ADDVANTAGE TECHNOLOGIES GROUP INC
Form 10-K
December 14, 2010

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

FORM 10-K

x ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended September 30, 2010

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

Commission file number 1-10799

ADDVANTAGE TECHNOLOGIES GROUP, INC.
(Exact name of registrant as specified in its charter)

Oklahoma (State or other jurisdiction of incorporation or organization)	73-1351610 (I.R.S. Employer Identification No.)
1221 E. Houston, Broken Arrow, Oklahoma (Address of principal executive offices)	74012 (Zip code)

Registrant's telephone number: (918) 251-9121
Securities registered under Section 12(b) of the Act:

Title of each class	Name of exchange on which registered
Common Stock, $.01 par value	NASDAQ Global Market

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes o No x

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not 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-K or any amendment to this Form 10-K. x

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 Rule 12b-2 of the Exchange Act.

Large accelerated filer o Accelerated filer o
Non-accelerated filer o Smaller reporting company x

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

The aggregate market value of the outstanding shares of common stock, par value $.01 per share, held by non-affiliates computed by reference to the closing price of the registrant’s common stock as of March 31, 2010 was $12,221,531.

The number of shares of the registrant’s outstanding common stock, $.01 par value per share, was 10,143,970 as of November 30, 2010.

Documents Incorporated by Reference

The identified sections of definitive Proxy Statement to be filed as Schedule 14A pursuant to Regulation 14A in connection with the Registrant’s 2011 annual meeting of shareholders are incorporated by reference into Part III of this Form 10-K. The Proxy Statement will be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Form 10-K.

ADDVANTAGE TECHNOLOGIES GROUP, INC.
FORM 10-K
YEAR ENDED SEPTEMBER 30, 2010
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PART I

Item 1. Business.

Forward-Looking Statements

Certain matters discussed in this report constitute forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, including statements which relate to, among other things, expectations of the business environment in which ADDvantage Technologies Group, Inc. (the "Company") operates, projections of future performance, perceived opportunities in the market and statements regarding our goals and objectives and other similar matters. The words "estimates," "projects," "intends," "expects," "anticipates," "believes," "plans" and similar expr are intended to identify forward-looking statements. These forward-looking statements are found at various places throughout this report and the documents incorporated into it by reference. These and other statements, which are not historical facts, are hereby identified as "forward-looking statements" for purposes of the safe harbor provided by Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended. These statements are subject to a number of risks, uncertainties and developments beyond our control or foresight, including changes in the trends of the cable television industry, technological developments, changes in the economic environment generally, the growth or formation of competitors, changes in governmental regulation or taxation, changes in our personnel and other such factors. Our actual results, performance or achievements may differ significantly from the results, performance or achievements expressed or implied in the forward-looking statements. We do not undertake any obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events.

Background

We (through our subsidiaries) distribute and service a comprehensive line of electronics and hardware for the cable television ("CATV") industry. The products we sell and service are used to acquire, distribute, receive and protect the communications signals carried on fiber-optic, coaxial cable and wireless distribution systems. Our customers provide an array of communications services including television, high-speed data (internet) and telephony, to single family dwellings, apartments and institutions such as hospitals, prisons, universities, schools, cruise boats and others.

We conduct our operations through a network of regionally based subsidiaries that focus on servicing customers in different geographic markets. Our operating subsidiaries include Tulsat Corporation ("Tulsat"), Tulsat-Atlanta LLC, ADDvantage Technologies Group of Nebraska, Inc. (dba "Tulsat-Nebraska"), ADDvantage Technologies Group of Texas, Inc. (dba "Tulsat Texas"), Jones Broadband International, Inc. (dba "Tulsat-West"), ADDvantage Technologies Group of Missouri, Inc. (dba "ComTech Services"), NCS Industries, Inc. ("NCS"), and Broadband Remarketing International LLC (formerly Tulsat-Pennsylvania LLC through September 30, 2010).

Several of our subsidiaries, through their long relationships with the original equipment manufacturers ("OEMs") and specialty repair facilities, have established themselves as value-added resellers ("VARs"). Tulsat, located in Broken Arrow, Oklahoma, is a Cisco Master Stocking Distributor for certain current and legacy products offered within their Service Provider Video Technology Group ("SPVTG") and distributes most of Cisco's other SPVTG products. Tulsat has also been designated an authorized third party Cisco-SPVTG repair center for select products. NCS, located in Warminster, Pennsylvania, is one of only three distributors of Motorola broadband products and is also a Master Distributor for the United States distribution of Fujitsu Frontech North America encoders, decoders and media solutions products. Our subsidiaries also sell products from other OEMs including Alpha, Blonder-Tongue, RL Drake, Corning-Gilbert, Promax, Quintech, Standard and Triveni.

In addition to offering a broad range of new products, we also purchase and sell surplus and refurbished equipment that becomes available in the market as a result of cable operator system upgrades or an overstock in their warehouses. We maintain one of the industry's largest inventories of new and refurbished equipment, which allows us to deliver products to our customers within a short period of time. We continue to upgrade our new product offerings to stay in the forefront of the communications broadband technology revolution.

Most of our subsidiaries operate technical service centers specializing in Cisco-SPVTG, Motorola, Magnavox and power supply repairs.

Overview of the Industry

We participate in markets for equipment sold primarily to cable operators (called multiple system operators or “MSOs”) and other communication companies. As internet usage by households continues to increase, more customers are electing to switch from dial-up access services to high-speed services, particularly those offered by MSOs in the United States. Within the last few years, many MSOs now offer a “triple-play” bundle of services that includes voice, video and high-speed data over a single network with the objective of capturing higher average revenues per subscriber. To offer these expanded services, MSOs have invested significantly to convert their systems to digital networks, and they continue to upgrade their cable plants to increase the speed of their communication signals. As a result, many MSOs have well-equipped networks capable of delivering symmetrical high-bandwidth video, two-way high speed data service and telephony to most of their subscribers through their existing hybrid fiber coaxial infrastructure.

We believe that we have been able to provide many of the products and services sought by MSOs as they establish and expand their services and territories. Our relationships with our principal vendors, Cisco and Motorola, provide us with products that are important to cable operators as they maintain and expand their systems. These relationships and our inventory are key factors, we believe, in our prospects for revenue and profit growth.

In addition, we continue to expand our relationships with vendors and establishing new vendors and product lines for our company. In 2010, NCS became a Master Distributor for the United States distribution of Fujitsu Frontech North America encoders, decoders and media solutions products and a member of the Fujitsu global channel partner program servicing the United States. We believe this relationship will expand our customer base into the broadcast market segment of the industry.

We are focused on the opportunities provided by technological changes resulting from the implementation of fiber-to-the home by several large telephone companies, the continued expansion of bandwidth signals by MSOs, and sales to customers in Latin America. We continue to stock legacy CATV equipment as well as new digital and optical broadband telecommunications equipment from major suppliers so we can provide our customers with one-stop shopping, access to “hard-to-find” products and reduced customer downtime because we have the product in stock and can deliver to the customer’s location the next day. Our experienced sales support staff has the technical know-how to consult with our customers regarding solutions for various products and configurations. Through our six service centers that provide warranty and out-of-warranty repairs, we continue to reach new customers.

Recent Business Developments

Under the terms of our agreement with Cisco, which was set to expire January 15, 2010, Tulsat is authorized to inventory, distribute and resell the entire line of Cisco-SPVTG current and legacy equipment. This agreement has been extended through December 20, 2010 for the United States and Canada. Cisco announced earlier this year that it was modifying its distribution channel for the SPVTG business in order to align it more closely with its IT lines of business, and since then we have been in negotiations with Cisco regarding our agreement. We expect to sign a new agreement with Cisco by calendar year-end. Any material change in the terms or structure of our current relationship with Cisco could negatively affect our marketing of Cisco-SPVTG products or the profit margins we have historically realized on these products under the current agreement. Also, Tulsat is in negotiations with Cisco regarding selling Cisco products in the Latin American market, since the latest extension excludes the Latin American market.

In March 2010, NCS Industries became a Master Distributor for the United States distribution of Fujitsu Frontech North America encoders, decoders and media solutions products and a member of the Fujitsu global channel partner program servicing the United States.

During fiscal year 2010, we moved our Broadband Remarketing International operations from Chambersburg, Pennsylvania to our Broken Arrow, Oklahoma facility. Also, at the end of fiscal year 2010, we were in the process of moving the Tulsat-West operations from Oceanside, California to our Broken Arrow facility. Both of these moves were undertaken as cost reduction measures.

Products and Services

We offer our customers a wide range of new, surplus new and refurbished products that are used in connection with video, telephone and internet data signals.

Headend products are used by a system operator for signal acquisition, processing and manipulation for further transmission. Among the products we offer in this category are satellite receivers (digital and analog), integrated receiver/decoders, demodulators, modulators, antennas and antenna mounts, amplifiers, equalizers and processors. The headend of a television signal distribution system is the "brain" of the system; the central location where the multi-channel signal is initially received, converted and allocated to specific channels for distribution. In some cases, where the signal is transmitted in encrypted form or digitized and compressed, the receiver will also be required to decode the signal.

Fiber products are used to transmit the output of cable system headend to multiple locations using fiber-optic cable. In this category, we currently offer products including optical transmitters, fiber-optic cable, receivers, couplers, splitters and compatible accessories. These products convert radio frequencies to light frequencies and launch them on optical fiber. At each receiver site, an optical receiver is used to convert the signals back to RF VHF frequencies for distribution to subscribers.

Distribution products are used to permit signals to travel from the headend to their ultimate destination in a home, apartment, hotel room, office or other terminal location along a distribution network of fiber optic or coaxial cable. Among the products we offer in this category are transmitters, receivers, line extenders, broadband amplifiers, directional taps and splitters.

Digital converters and modems are boxes placed inside the home that receive, record and transmit video, data and telephony signals. Among the products we offer in this category are remanufactured Cisco and Motorola digital converter boxes and modems.

We also inventory and sell to our customers other hardware such as test equipment, connector and cable products.

Revenues by Geographic Area

Our revenues by geographic areas were as follows:

	2010	2009	2008
United States	$40,523,492	$37,694,831	$48,597,910
Canada, Central America, Mexico, South America and Other	6,782,638	4,548,761	7,850,651
	$47,306,130	$42,243,592	$56,448,561

Revenues attributed to geographic areas are based on the location of the customer. All of our long-lived assets are located within the United States.

Sales and Marketing

In 2010, sales of new products represented 68% of our total revenues and refurbished product sales represented 20%. Repair and other services contributed the remaining 12% of revenues.

We market and sell our products to franchise and private MSOs, telephone companies, system contractors and other resellers. Our sales and marketing are predominantly performed by the internal sales and customer service staff of our subsidiaries. We also have outside sales representatives located in various geographic areas. The majority of our sales activity is generated through personal relationships developed by our sales personnel and executives, referrals from manufacturers we represent, advertising in trade journals, telemarketing and direct mail to our customer base in the United States. We have developed contacts with major MSOs in the United States, and we are constantly in touch with these operators regarding their plans for upgrading or expansion as well as their needs to either purchase or sell equipment.

We market ourselves as an “On Hand – On Demand” distributor. We maintain one of the largest inventories of new and used cable products of any reseller in the industry and offer our customers same day shipments. We believe our investment in on-hand inventory, our network of regional repair centers and our experienced sales and customer service team create a competitive advantage for us.

We continue to add products and services to maintain and expand our current customer base in North America, Central and South America, Asia and other international markets. We believe there is growth potential for sales of new and legacy products in the international market as some operators choose to upgrade to new larger bandwidth platforms, while other customers, specifically in developing markets, desire less expensive legacy new and refurbished products. We extend credit on a limited basis to international customers that purchase products on a regular basis and make timely payments. However, for most international sales we require prepayment of sales or letters of credit confirmed by United States banks prior to shipment of products.

Suppliers

In 2010, we purchased approximately $7.6 million of new inventory directly from Cisco and approximately $4.5 million of new inventory directly from Motorola. These purchases represented approximately 52% of our total inventory purchases for 2010. In addition to purchasing inventory from other original equipment manufacturers, we also purchase used or surplus new inventory from MSOs who have upgraded or are in the process of upgrading their systems.

Seasonality

Many of the products that we sell are installed outdoors and can be damaged by storms and power surges. Consequently, we experience increased demand on certain product offerings during the months between late spring and early fall when severe weather tends to be more prominent than at other times during the year.

Competition and Working Capital Practices.

The CATV industry is highly competitive with numerous companies competing in various segments of the market. There are a number of competitors throughout the United States buying and selling new and remanufactured CATV equipment similar to the products that we offer. However, most of these competitors do not maintain the large inventory that we carry due to working capital limitations. We maintain the practice of carrying large quantities of inventory to meet both the customers' urgent needs and mitigate the extended lead times of our suppliers. In terms of sales and inventory on hand, we are the largest reseller in this industry, providing both sales and service of new and re-manufactured CATV equipment.

We also compete with our OEM suppliers as they sell directly to our customers. Our OEM suppliers have a competitive advantage over us as they can sell products at lower prices than we offer. As a result, we are often considered a secondary supplier by large MSOs and telephone companies when they are making large equipment purchases or upgrades. However, for smaller orders or items that are needed to be delivered quickly, we often hold an advantage over our OEM suppliers as we carry most inventory in stock and can have it delivered in a very short timeframe.

Working capital practices in the industry center on inventory and accounts receivable. We choose to carry a relatively large inventory due to our "On Hand – On Demand" business model for both new and used inventory. We have typically utilized excess cash flows to reinvest in new inventory to expand our product offerings. The greatest need for working capital occurs when we make bulk purchases of surplus new and used inventory, or when our OEM suppliers offer additional discounts on large purchases. However, in fiscal year 2010, due to the continued economic downturn, we chose to reduce our inventory, which helped in generating excess cash flows of approximately $8 million. Our working capital requirements are generally met by cash flow from operations and a bank line of credit, which currently permits borrowings up to $7.0 million. We expect to have sufficient funds available from our cash on hand, future excess cash flows and the bank line of credit to meet our working capital needs for the foreseeable future.

Significant Customers

We are not dependent on one or a few customers to support our business. Our customer base consists of approximately 1,300 active accounts. Sales to our largest customer accounted for approximately 9% of our revenues in fiscal year 2010. Approximately 26% and 22% of our revenues for fiscal years 2010 and 2009, respectively, were derived from sales of products and services to our five largest customers. There are approximately 6,000 cable television systems within the United States alone, each of which is a potential customer.

Personnel

At September 30, 2010, we had 129 employees. Management considers its relationships with its employees to be excellent. Our employees are not unionized, and we are not subject to any collective bargaining agreements.

Item 2. Properties.

Each subsidiary owns or leases property for office, warehouse and service center facilities.

- Broken Arrow, Oklahoma – Tulsat owns a facility consisting of an office, warehouse and service center of approximately 100,000 square feet on ten acres, with an investment of $3.3 million, financed by a loan of $2.8 million, due in monthly payments through 2021 at an interest rate of LIBOR plus 1.4%. Tulsat constructed a 62,500 square foot warehouse facility on the rear of its existing property in Broken Arrow, OK, with an investment of $1.6 million, financed with cash flow from operations.

Tulsat also continues to lease warehouse space of approximately 56,000 square feet from an entity that is controlled by David E. Chymiak, Chairman of the Company's Board of Directors, and Kenneth A. Chymiak, President and Chief Executive Officer of the Company. The lease expired in September 2008 and is now leased on a month-to-month basis with a monthly payment of $7,500.

- Deshler, Nebraska – Tulsat-Nebraska owns a facility consisting of land and an office, warehouse and service center of approximately 8,000 square feet.

- Warminster, Pennsylvania – NCS owns its facility consisting of an office, warehouse and service center of approximately 12,000 square feet, with an investment of $0.6 million. NCS also leases property of approximately 2,000 square feet, with monthly rental payments of $1,298 through December 31, 2010. NCS also rents on a month-to-month basis another property of approximately 2,000 square feet, with monthly rental payments of $1,250.

- Sedalia, Missouri – ComTech Services owns land and an office, warehouse and service center of approximately 24,300 square feet. ComTech Services also constructed an 18,000 square foot warehouse facility on the back of its existing property in Sedalia, MO with an investment of $0.4 million.

- New Boston, Texas – Tulsat-Texas owns land and an office, warehouse and service center of approximately 13,000 square feet.

- Suwannee, Georgia – Tulsat-Atlanta leases an office and service center of approximately 5,000 square feet, with monthly lease payments of $3,360 through January 31, 2011.

- Oceanside, California – Tulsat-West leased an office, warehouse and service center of approximately 15,000 square feet for $13,881 a month through November 30, 2010. At the expiration of the lease, this facility was closed, and all operations moved to our Broken Arrow facility.

We believe that our current facilities are adequate to meet our needs.

Item 3. Legal Proceedings.

From time to time in the ordinary course of business, we have become a party to various types of legal proceedings. We do not believe that these proceedings, individually or in the aggregate, will have a material adverse effect on our financial position, results of operations or cash flows.

PART II

Item 5. Market for Registrants Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

The table sets forth the high and low sales prices on the NASDAQ Global Market under the symbol "AEY" for the quarterly periods indicated.

Year Ended September 30, 2010	High	Low
First Quarter	$2.58	$1.91
Second Quarter	$2.50	$1.97
Third Quarter	$3.48	$2.20
Fourth Quarter	$3.41	$2.34
Year Ended September 30, 2009	High	Low
First Quarter	$2.65	$1.02
Second Quarter	$2.40	$1.25
Third Quarter	$1.99	$1.30
Fourth Quarter	$2.32	$1.61

Holders

At November 30, 2010, we have approximately 70 shareholders of record and, based on information received from brokers, there are approximately 1,700 beneficial owners of our common stock.

Dividend policy

We have never declared or paid a cash dividend on our common stock. It has been the policy of our Board of Directors to use all available funds to finance the development and growth of our business. In addition, subsequent to September 30, 2010, the Company signed an Amended and Restated Revolving Credit and Term Loan Agreement with its primary financial lender, which restricts the payment of dividends to no more than 50% of the Company's net income. The payment of cash dividends in the future will be dependent upon our earnings and financial requirements and other factors deemed relevant by our Board of Directors.

Securities authorized for issuance under equity compensation plans

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)

Equity compensation plans approved by security holders	136,850	$3.46	637,495
Equity compensation plans not approved by security holders	0	0	0
Total	136,850	$3.46	637,495

Item 6. Selected Financial Data.

SELECTED CONSOLIDATED FINANCIAL DATA
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

Fiscal Year ended September 30,

	2010	2009	2008	2007	2006
Net sales and service income	$47,306	$42,244	$56,449	$65,646	$52,541
Income from operations	$7,554	$5,768	$8,452	$12,543	$8,117
Net income applicable to common shareholders	$4,186	$3,019	$4,534	$6,590	$4,003
Earnings per share					
Basic	$0.41	$0.30	$0.44	$0.64	$0.39
Diluted	$0.41	$0.30	$0.44	$0.64	$0.39
Total assets	$52,260	$49,433	$51,800	$49,009	$40,925
Long-term obligations inclusive of current maturities	$13,872	$15,857	$20,510	$9,009	$9,385

Item 7. 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.

General

We have established ourselves, through our subsidiaries' long relationships with OEMs, as distributors and/or value-added resellers of these OEM products. Tulsat is a Master Stocking Distributor for certain current and legacy products offered by Cisco-SPVTG and distributes most of Cisco's other SPVTG products. NCS Industries is a leading distributor of Motorola broadband products and is also a Master Distributor for the United States distribution of Fujitsu Frontech North America encoders, decoders and media solutions products. Our subsidiaries also distribute products from other OEMs including Alpha, Blonder-Tongue, RL Drake, Corning-Gilbert, Promax, Quintech, Standard and Triveni. We also specialize in the sale of surplus new and refurbished previously-owned CATV equipment to CATV operators and other broadband communication companies. It is through our development of these vendor relationships that we have focused our initiative to market our products and services to the larger cable MSOs and telecommunication companies. These customers provide an array of different communications services as well as compete in their ability to offer subscribers "triple play" transmission services including data, voice and video.

We also operate technical service centers specializing in Cisco-SPVTG, Motorola, Magnavox and power supply repairs.

Recent Business Developments

Cisco Distribution Agreement

Under the terms of our agreement with Cisco, which was set to expire January 15, 2010, Tulsat is authorized to inventory, distribute and resell the entire line of Cisco-SPVTG current and legacy equipment. This agreement has been extended through December 20, 2010 for the United States and Canada. Cisco announced earlier this year that it was modifying its distribution channel for the SPVTG business in order to align it more closely with its IT lines of business, and since then we have been in negotiations with Cisco regarding our agreement. We expect to sign a new agreement with Cisco by calendar year-end. Any material change in the terms or structure of our current relationship with Cisco could negatively affect our marketing of Cisco-SPVTG products or the profit margins we have historically realized on these products under the current agreement. Also, Tulsat is in negotiations with Cisco regarding selling Cisco products in the Latin American market, since the latest extension excludes the Latin American market.

Fujitsu Frontech Distribution Agreement

In March 2010, NCS Industries became a Master Distributor for the United States distribution of Fujitsu Frontech North America encoders, decoders and media solutions products as well as a member of the Fujitsu global channel partner program servicing the United States.

Facility Closures

During fiscal year 2010, we moved our Broadband Remarketing International operations from Chambersburg, Pennsylvania to our Broken Arrow, Oklahoma facility. Also, at the end of fiscal year 2010, we were in the process of moving the Tulsat-West operations from Oceanside, California to our Broken Arrow facility. Both of these moves were undertaken as cost reduction measures.

Results of Operations

Year Ended September 30, 2010, compared to Year Ended September 30, 2009 (all references are to fiscal years)

Total Net Sales. Total net sales increased $5.1 million, or 12%, to $47.3 million for 2010 from $42.2 million for 2009. The overall increase in net sales was due primarily to sales of new equipment resulting from an increased demand for headend equipment needed to add channels to our customers' cable systems or upgrade their equipment in order to provide HD programming on their cable systems, an overall equipment supply shortage in the market, which we met utilizing our "On Hand – On Demand" business model, and an increase in sales to Latin American and Canadian customers either directly or indirectly through our various business partners. Sales of new equipment increased $5.1 million, or 19%, to $32.1 million in 2010 from $27.1 million in 2009. Refurbished sales decreased $0.3 million, or 3%, to $9.4 million in 2010 from $9.7 million in 2009 despite a $0.8 million increase in the sales of our digital converter boxes. The decrease in refurbished sales is primarily due to much of the equipment demand in fiscal year 2010 was for digital equipment products to convert our customers' cable systems from analog to digital or to add HD programming and there is not an established refurbished equipment market for this product line yet. Net repair service revenues increased $0.3 million, or 5%, to $5.8 million for 2010 from $5.5 million in 2009. The repair revenue increase for 2010 was primarily due to our efforts to promote and expand this line of business, largely offset by our customers conserving cash by limiting the authorization for equipment repairs due to the downturn in the economy.

Cost of Sales. Cost of sales includes (i) the costs of new and refurbished equipment, on a weighted average cost basis, sold during the period, (ii) the equipment costs used in repairs, (iii) the related transportation costs, and (iv) the labor and overhead directly related to these sales. Cost of sales increased $3.5 million, or 12%, to $32.9 million for 2010 from $29.3 million for 2009. The increase in cost of sales was primarily related to the increase in new equipment sales during 2010. Cost of sales was also impacted by a decrease in the provision for excess and obsolete inventory of $0.2 million to $0.8 million in 2010 from $1.0 million in 2009. Cost of sales as a percent of revenues was 69% for both 2010 and 2009.

Gross Profit. Gross profit increased $1.5 million to $14.5 million in 2010 from $12.9 million in 2009. The increased gross profit was primarily attributable to the increase in equipment sales. Gross profit margin was 31% for both 2010 and 2009.

Operating, Selling, General and Administrative Expenses. Operating, selling, general and administrative expenses include all personnel costs, which include fringe benefits, insurance and business taxes, as well as occupancy, communication, professional services and charges for bad debts, among other less significant cost categories. Operating, selling, general and administrative expenses decreased by $0.3 million, or 4%, to $6.9

million in 2010 from $7.2 million in 2009. The decrease was primarily due to a $0.1 million reduction in the provision for the allowance for doubtful accounts receivable with the remaining decrease due to reductions in rent expense, business insurance and advertising expense.

Income from Operations. Income from operations increased $1.8 million, or 31%, to $7.6 million for 2010 from $5.8 million in 2009, for the reasons stated above.

Interest Expense. Interest expense for 2010 was $0.8 million compared to $0.9 million in 2009. The decline in interest expense was due primarily to reduced borrowing levels under our $16.3 million term loan and Line of Credit for 2010 as compared to 2009 and lower interest rates for the $2.8 million term loan for 2010 as compared to 2009.

Income Taxes. The provision for income taxes for 2010 increased $0.8 million to $2.6 million, or an effective rate of 38.0%, for 2010 from $1.8 million, or an effective rate of 37.5%, for 2009.

Year Ended September 30, 2009, compared to Year Ended September 30, 2008

Total Net Sales. Total net sales declined $14.2 million, or 25%, to $42.2 million for 2009 from $56.4 million for 2008. Sales of new equipment decreased $7.6 million, or 22%, to $27.1 million in 2009 from $34.7 million in 2008. Refurbished sales decreased $6.4 million, or 40%, to $9.7 million in 2009 from $16.1 million in 2008. The decrease in sales of refurbished products includes a $3.8 million decline in the sales of our digital converter boxes. Net repair service revenues decreased $0.2 million, or 3%, to $5.5 million for 2009 from $5.7 million in 2008. The repair revenue decline for 2009 was primarily due to efforts by the large and small MSO customers to conserve cash by limiting the authorization for equipment repairs due to the downturn in the economy, offset by our efforts to promote and expand this line of business.

Cost of Sales. Cost of sales includes (i) the costs of new and refurbished equipment, on a weighted average cost basis, sold during the period, (ii) the equipment costs used in repairs, (iii) the related transportation costs, and (iv) the labor and overhead directly related to these sales. Cost of sales decreased $10.5 million, or 26%, to $29.3 million for 2009 from $39.8 million for 2008. Cost of sales this year were 69% of total net sales compared to 71% last year. The decrease in cost of sales was directly related to the decrease in equipment sales during 2009. Cost of sales was also impacted by a decrease in the provision for excess and obsolete inventory of $0.7 million to $1.0 million in 2009 from $1.7 million in 2008 due primarily to an additional provision in 2008 of $0.5 million for Cisco legacy converter boxes that were deemed unsellable and $0.3 million for unsellable inventory at our Tulsat-West location.

Gross Profit. Gross profit in 2009 decreased $3.7 million to $12.9 million from $16.6 million in 2008. The decreased gross profit was primarily attributable to the decline in equipment sales, partially offset by the absence of the $0.8 million additional provision for excess and obsolete inventory in 2008 to the reserve for obsolete and excess inventory discussed above. Gross profit margins increased to 31% from 29% due primarily to sales of higher margin products and higher margin headend repairs.

Operating, Selling, General and Administrative Expenses. Operating, selling, general and administrative expenses include personnel costs (including fringe benefits, insurance and taxes), occupancy, communication, professional services and charges for bad debts, among other less significant cost categories. Operating, selling, general and administrative expenses decreased by $1.0 million to $7.2 million in 2009 from $8.2 million in 2008. The decrease was primarily due to reductions in payroll expenses of $0.5 million, rent of $0.2 million and professional services of $0.2 million, partially offset by an increase in the provision for the allowance for doubtful accounts receivable of $0.1 million. At September 30, 2009, we reduced our headcount for full-time employees by approximately 10% as compared to our headcount at September 30, 2008.

Income from Operations. Income from operations decreased $2.7 million, or 32%, to $5.8 million for 2009 from $8.5 million in 2008, for the reasons stated above.

Interest Expense. Interest expense for 2009 was $0.9 million compared to $1.0 million in 2008. Interest expense decreased on our line of credit and $2.8 million term loan as a result of lower interest rates for 2009 as compared with 2008 as well as an overall lower utilization of our line of credit in 2009 as compared to 2008. This decrease was offset by an amendment on November 27, 2007 to our $8.0 million term note with our primary financial lender to increase the term note to $16.3 million and extend the maturity date to November 30, 2012. In connection with the amendment, we also entered into an interest rate swap agreement with our primary financial lender to effectively fix the rate on this debt at 5.92%.

Income Taxes. The provision for income taxes for 2009 decreased $1.0 million to $1.8 million, or an effective rate of 37.5%, for 2009 from $2.8 million, or an effective rate of 37.5%, for 2008.

Liquidity and Capital Resources

We finance our operations primarily through internally generated funds, and we also have available to us a bank line of credit of $7.0 million. During 2010, we generated approximately $10.1 million of cash flow from operations. The cash flow from operations was impacted by a $0.7 million net increase in our accounts receivable. Our accounts receivables increased from 2009 due primarily to increased revenues in the fourth quarter 2010 as compared to the fourth quarter 2009. Despite the overall economic conditions, we have not experienced a significant deterioration in collections on accounts receivable, so we have maintained our reserve for doubtful accounts at the same level as 2009. The cash flow from operations was also impacted by a $5.4 million net decrease in inventory. Our inventory decreased from 2009 due primarily to management's continuing efforts to reduce our overall inventory levels in order for our inventory to be more in line with our current and expected sales volume. Additionally, the cash flow from operations was impacted by a $0.2 million increase in our accounts payable from 2009 resulting primarily from the timing of inventory purchases that were made at the end of the fourth quarter 2010 as compared to 2009.

We expect that our cash and cash equivalents of $8.7 million at September 30, 2010 will be sufficient for our working capital needs and scheduled debt payments in the near-term. The $7.0 million line of credit can also be used to finance our working capital requirements as necessary. At September 30, 2010, there was not a balance outstanding under the line of credit. The lesser of $7.0 million or the net balance of 80% of qualified accounts receivable plus 50% of qualified inventory less the outstanding balances under the term loans identified in the credit agreement and less the fair value of the interest rate swap agreement in excess of $900,000 is available to us under the revolving credit facility ($5.7 million at September 30, 2010). The entire outstanding balance on the revolving credit facility is due on maturity.

During 2010, we made principal payments totaling $2.0 million primarily on our two term loans under our Revolving Credit and Term Loan Agreement with our primary lender. The $16.3 million term loan is payable over a five year period through November 2012 with quarterly payments of $0.4 million plus accrued interest. In connection with this term loan, we entered into an interest rate swap to effectively fix the interest rate on this term loan at 5.92% in order to avoid the risks associated with fluctuating interest rates on this term loan and to eliminate the variability in the cash outflow for interest payments. The notional value of the interest rate swap amortizes quarterly with payments that mirror the $16.3 million term loan. The $2.8 million term loan requires monthly payments of $15,334 plus accrued interest through November 2021. In addition, we paid off our other note payable, secured by real estate, in June 2010 totaling $0.1 million.

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

Critical Accounting Policies and Estimates

Note 1 to the Consolidated Financial Statements in this Form 10-K for fiscal year 2010 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 United States 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 revenues and expenses during the reporting period. 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 could 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

Our position in the industry requires us to carry large inventory quantities relative to annual sales, but it also allows us to realize high overall gross profit margins on our sales. We market our products primarily to MSOs and other users of cable television equipment who are seeking products for which manufacturers have discontinued production or cannot ship new equipment on a same-day basis. Carrying these large inventory quantities represents our largest risk.

Our inventory consists of new and used electronic components for the cable television industry. Inventory is stated at the lower of cost or market, and with our cost determined using the weighted-average method. At September 30, 2010, we had total inventory of $30.0 million, consisting of $21.8 million in new products and $8.2 million in used or refurbished products against which we have a reserve of $2.5 million for excess and obsolete inventory, leaving us a net inventory of $27.4 million.

We are required to make judgments as to future demand requirements from our customers. We regularly review the value of our inventory in detail with consideration given to rapidly changing technology which can significantly affect future customer demand. 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 that we do make. In order to address the risks associated with our investment in inventory, we 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. During 2010, we increased our reserve for excess and obsolete inventory by approximately $0.8 million and wrote down the carrying value of certain inventory items by approximately $0.5 million to reflect deterioration in the market price of that inventory. If actual market conditions are less favorable than those projected by management, and our estimates prove to be inaccurate, we could be required to increase our inventory reserve and our gross margins could be adversely affected.

Inbound freight charges are included in cost of sales. Purchasing and receiving costs, inspection costs, warehousing costs, internal transfer costs and other inventory expenditures are included in operating expenses, since the amounts involved are not considered material.

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, or weakening in economic trends could have a significant impact on the collectability 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, an additional provision to the allowance for doubtful accounts may be required. The reserve for bad debts was $0.3 million at September 30, 2010 and September 30, 2009. At September 30, 2010, accounts receivable, net of allowance for doubtful accounts, was $4.9 million.

Off-Balance Sheet Arrangements

None.

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Item 8. Financial Statements and Supplementary Data.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
ADDvantage Technologies Group, Inc.

We have audited the accompanying consolidated balance sheets of ADDvantage Technologies Group, Inc. and subsidiaries (the "Company") as of September 30, 2010 and 2009, and the related consolidated statements of income and comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended September 30, 2010. Our audits of the consolidated financial statements also included the financial statement schedule of ADDvantage Technologies Group, Inc., listed in Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits. Hogan & Slovacek, P.C. audited the consolidated statements of income and comprehensive income, changes in shareholders' equity and cash flows of the Company for the year ended September 30, 2008, and merged with Tullius Taylor Sartain & Sartain LLP to form HoganTaylor LLP effective January 7, 2009.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ADDvantage Technologies Group, Inc. and subsidiaries as of September 30, 2010 and 2009, and the consolidated results of their operations and their cash flows for each of the three years in the period ended September 30, 2010, in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ HOGANTAYLOR LLP

December 14, 2010
Tulsa, Oklahoma

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ADDVANTAGE TECHNOLOGIES GROUP, INC.
CONSOLIDATED BALANCE SHEETS

	September 30,	
	2010	2009
Assets		
Current assets:		
Cash and cash equivalents	$8,739,151	$700,004
Accounts receivable, net of allowance of $300,000	4,905,733	4,199,136
Income tax refund receivable	203,405	88,411
Inventories, net of allowance for excess and obsolete		
inventory of $2,545,000 and $2,196,000, respectively	27,410,722	33,166,624
Prepaid expenses	92,567	107,423
Deferred income taxes	1,423,000	1,282,000
Total current assets	42,774,578	