STATEMENTS OF INCOME
(Restated)

| | Year ended September 30, | |
|---|--------------------------|---------------|
| | 2002 | 2001 |
| | ---- | ---- |
| Net sales income | \$ 21,508,380 | \$ 19,577,461 |
| Net service income | 3,900,551 | 3,307,105 |
| | ----- | ----- |
| Costs of sales | 25,408,931 | 22,884,566 |
| | 14,370,776 | 11,885,210 |
| | ----- | ----- |
| Gross profit | 11,038,155 | 10,999,356 |
| Operating, selling, general and administrative expenses | 7,172,510 | 5,831,733 |
| Depreciation and amortization | 315,691 | 302,466 |
| | ----- | ----- |
| Income from operations | 3,549,954 | 4,865,157 |
| Interest expense | 244,746 | 336,752 |
| | ----- | ----- |
| Income before income taxes | 3,305,208 | 4,528,405 |
| Provision for income taxes | 1,104,000 | 1,667,000 |
| | ----- | ----- |
| Net income | 2,201,208 | 2,861,405 |

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| | | |
|--|------------|--------------|
| Preferred dividends | 1,240,000 | 1,240,000 |
| | ----- | ----- |
| Net income attributable to common stockholders | \$ 961,208 | \$ 1,621,405 |
| | ===== | ===== |
| Earnings per share: | | |
| Basic | \$ 0.10 | \$ 0.16 |
| Diluted | \$ 0.10 | \$ 0.16 |

See notes to consolidated financial statements.

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ADVANTAGE TECHNOLOGIES GROUP, INC.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
Years ended September 30, 2002 and 2001

| | Common Stock Shares | Common Stock Amount | Series A Preferred Stock | Series B Preferred Stock | Paid-in Capital | Retain- ed Earnings (Deficit) |
|---|------------------------|------------------------|--------------------------------|--------------------------------|--------------------|-------------------------------------|
| | ----- | | | | | |
| Balance, September 30, 2000 | 9,992,956 | \$ 99,930 | \$8,000,000 | \$12,000,000 | - | \$(4,700,000) |
| Adjust capital transactions (Note 11) | - | - | - | - | (7,402,340) | 7,200,000 |
| | ----- | | | | | |
| Balance, September 30, 2000 as restated | 9,992,956 | 99,930 | 8,000,000 | 12,000,000 | (7,402,340) | 2,400,000 |
| Net income | - | - | - | - | - | 2,800,000 |
| Preferred stock dividends | - | - | - | - | - | (1,200,000) |
| Issue common shares (Note 8) | 18,760 | 187 | - | - | 13,330 | - |
| | ----- | | | | | |
| Balance, September 30, 2001 | 10,011,716 | 100,117 | 8,000,000 | 12,000,000 | (7,389,010) | 4,000,000 |
| Net income | - | - | - | - | - | 2,200,000 |
| Preferred stock dividends | - | - | - | - | - | (1,200,000) |
| | ----- | | | | | |
| Balance, September 30, 2002 | 10,030,414 | \$100,304 | \$8,000,000 | \$12,000,000 | \$(7,389,197) | \$8,300,000 |
| | ===== | | | | | |

See notes to consolidated financial statements.

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ADVANTAGE TECHNOLOGIES GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Restated)

| | Year ended September 30, | |
|---|--------------------------|--------------|
| | 2002 | 2001 |
| | ---- | ---- |
| Cash Flows from Operating Activities | | |
| Net income | \$ 2,201,208 | \$ 2,861,405 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 315,691 | 302,466 |
| Provision (Benefit) for deferred income taxes | (81,000) | 117,000 |
| Change in: | | |
| Receivables | (509,811) | 1,118,782 |
| Inventories | 144,883 | (2,327,183) |
| Other assets | 79,634 | (26,431) |
| Accounts payable and accrued liabilities | 221,863 | (177,325) |
| | ----- | ----- |
| Net cash provided by operating activities | 2,372,468 | 1,868,714 |
| | ----- | ----- |
| Cash Flows from Investing Activities | | |
| Additions to property and equipment | (610,630) | (583,536) |
| Proceeds from sale of investment in Ventures | - | 657,569 |
| Purchase of business combinations, net of cash acquired of \$575,958 in 2001 | - | (1,090,269) |
| | ----- | ----- |
| Net cash used in investing activities | (610,630) | (1,016,236) |
| | ----- | ----- |
| Cash Flows from Financing Activities | | |
| Net borrowings under line of credit | 222,548 | 895,585 |
| Payments on stockholder loans | (150,000) | (300,000) |
| Payments on notes payable | (49,204) | - |
| Payments of preferred dividends | (1,240,000) | (1,240,000) |
| | ----- | ----- |
| Net cash used in financing activities | (1,216,656) | (644,415) |
| | ----- | ----- |
| Net increase in cash | 545,182 | 208,063 |
| Cash, beginning of year | 230,558 | 22,495 |
| | ----- | ----- |
| Cash, end of year | \$ 775,740 | \$ 230,558 |
| | ===== | ===== |

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Supplemental Cash Flow Information

| | | |
|----------------------------|--------------|--------------|
| Cash paid for interest | \$ 244,253 | \$ 343,460 |
| Cash paid for income taxes | \$ 1,832,342 | \$ 1,462,000 |

See notes to consolidated financial statements.

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ADVANTAGE TECHNOLOGIES GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended September 30, 2002 and 2001

Note 1 - Summary of Significant Accounting Policies

Description of business

ADDvantage Technologies Group, Inc. and its subsidiaries (the "Company") sell new, surplus, and re-manufactured cable television equipment throughout North America in addition to being a repair center for various cable companies. The Company operates in one business segment.

Principles of consolidation

The consolidated financial statements include the accounts of ADDvantage Technologies Group, Inc. and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

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.

Property and equipment

Property and equipment consists of office equipment, other equipment, and buildings, with estimated useful lives of 5 years, 10 years, and 40 years, respectively. Leasehold improvements are depreciated over the remainder of the lease agreement. Depreciation is provided using straight line and accelerated methods over the estimated useful lives of the related assets. Repairs and maintenance are expensed as incurred, whereas major improvements are capitalized. Depreciation expense was \$157,267 and \$165,493 for the years ended September 30, 2002 and 2001, respectively.

Income taxes

The Company provides for income taxes in accordance with the liability method of accounting pursuant to SFAS No. 109, "Accounting for Income Taxes." Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and tax carryforward amounts. Management provides valuation allowance

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against deferred tax assets for amounts which are not considered "more likely than not" to be realized.

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Revenue recognition

Our principal sources of revenues are from sales of new, remanufactured or used equipment, and repair services. The Company recognizes revenue for product sales when title transfers, the risks and rewards of ownership have been transferred to the customer, the fee is fixed and determinable, and the collection of the related receivable is probable which is generally at the time of shipment. The stated shipping terms are FOB shipping point per the Company's sales agreements with customers. Accruals are established for expected returns based on historical activity. Revenue for services is recognized when the repair is completed and the product is shipped back to the customer.

Shipping and handling costs

Amounts billed to customers for shipping and handling represent revenues earned and are included in net sales and service income in the accompanying consolidated statements of income. Actual costs for shipping and handling of these sales is included in costs of sales.

Advertising costs

Advertising costs are expensed as incurred. Advertising expense was \$224,468 and \$229,947 for the years ended September 30, 2002 and 2001, respectively.

Management estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

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.

Concentrations of credit risk

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of trade receivables. Concentrations of credit risk with respect to trade receivables are limited because a large number of geographically diverse customers make up the Company's customer base, thus spreading the trade credit risk. The Company controls credit risk through credit approvals, credit limits, and monitoring procedures. The Company performs in-depth credit evaluations for all new customers but does not require collateral to support customer receivables.

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Goodwill

Goodwill is amortized on a straight-line basis over periods ranging from 10 to 20 years. Amortization of goodwill for the years ended September 30, 2002 and

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2001, was \$158,424 and \$134,863, respectively.

An outside firm specializing in business valuation and financial advisory services was retained to analyze the Company's recorded amount of goodwill and render an opinion on goodwill impairment as of October 1, 2002. The goodwill impairment testing consisted of two steps. The first step compared the fair value of the reporting unit with its carrying amount, including goodwill. The second step of measuring impairment loss would be necessary if the results of step one indicated the fair value of the reporting unit was lower than its carrying amount.

CBIZ Valuation Group, Inc. performed a valuation analysis that included, but was not necessarily limited to, procedures of reviewing financial statements for multiple years and entities, discussions with Company management, reviewing information related to the industry, reviewing and analyzing pricing and other data involving publicly disclosed transactions of companies that operate in the industry, and review of other financial data involving publicly traded companies that operate in the same or similar line of business as the Company.

For the purpose of determining the fair value of the common equity of ADDvantage, CBIZ utilized the results of the market approach and the income approach, which incorporated the discounted cash flow method. The discounted cash flow model is a cash flow to invested capital model, meaning that it neither forecasts forward debt balances nor any interest expense. The resulting cash flows are those available to both debt (including preferred stock) and equity holders. Annual tests will continue to be performed as of October 1 of each year, with more frequent testing if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount.

Employee stock-based awards

Employee stock-based awards are accounted for using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations. Under APB No. 25, compensation expense is based on the difference, if any, on the date of grant between the fair value of the Company's stock and the exercise price. The Company accounts for stock issued to non-employees in accordance with the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation."

Earnings per share

Basic earnings per share are based on the sum of the average number of common shares outstanding and issuable restricted and deferred shares. Diluted earnings per share include any dilutive effect of stock options, restricted stock and convertible preferred stock.

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Fair value of financial instruments

The carrying amounts of accounts receivable and payable approximate fair value due to their short maturities. The carrying value of the Company's line of credit approximates fair value since the interest rate fluctuates periodically based on the prime rate. Terms of the stockholder loans are similar to the bank loan. Management believes that the carrying value of the Company's borrowings approximate fair value based on credit terms currently available for similar debt.

Impact of recently issued accounting standards

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In June 2001, the FASB issued Statements of Financial Accounting Standards No. 141, "Business Combinations" (SFAS 141), Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (SFAS 142), and Statement No. 143, "Accounting for Asset Retirement Obligations" (SFAS 143). SFAS 141 requires all business combinations to be accounted for using the purchase method of accounting and is effective for all business combinations initiated after June 30, 2001. The Company is currently not affected by SFAS 141, as there are no transactions covered by this pronouncement.

Under SFAS 142, goodwill and indefinite lived intangible assets are no longer amortized but are reviewed annually or more frequently if impairment indicators arise, for impairment. Separable intangible assets that have finite lives will continue to be amortized over their useful lives. SFAS 142 is effective for fiscal years beginning after December 15, 2001. The Company will discontinue the amortization of its goodwill balances and intangible assets with indefinite useful lives effective October 1, 2002, and will evaluate the carrying value of goodwill during the first quarter of fiscal 2003. The Company is currently evaluating the impact of SFAS 142 on its consolidated financial statements.

SFAS 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred and a corresponding increase in the carrying amount of the related long-lived asset. Statement No. 143 is effective for fiscal years beginning after June 15, 2002. The Company does not expect SFAS 143 to have a material impact on its financial condition and results of operations.

In August 2001, the FASB issued Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144). SFAS 144 supersedes Statement 121, "Accounting for the Impairment of Long-Lived assets and Long-Lived Assets to Be Disposed Of" and the accounting and reporting provisions of Accounting Principals Board Opinion No. 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" for the disposal of a segment of a business. Goodwill is excluded from the scope of Statement No. 144. Additionally, Statement No. 144 utilizes a probability-weighted cash flow estimation approach and establishes a "primary-asset" approach to determine the cash flow estimation period for a group of assets. Statement No. 144 is effective for fiscal years beginning after December 15, 2001. The Company does not expect SFAS 144 to have a material impact on its financial condition and results of operations.

In April 2002, the FASB issued Statement of Financial Accounting Standards No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" (SFAS 145). This Statement rescinds FASB Statement No. 4, Reporting Gains and Losses from Extinguishment of Debt, and an amendment of that Statement, FASB Statement No. 64,

Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements. This Statement also rescinds FASB Statement No. 44, Accounting for Intangible Assets of Motor Carriers. This Statement amends FASB Statement No. 13, Accounting for Leases, to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. This Statement also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. The Company does not expect SFAS 145 to have a material impact on its financial condition and results of operations.

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In June 2002, the FASB issued Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (SFAS 146). This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The Company is currently not affected by SFAS 146 as there are no transactions covered by these pronouncements.

In October 2002, the Financial Accounting Standards Board issued FASB Statement No. 147, Accounting for Acquisitions of Certain Financial Institutions - an amendment of FASB Statements No. 72 and 144 and FASB Interpretation No. 9 (SFAS 147). SFAS 147 amends SFAS 72 and no longer requires financial institutions to recognize, and subsequently amortize, any excess of the fair value of liabilities assumed over the fair value of tangible and identifiable intangible assets acquired as an unidentifiable intangible asset. In addition, SFAS 147 amends SFAS 144 to include in its scope long-term customer-relationship intangible assets of financial institutions such as depositor and borrower relationship intangible assets and credit cardholder intangible assets. Management does not anticipate that the adoption of SFAS 147 will have any material impact on the financial statements.

Note 2 - Inventories

Inventories are summarized as follows:

| | 2002 | 2001 |
|------|---------------|---------------|
| | ----- | ----- |
| New | \$ 11,731,604 | \$ 10,642,719 |
| Used | 5,852,633 | 7,086,402 |
| | ----- | ----- |
| | \$ 17,584,237 | \$ 17,729,121 |
| | ===== | ===== |

New inventory includes products purchased from the manufacturers plus "surplus-new" which is unused products purchased from other distributors or multiple system operators. Used inventory includes factory remanufactured, Company remanufactured and used products.

We regularly review inventory quantities on hand and a departure from cost is required 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. 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, increasing the cost of sales by \$1,442,938.

Note 3 - Line of Credit, Stockholder Notes, and Notes Payable

At September 30, 2002, a \$4,473,681 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% (3.5% at September 30, 2002). Borrowings under the

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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 worth must be greater than \$14.0 million and net income before the payment of preferred dividends 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 \$151,349 at September 30, 2002 and is included in the bank revolving line of credit.

Stockholder notes of \$1,100,000 are subordinate to and bear interest at rates equal to the line of credit (3.5% at September 30, 2002). The notes are due on demand and are classified as current. Stockholder notes of \$459,349, 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 \$243,291 are due in quarterly payments through 2004 with interest at 7%.

The aggregate maturities of stockholder and other notes payable for the five years ending September 30, 2007 are as follows: 2003 - \$1,302,369; 2004 - \$115,097; 2005 - \$41,460; 2006 - \$44,679; 2007 - \$48,147; thereafter - \$250,884.

Note 4 - Income Taxes

The provisions for income taxes consist of:

| | 2002 | 2001 |
|----------|--------------|--------------|
| | ----- | ----- |
| Current | \$ 1,185,000 | \$ 1,550,000 |
| Deferred | (81,000) | 117,000 |
| | ----- | ----- |
| | \$ 1,104,000 | \$ 1,667,000 |
| | ===== | ===== |

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The following table summarizes the differences between the U.S. federal statutory rate and the Company's effective tax rate for financial statement purposes for the year ended September 30, :

| | 2002 | 2001 |
|--|-------|-------|
| | ----- | ----- |
| Statutory tax rate | 34.0% | 34.0% |
| State income taxes, net of U.S. federal tax benefit | 2.4 | 3.4 |

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| | | |
|--|-------|-------|
| Non-deductible goodwill amortization and other non-deductible expenses | 1.5 | .9 |
| Adjustment of deferred tax asset valuation allowance | (3.8) | (1.2) |
| Other | (0.6) | (0.2) |
| | ----- | ----- |
| | 33.5% | 36.9% |
| | ===== | ===== |

Deferred tax assets consist of the following at September 30,

| | 2002 | 2001 |
|---|--------------|--------------|
| | ----- | ----- |
| Net operating losses carryforwards | \$ 1,358,000 | \$ 1,449,000 |
| Tax basis in excess of financial basis of certain assets | 90,000 | 108,000 |
| Financial liability accruals | 102,000 | 36,000 |
| | ----- | ----- |
| Total deferred tax assets | 1,550,000 | 1,593,000 |
| Valuation allowance | (443,000) | (567,000) |
| | ----- | ----- |
| Net deferred tax asset | \$ 1,107,000 | \$ 1,026,000 |
| | ===== | ===== |

Deferred tax assets are classified as:

| | | |
|------------|--------------|--------------|
| Current | \$ 102,000 | \$ 36,000 |
| Noncurrent | 1,005,000 | 990,000 |
| | ----- | ----- |
| | \$ 1,107,000 | \$ 1,026,000 |
| | ===== | ===== |

Utilization of ADDvantage's net operating loss carryforward of approximately \$3,996,000 to reduce future taxable income is limited to an annual amount of \$265,000. The NOL carryforward expires in varying amounts from 2014 to 2019. The valuation allowance was provided due to uncertainty surrounding the probability of utilizing all of the net operating loss carryovers. The allowance is adjusted annually based on management's current evaluation.

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The 1998 Incentive Stock Plan provides for the award to officers, directors, key employees and consultants of stock options and restricted stock. The Plan provides that upon any issuance of additional shares of common stock by the Company, other than pursuant to the Plan, the number of shares covered by the Plan will increase to an amount equal to 10% of the then outstanding shares of common stock. Under the Plan, option prices will be set by the Board of Directors and may be greater than, equal to, or less than fair market value on the grant date.

At September 30, 2002, 1,004,874 shares of common stock were reserved for the exercise of stock awards under the 1998 Incentive Stock Plan. Of the shares reserved for exercise of stock awards, 886,476 shares were available for future grants at September 30, 2002.

A summary of the status of the Company's stock options at September 30, 2002 and 2001, and changes during the years then ended is presented below.

| | 2002 | | 2001 | |
|---|---------|------------------------|---------|------------------------|
| | Shares | Wtd. Avg. Ex. Price | Shares | Wtd. Avg. Ex. Price |
| Outstanding, beginning of year | 114,500 | \$2.07 | 40,000 | \$3.13 |
| Granted | - | - | 74,500 | 1.50 |
| Exercised | - | - | - | - |
| Canceled | - | - | - | - |
| | | | | |
| Outstanding, end of year | 114,500 | \$2.07 | 114,500 | \$2.07 |
| | | | | |
| Exercisable, end of year | 46,125 | \$2.31 | 20,500 | \$2.65 |
| | | | | |
| Weighted average fair value of Options granted | N/A | | \$1.82 | |
| | | | | |

The following table summarizes information about fixed stock options outstanding at September 30, 2002:

| | Options Outstanding | | | Options Exercisable | |
|---------|-------------------------------------|---|------------------------|-------------------------------------|------------------------|
| | Number Outstanding at 9/30/02 | Weighted Average Remaining Contractual Life | Wtd. Avg. Ex. Price | Number Exercisable at 9/30/02 | Wtd. Avg. Ex. Price |
| \$1.500 | 74,500 | 8.5 years | \$1.50 | 23,125 | \$1.50 |

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| | | | | | |
|---------|---------|-----------|--------|--------|--------|
| \$3.125 | 40,000 | 7.5 years | \$3.13 | 23,000 | \$3.13 |
| | ----- | | | ----- | |
| | 114,500 | | | 46,125 | |
| | ===== | | | ===== | |

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants in 2001: risk-free interest rates of 5.5%; expected dividend yield of 0.0%; expected lives of 10 years; and estimated volatility of 122%.

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SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123") provides an alternative method of determining compensation cost for employee stock options, which alternative method may be adopted at the option of the Company. Had compensation cost been determined consistent with SFAS 123, the Company's net income would not have changed significantly.

The Series A and Series B Preferred Stock are prior to the Company's common stock with respect to the payment of dividends and the distribution of assets. Cash dividends shall be payable quarterly when and as declared by the Board of Directors. Interest accrues on unpaid dividends at the rate of 5% per annum with respect to the Series A Preferred Stock and 7% per annum with respect to the Series B Preferred Stock. No dividends may be paid on any class of stock ranking junior to the Preferred Stock unless Preferred Stock dividends have been paid. Liquidation preference is equal to the stated value per share. The Series A and B Preferred Stock is redeemable at any time at the option of the Board of Directors at a redemption price equal to the stated value per share. Holders of the Preferred Stock do not have any voting rights unless the Company fails to pay dividends for four consecutive dividend payment dates. Shares of Series A Preferred Stock are convertible into common stock at any time at the option of the holder. Each share of Series A Preferred Stock is convertible into 10 shares of common stock.

Note 6 - Retirement Plan

The Company sponsors a 401(k) plan that covers all employees who are at least 21 years of age and have completed one year of service as of the plan effective date. The Company's contributions to the plan consist of a matching contribution as determined by the plan document. Pension expense under the 401(k) plan was \$111,144 during the year ended September 30, 2002 and \$84,134 during the year ended September 30, 2001.

Note 7 - Business Combinations

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 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 (iv) \$49,000 remaining in a payable to the shareholder; and a three-year consulting agreement with NCS for \$300,000. The Shareholder also entered into a non-

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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.

In accounting for the NCS purchase, the Consulting Agreement was considered an additional component of the purchase price. The required payments were not related to the expected services that would be provided by Grasso, and the payments are not contingent on NCS's earnings or any other performance factors. Therefore, the \$300,000 obligation was included in the determination of the amount of the purchase price.

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NCS was established in 1973 as a full service repair and sales center, selling new and re-manufactured 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.

On May 31, 2001, the Company entered into a Purchase and Sale Agreement with Nick Ferolito and Russell Brown (the "Shareholders") and Fero-Midwest dba Comtech Services, a Missouri corporation ("Comtech"), to purchase from the Shareholders all of the issued and outstanding common stock of Comtech. The consideration for the acquisition was \$250,000 in cash and assumption of certain liabilities as stated in the agreement. Also, 18,698 shares of common stock were issued in connection with this acquisition. As a result of this transaction, Comtech became a wholly owned subsidiary of the Company.

Following are the unaudited pro-forma result of operations for the year ending 2001, assuming the NCS and Comtech acquisitions occurred at the beginning of 2001.

| | 2001 |
|------------------------------|---------------|
| | ----- |
| | (Unaudited) |
| Net sales and service income | \$ 25,291,350 |
| Income before income tax | 4,355,760 |
| Income tax | 1,494,026 |

The unaudited pro-forma result have been prepared for comparison purposes only and do not purport to be indicative of the results of operations which would have actually resulted had the combination been in effect on the dates indicated, or of future results of operations.

The following table details the amounts assigned to each major asset and liability caption of these two acquisitions.

Purchase price allocation

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| | NCS | Comtech | Total |
|------------------------|---------------------|-------------------|---------------------|
| Cash | \$ 575,958 | \$ 22,773 | \$ 598,731 |
| Accounts receivable | 407,192 | 235,538 | 642,730 |
| Prepaid expenses | 9,850 | 1,235 | 11,085 |
| Inventory | 550,000 | 271,448 | 821,448 |
| Property and equipment | 500,000 | 94,485 | 594,485 |
| Accounts payable | (209,000) | (360,507) | (569,507) |
| Accrued liabilities | (79,200) | (16,725) | (95,925) |
| Goodwill | 233,200 | 39,152 | 272,352 |
| | <u>\$ 1,988,000</u> | <u>\$ 287,399</u> | <u>\$ 2,275,399</u> |

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Note 8 - Investment in Ventures Education System Corporation

On November 1, 2000, Ventures Education System Corporation exercised its option to repurchase the Company's 27% interest in Ventures. The exercise price consisted of \$660,000 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. The warrants were valued at \$12,000. The transaction resulted in no gain or loss.

Note 9 - Earnings per Share

| | Year ended September 30, 2002 | Year ended September 30, 2001 |
|---|-------------------------------------|-------------------------------------|
| | (Restated) | (Restated) |
| Net income | \$ 2,201,208 | \$ 2,861,405 |
| Dividends on preferred stock | 1,240,000 | 1,240,000 |
| Net income attributable to common shareholders - basic | 961,208 | 1,621,405 |
| Dividends on Series A convertible preferred stock | 400,000 | 400,000 |
| Net income attributable to common shareholders - diluted | <u>\$ 1,361,208</u> | <u>\$ 2,021,405</u> |
| Weighted average shares outstanding | 9,991,716 | 9,991,716 |
| Potentially dilutive securities | | |
| Assumed conversion of 200,000 shares of Series A convertible preferred stock | 2,000,000 | 2,000,000 |
| Weighted average shares outstanding - assuming dilution | 11,991,716 | 11,991,716 |

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| ===== | | | |
|----------------------------|----|------|---------|
| Earnings per common share: | | | |
| Basic | \$ | 0.10 | \$ 0.16 |
| Diluted | | 0.10 | 0.16 |
| ===== | | | |

Earnings per common share-diluted are the same as basic earnings per share as conversion of potentially dilutive securities are anti-dilutive.

Note 10 - Related Parties

The Company leases various properties from a company owned by the Company's principal shareholders. Future minimum lease payments under these leases are as follows:

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| | | |
|-------|----|---------|
| 2003 | \$ | 437,700 |
| 2004 | | 384,840 |
| 2005 | | 105,840 |
| 2006 | | 17,640 |
| ----- | | |
| | \$ | 946,020 |
| ===== | | |

Related party rental expense for the years ended September 30, 2002 and 2001 is \$438,000 and \$438,000, respectively.

Cash used in financing activities in 2002 was primarily used to pay dividends on the Company's Series A and Series B Preferred Stock. Dividends on these preferred stocks total \$1,240,000 annually. The outstanding common and preferred stock is beneficially owned by our principal shareholders as reflected in the following table.

Stock Ownership

| Name of Beneficial Owner | Percent of Common Stock Beneficially Owned | Percent of Series A Preferred Stock Beneficially Owned (A) | Percent of Series B Preferred Stock Beneficially Owned (A) |
|--------------------------|--|--|--|
| ----- | ----- | ----- | ----- |
| David E. Chymiak | 41.6% | 50.0% | 50.0% |
| Kenneth A. Chymiak | 40.0% | 50.0% | 50.0% |

(A) The two series of outstanding preferred stock have an aggregate preference upon liquidation of \$20,000,000 plus accrued and unpaid dividends.

Note 11 - Capital Restatement

On September 30, 1999, the former shareholders of TULSAT Corporation (formerly named DRK Enterprises, Inc.) assumed control of ADDvantage Technologies Group, Inc. (formerly named ADDvantage Media Group, Inc.) The resulting merger was accounted for as a business combination, with the preferred stock issued in the merger recorded as first a reduction of paid-in capital in an amount to exhaust the account, and the remainder to retained earnings (deficit). Pursuant to Staff Accounting Bulletin Topic 4, the Company has revised its accounting for this series of capital transactions.

The net difference from the previous reporting is that goodwill of \$199,490 has been eliminated and the carrying value of common stock has been accordingly reduced. In addition, the amount of retained earnings at merger date has been adjusted to \$0, while additional paid-in capital has been adjusted to report a deficiency of paid-in capital of \$8,411,731. Common stock activity subsequent to this date has been credited to the deficiency of paid-in capital.

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ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

(a) The following documents are included as exhibits to this Form 10-KSB/A. Those exhibits below incorporated by reference herein are indicated as such by the information supplied in the parenthetical thereafter. If no parenthetical appears after an exhibit, such exhibit is filed herewith.

Exhibit

- 2.1 The Securities Exchange Agreement, dated as of September 16, 1999, by and among ADDvantage Media Group, Inc. and David E. Chymiak, Kenneth A. Chymiak, as Trustee of the Ken Chymiak Revocable Trust Dated March 4, 1992, and Susan C. Chymiak, as Trustee of the Susan Chymiak Revocable Trust Dated March 4, 1992 is incorporated by reference to Exhibit 2 to the Current Report on Form 8-K filed with the Securities Exchange Commission by the Company on September 24, 1999.
- 2.2 The Amendment and Clarification of the Securities Exchange Agreement, dated as of September 16, 1999 incorporated by reference to Exhibit 2.2 to the Current Report on Form 8-K filed with the Securities Exchange Commission by the Company on October 14, 1999.
- 2.3 The Agreement and Plan of Merger, dated as of November 22, 1999, by and among ADDvantage Media Group, Inc., TULSAT Corporation, Lee CATV Corporation, Diamond W Investments, Inc., Randy L. Weideman and Deborah R. Weideman incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed with the Securities Exchange Commission by the Company on December 7, 1999.

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- 2.4 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 the Current Report on Form 8-K filed with the Securities Exchange Commission by the Company on March 16, 2001.
- 2.5 The Purchase and Sale Agreement with Nick Ferolito, Russell Brown and Fero-Midwest d/b/a Comtech Services. The Registrant undertakes to furnish supplementally to the Commission upon request a copy of any omitted schedule or exhibit listed in the Exhibit Index set forth elsewhere herein.
- 3.1 Certificate of Incorporation of the Company and amendments (filed with original Form 10-KSB).
- 3.2 Bylaws of the Company, as amended (filed with original Form 10-KSB).

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- 4.1 Certificate of Designation, Preferences, Rights and Limitations of ADDvantage Media Group, Inc. Series 5% Cumulative Convertible Preferred Stock and Series B 7% Cumulative Preferred Stock as filed with the Oklahoma Secretary of State on September 30, 1999 incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed with the Securities Exchange Commission by the Company on October 14, 1999.
- 10.1 Lease Agreement dated September 15, 1999 by and between Chymiak Investments, L.L.C. and TULSAT Corporation (formerly named DRK Enterprises, Inc.) incorporated by reference to Exhibit 10.3 to the Current Report on Form 10-KSB filed with the Securities Exchange Commission by the Company on December 30, 1999.
- 10.2 Schedule of documents substantially similar to Exhibit 10.1 incorporated by reference to Exhibit 10.3 to the Current Report on Form 10-KSB filed with the Securities Exchange Commission by the Company on December 30, 1999.
- 10.3 Employment Agreement, dated as of November 22, 1999, by and between Lee CATV Corporation, Randy L. Weideman and TULSAT Corporation incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed with the Securities Exchange Commission by the Company on December 7, 1999.
- 10.4 Form of promissory notes issued by TULSAT to David Chymiak and to Ken Chymiak Revocable Trust and Susan C. Chymiak Revocable Trust dated as of February 7, 2000 (filed with original Form 10-KSB).
- 10.5 Amended and restated loan agreement dated June 30, 1997, by and between Bank of Oklahoma, N.A. ("Lender") and Registrant's wholly owned subsidiary, Tulsat Corporation, formerly DRK Enterprises, Inc., an Oklahoma corporation doing business as Tulsat ("Borrower"), as amended through the eighth amendment dated as of November 3, 2000 (filed with original Form 10-KSB).
- 21.1 Subsidiaries (filed with original Form 10-KSB).
- 23.1 Consent of Tullius Taylor Sartain & Sartain LLP.

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31.1 Certification of Periodic Report by Chief Executive Officer and Chief Financial Officer under Section 302 of the Sarbanes Oxley Act of 2002.

32.1 Certification of Periodic Report by the Chief Executive Officer and Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

None.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant caused this amendment to report to be signed on its behalf by the undersigned, thereunto duly authorized.

ADDvantage Technologies Group, Inc.

Date: February 25, 2004

By: /s/ Kenneth A. Chymiak

Kenneth A. Chymiak, President

INDEX TO EXHIBITS

The following documents are included as exhibits to this Form 10-KSB/A. Those exhibits below incorporated by reference herein are indicated as such by the information supplied in the parenthetical thereafter. If no parenthetical appears after an exhibit, such exhibit is filed herewith.

| Exhibit ----- | Description ----- |
|------------------|---|
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