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ADVANTAGE TECHNOLOGIES GROUP INC  
Form 10KSB  
January 10, 2003

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

FORM 10-KSB

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	73-1351610
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(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1605 East Iola Broken Arrow, Oklahoma	74012
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(Address of principal executive offices)	(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  No   
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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

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\$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.

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]

### 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 the Company operates, projections of future performance, perceived opportunities in the market and statements regarding the Company's goals and objectives and other similar matters. The words "estimates", "projects," "intends," "expects," "anticipates," "believes," "plans" and similar expressions 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 the control or foresight of the Company, 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 the Company's personnel and other such factors. The Company's actual results, performance, or achievements may differ significantly from the results, performance, or achievements expressed or implied in the forward-looking statements. The Company does 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. Readers should carefully review the risk factors described in other documents the Company files from time to time with the Securities and Exchange Commission.

### PART I

#### ITEM 1. DESCRIPTION OF BUSINESS

##### Developments in the Business

On September 30, 1999, the former shareholders of TULSAT Corporation (formerly named DRK Enterprises, Inc.) assumed control of ADDvantage Technologies Group, Inc. ("ADDvantage Technologies," formerly named ADDvantage Media Group, Inc.) pursuant to the Securities Exchange Agreement ("Agreement") entered into on September 16, 1999. Pursuant to the

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Agreement, the TULSAT shareholders transferred all the issued and outstanding common stock of TULSAT, along with \$10,000,000 of TULSAT promissory notes, to ADDvantage Technologies in exchange for 8,000,000 shares of ADDvantage Technologies \$.01 par value common stock, 200,000 shares of newly issued Series A 5% Cumulative Convertible Preferred Stock, par value \$1.00 per share, with a stated value of \$40.00 per share (convertible into ADDvantage Technologies common stock at a price of \$4.00 per share), and 300,000 shares of newly issued Series B 7% Cumulative Preferred Stock, par value \$1.00 per share, with a stated value of \$40.00 per share.

As a result of this transaction, TULSAT became a wholly owned

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subsidiary of ADDvantage Technologies and the former TULSAT owners acquired approximately 82% of the issued and outstanding common stock, and 100% of the issued and outstanding preferred stock of ADDvantage Technologies. TULSAT's management assumed management and control of ADDvantage Technologies.

As a result of the transaction, all of the executive officers and directors of the Company other than Gary W. Young, Executive Vice President and a director, resigned. David E. Chymiak became Chairman of the Board and Kenneth A. Chymiak became President and Chief Executive Officer of the Company. The new board of directors included Stephen J. Tyde and Freddie H. Gibson, in addition to Messrs. David Chymiak, Kenneth Chymiak and Gary Young. Randy L. Weideman was elected to the board of directors in 2000.

On November 22, 1999, the Company's wholly owned subsidiary, Lee CATV Corporation, a Nebraska corporation ("Lee"), merged with Diamond W Investments, Inc., a Nebraska corporation ("Diamond"). Lee was the surviving corporation and is carrying on the business and operations previously conducted by Diamond. Diamond was established in 1986 as a full service repair and sales center, selling new and re-manufactured cable equipment, designing, pre-wiring, installing and repairing along with FCC Proof of Performance on all types of headend equipment. Diamond built its reputation on high-quality with prompt turn around in repairs and technical training for their customers. As a result of the merger, the shareholders of Diamond received 27,211 shares of the Company's Series C Convertible Preferred Stock (which have since been converted into 272,110 shares of the Company's common stock) and a promissory note in the original principal amount of \$271,000, which was paid over two years with interest at the rate of 8.0% per annum.

On December 30, 1999, the name of the Company changed to ADDvantage Technologies Group, Inc.

In March 2001, the Company purchased all of the issued and outstanding common stock of NCS Industries, Inc., a Pennsylvania corporation ("NCS"). The consideration for the acquisition of \$1,988,000 included: (i) \$800,000 in cash, (ii) a promissory note payable to the seller, Richard S. Grasso in the amount of \$200,000, (iii) the assumption of the seller's obligation of \$639,000 under a promissory note issued to the former shareholders, and (iv) \$49,000 remaining in a payable to the seller. As contemplated by the Purchase and Sale Agreement, the seller entered into a three-year consulting agreement with NCS for \$300,000 and the seller also entered into a non-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. As a result of this transaction, NCS became a wholly owned subsidiary of the Company.

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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.

In May 2001, the Company purchased from Nick Ferolito and Russell Brown all of the issued and outstanding stock of Fero-Midwest, Inc. dba

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Comtech Services, a Missouri corporation ("Comtech"). The consideration for the acquisition was \$250,000 in cash and assumption of certain liabilities totaling approximately \$449,000. As a result of this transaction, Comtech became a wholly owned subsidiary of the Company.

### Current Business

The principal business of the Company is the sale and repair of cable television ("CATV") equipment. This includes new, surplus and re-manufactured equipment. Customers of the Company include: cable operators, apartment complexes, universities and other entities that distribute broadband signals. The Company has recently shifted its focus in order to keep up with the market demands of high-speed, two way interactive network equipment. TULSAT, a subsidiary of ADDvantage, became Scientific-Atlanta's first authorized outlet for factory re-manufactured and surplus products in the United States. TULSAT offers customers recently factory remanufactured broadband products that will enable them to bring fiber deeper to the home without hassle and delay. With TULSAT as an authorized distributor for Scientific-Atlanta, customers seeking these recently discontinued model products and close-out inventory specials now have a cost-efficient, reliable, recognized source. While future profit margins could drop slightly from historical averages, management expects this strategy to propel revenue and profit growth. By continuing to purchase surplus equipment from cable operators that result from an upgrade in their systems or an overstock in their warehouse, and by expanding the repair side of the business, the Company expects to be able to continue to enjoy a healthy profit margin. The Company supplies or services virtually any type of electronic equipment a cable operator would use, from the headend (receiving and transmitting site) to the converter box at the customer's home.

### Overview of the Industry

CATV is a service that delivers multiple channels of television to subscribers who pay a monthly fee for the services they receive. A CATV system consists of four principal components. The first is the "up-link" where the programmer's signal is first scrambled and addressed, and is then transmitted to a C-band satellite. The second, known as a cable system "headend" facility, receives television signals from satellites and other sources. The headend facility organizes and retransmits those signals through the third component, the distribution network, to the subscriber. The third principal component is the distribution network, which consists of fiber optic and coaxial cables and associated electronic equipment, which originate at the headend and extend throughout the CATV system. The fourth component of the CATV system, the subscriber equipment, is comprised of a "drop wire" which extends from the distribution network to the subscriber's home and connects either directly to the subscriber's television set or to a converter box. An addressable converter box is a

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home terminal device, which permits the efficient delivery of premium CATV services, including pay-per-view programming, by enabling the CATV operator to control CATV subscriber services from a central headend computer.

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The broadband signal distribution industry (involving the high-speed transmission of television, telephony and internet signals) is currently dominated by CATV. The markets for wireless, direct-broadcast satellite ("DBS") and digital subscriber line ("DSL") used for this purpose are growing rapidly, creating increased competition to the cable operator. To fight competition, the operators offer more services and more TV channels as well as discounted prices. Like the systems described in the preceding paragraph, the lineup of services typically includes an analog block of channels from 54 to 550 MHz, high speed data service using high-speed cable modems, cable telephony either interfacing with switched networks or internet protocol networks, and digital television in the 550 to 750 MHz range. These upgraded services are possible in every system that has been rebuilt to 750 MHz of bandwidth. The standard architecture for these enhanced systems contemplates a hybrid distribution network with a combination of fiber optic cable to nodes of 100 to 500 subscribers, with coaxial cable from the node to the customer and full reverse-path capability for the pay-per-view, data and phone services, typically called a hybrid fiber coaxial ("HFC") network.

CATV operators generally offer to subscribers a basic service package and, for additional charges, additional tiers of services, including premium services. Basic service programming typically includes broadcast network local affiliates, independent television stations and other locally originated programs. Additional tiers of service may consist of different satellite-delivered services and premium services, such as HBO and ShowTime that typically are offered to subscribers as a package for a separate monthly fee. Successive tiers of programming include additional services for additional monthly fees. In addition, movies and special entertainment events, such as boxing matches and Olympic Games can be offered to subscribers with addressable converters on a selective, pay-per-view basis. CATV operators are also introducing digital cable audio services, which consist of multiple channels of commercial-free, compact disc quality music and programming.

The CATV and Broadband industry has experienced a significant reduction in capital spending beginning with fiscal 2001 that continued through most of fiscal 2002. In addition, the market capitalization value of several multiple system operators (MSOs) has recently declined and their debt level as a percent of total market capitalization value has increased. The debt ratings of several MSOs have also been downgraded. These conditions have impacted and may continue to impact the MSOs ability in the near term to raise additional capital to fund equipment purchases. Although the conditions described above have slightly impacted net sales, there is unpredictability of the impact of the economic conditions in the industry will have in future periods.

Over the last few years, the CATV industry has seen a number of mergers and acquisitions take place. This consolidation has left over 90% of the US cable market controlled by seven of the largest MSOs. Of the over 105 million homes passed by the top twenty-five MSOs in the United States, only about 18% subscribed to more than "basic cable." Therefore, substantial opportunity exists for demand-driven growth in the sales of our products and services, provided the trend of subscriber demand for higher speed internet, alternative telephony, and other services requiring more

sophisticated equipment continues in the future.

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#### Business of the Company

The basic strategy of the Company is to: (a) maintain and expand its current customer base in North America for the sale of new, surplus and re-manufactured CATV equipment while continuing to expand the repair side of the business and (b) continue to evaluate and consider the acquisition of existing companies in the industry within specific geographic areas utilizing their service and sales staffs to increase sales.

The Company believes that the CATV industry is expanding from a home entertainment service to providing telecommunications services to both homes and businesses. Management believes that the Company is well positioned to thrive and prosper in the industry.

Construction, maintenance, expansion and upgrade of CATV systems require significant capital expenditures by CATV operators for system components, including coaxial and fiber optic cable, traditional radio frequency ("RF") amplifiers and fiber optic electronics, and addressable system controllers and converters. A major trend in the cable and satellite television industry has been the continuing expansion of channel capacity in response to CATV operators' desire to provide subscribers with more programming selections, including pay-per-view and additional premium programming services.

The Company expects that CATV operators will continue to upgrade the technological capabilities of their systems and increase channel capacity in order to meet subscriber demand for more programming services, such as expanded pay-per-view, premium services and digital cable audio, which, in turn, provides opportunities for increased revenues for the CATV operators. In addition, new technologies can improve a CATV operator's margins and customer services by increasing the CATV system's reliability, picture quality and the "user friendliness" of the converter. The Company also expects CATV operators to increase spending to meet governmental requirements for renewing franchises and to position themselves to enter new and potential markets such as telephone and personal communications networks. With ADDvantage Technologies subsidiaries serving as distributors for equipment manufacturers (TULSAT - Scientific Atlanta, Blonder Tongue, Drake and Comscope; Comtech - Standard; NCS - Motorola and ProMax), the Company can continue to grow its new equipment and surplus sales to the largest MSOs of the industry by offering a diverse product line.

In addition, the consolidation of CATV operators and their ongoing transformation into multi-service companies is prompting a re-evaluation of the re-manufactured equipment values, as new services roll out using new technologies and state-of-the-art components. With the cost and sophistication of new equipment and technologies on the rise, and their shelf lives shrinking, the savvy use of re-manufactured equipment by cable operators and manufacturers is becoming a vital component in their overall operational strategies. The Company believes that it is in a position to serve this expanding market.

With respect to technology, CATV operators and suppliers, including the Company, are demonstrating that system upgrades with currently available equipment and system architectures can be used as a basis to provide advanced subscriber services, as described earlier in the HFC

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network. Moreover, the growing use of United States broadband system designs and equipment in international markets, where CATV penetration is low, presents another opportunity for sales of the Company's systems and equipment.

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### Products and Services

The majority of the Company's business is the sale of new and surplus-new (i.e. excess equipment available from the manufacturer) CATV equipment. New and surplus sales represent 46% of company revenues and re-manufactured sales represent 38% of the revenues. The following is a list of the products sold by the Company with a brief description of the application of each product line:

Linegear covers all products, which are actually placed on the cable line. This includes active electronics, trunk stations and line extenders, which amplify and distribute the cable signal, and passive equipment such as taps, splitters and directional couplers, which simply pass the signal through for delivery to additional lines and the customer's home. The Company focuses on sales and repair of Scientific Atlanta, Magnavox, Jerrold, General Instruments, Texcan and Thetacom lines of taps, traps, splitters, DCs, power inserters and pin connectors.

Headend equipment is used to provide signal acquisition, processing and manipulation for further transmission. Among the products offered by the Company in this category are Scientific Atlanta, Blonder Tongue, Magnavox, General Instruments and Drake lines of satellite receivers, integrated receiver/decoders, videociphers, demodulators, modulators, amplifiers, equalizers, processors, antennas, and antenna mounts. The Company specializes in the re-manufacturing and repairing of various manufacturers' lines of headend products as well as modifying these for use in different video formats.

Repair Services are offered for all product lines, with an emphasis in headend equipment. The Company expects this area to grow significantly with the Company's focus on this side of the business and as additional mergers or acquisitions develop.

### Sales and Marketing

The majority of the Company's sales activity is generated through personal relationships developed by its sales personnel and executives, referrals from being distributor for several large manufacturers of CATV equipment, advertising in trade journals and other periodicals, telemarketing and direct mail to cable operators in the United States. The Company has developed contacts with the major CATV operators in the United States and is constantly in touch with these operators regarding plans for upgrading or expansion and their needs to either purchase or sell equipment. The Company purchases a large amount of its inventory from cable operators who have upgraded, or are in the process of upgrading their systems. The sales and purchasing functions operate under the same umbrella using a computerized buy/sell board to coordinate the activity between the two.

The Company is not dependent on one or a few customers to support its business. The customer base consists of over 1,200 active accounts. However, approximately 33% of the Company's revenues for both fiscal years 2002 and 2001 were derived from sales of products and services to the

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Company's five largest customers. There are approximately 6,000 cable television systems within the United States, each of which is a potential customer.

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### Competition

The CATV industry is highly competitive and is characterized by numerous companies competing in various segments of the market. There are a number of businesses similar to the Company throughout the United States engaged in buying and selling re-manufactured CATV equipment. Most competitors are not able to maintain the large inventory the Company maintains due to capital requirements. In terms of sales and inventory, the Company is the largest in this industry providing both sales and service of new and re-manufactured CATV equipment.

The Company also faces competition from vendors supplying new products and various manufacturers in this industry. Due to its large inventory, the Company generally has the ability to ship and supply products to their customers from its large inventory without having to wait for the manufacturers to supply the items.

### Personnel

At September 30, 2002, the Company had 134 employees. Management considers its relationships with its employees to be excellent. The employees of the Company are not unionized and the Company is not subject to any collective bargaining agreements.

### ITEM 2. DESCRIPTION OF PROPERTY

Each subsidiary owns or leases property for office space and warehouse facilities. TULSAT leases a total of approximately 133,050 square feet of facilities in seven buildings from entities, which are controlled by David E.Chymiak and Kenneth A. Chymiak. Each lease has a renewable five-year term, expiring at different times in years 2003 through 2005. At September 30, 2002, total monthly rental payments of \$36,500 were required. Lee owns property of approximately 8,000 square feet, with an investment of \$246,000. NCS rents property of approximately 6,000 square feet. The term is month-to-month, with monthly rental payments of approximately \$3,100 required. Comtech owns property of approximately 11,000 square feet, with an investment of \$342,000, financed by loans of \$323,000 from Messrs. David Chymiak and Kenneth Chymiak, which bear interest at 7.5% and are due in monthly payments through 2011. TULSAT-Texas owns property of approximately 13,000 square feet, with an investment of \$150,000, financed by loans of \$137,000 from Messrs. David Chymiak and Kenneth Chymiak, which bear interest at 7.5% and are due in monthly payments through 2011. TULSAT-Atlanta rents property of approximately 2,600 square feet. The term is month-to-month, with monthly rental payments of approximately \$1,400. The Company believes that its current facilities are adequate to meet its needs.

### ITEM 3. LEGAL PROCEEDINGS

The company is not involved in any material legal proceedings.

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## ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of the shareholders of the Company during the fiscal quarter ended September 30, 2002.

## PART II

## ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's common stock is traded on the OTC Bulletin Board under the symbol ADDM.

The following table sets forth, for the periods indicated, the high and low closing bid quotations per share for the Company's common stock as quoted on the OTC Bulletin Board. Quotations represent inter-dealer prices without an adjustment for retail mark-ups, mark-downs or commissions and may not represent actual transactions:

Year Ended September 30, 2001 -----	High ----	Low ---
First Quarter	\$2.00	\$0.81
Second Quarter	\$2.22	\$1.03
Third Quarter	\$1.63	\$0.86
Fourth Quarter	\$1.90	\$0.81

  

Year Ended September 30, 2002	High ----	Low ---
First Quarter	\$1.05	\$0.95
Second Quarter	\$1.15	\$0.65
Third Quarter	\$1.35	\$0.65
Fourth Quarter	\$1.30	\$0.66

Substantially all of the holders of common stock maintain ownership of their shares in "street name" accounts and are not, individually, shareholders of record. As of December 26, 2002, there were approximately 80 holders of record of common stock. However, the Company believes there are in excess of 825 beneficial owners of common stock.

### Dividend Policy

The Company has never declared or paid a cash dividend on its common stock. It has been the policy of the Company's Board of Directors to use

all available funds to finance the development and growth of the Company's business. The payment of cash dividends in the future will be dependent upon the earnings and financial requirements of the Company and other factors deemed relevant by the Board of Directors. Under the terms of the Company's outstanding preferred stock, no dividends may be paid on the Company's common stock unless all cumulative cash dividends due on the preferred stock have been paid or provided for.

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

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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

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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 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. 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.

**Cost of Sales.** Cost of sales this year was 56.6% of net sales compared to 51.9% last year. Margins for the current year were affected by the inventory write-down of \$1.4 million, discussed above.

**Operating Expenses.** Operating expenses increased \$1.4 million, or 22.0% 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.

**Income from Operations.** Income from operations decreased 27.1 %, 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.

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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.

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.

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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. 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. At September 30, 2002, accounts receivable, net of allowance for doubtful accounts of \$85,000, amounted to \$3.3 million.

#### Liquidity and Capital Resources

The Company finances its operations primarily through internally generated funds and a bank line of credit.

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

The Company has a line of credit with the Bank of Oklahoma under which it is 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

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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.

The Company has authorized the repurchase of up to \$1.0 million of its 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

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acquisitions. The Company did not repurchase any shares during the fiscal year.

The Company believes that cash flow from operations, existing cash balances and its existing line of credit provide sufficient liquidity and capital resources to meet its needs.

### Impact of Recently Issued Accounting Standards

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).

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This Statement rescinds FASB Statement No. 4, Reporting Gains and Losses

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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.

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

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, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years ended September 30, 2002 and 2001. 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, and the consolidated results of its operations and its cash flows for the years ended September 30, 2002 and 2001, in conformity with accounting principles generally accepted in the United States of America.

TULLIUS TAYLOR SARTAIN & SARTAIN LLP

December 12, 2002

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

Assets  
Current assets:



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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
	-----
Total current assets	21,967,275
Property and equipment, at cost	
Machinery and equipment	1,994,045
Land and buildings	763,007
Leasehold improvements	496,509
	-----
	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 \$428,455	1,319,626
Other assets	26,858
	-----
Total other assets	2,351,484
	-----
Total assets	\$ 26,531,330
	=====

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See notes to consolidated financial statements.

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

Liabilities and Stockholders' Equity  
Current liabilities:

Accounts payable	\$ 1,471,672
Accrued expenses	586,598
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, \$1.00 par value, at stated value:	
Series A, 5% cumulative convertible; 200,000 shares issued and	

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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
Common stockholders' deficit	(2,159,210)
	-----
	17,940,907
Less: Treasury stock, 20,000 shares at cost	(54,164)
Total stockholders' equity	17,886,743
	-----
Total liabilities and stockholders' equity	\$ 26,531,330
	=====

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See notes to consolidated financial statements.

ADVANTAGE TECHNOLOGIES GROUP, INC.  
CONSOLIDATED STATEMENTS OF INCOME

	Year ended September 30,	
	2002	2001
	-----	-----
Net sales and service income	\$ 25,408,931	\$ 22,884,566
Cost of sales	14,370,776	11,885,210
	-----	-----
Gross profit	11,038,155	10,999,356
Operating expenses	7,498,175	6,144,174
	-----	-----
Income from operations	3,539,980	4,855,182
Interest expense	244,746	336,752
	-----	-----
Income before income taxes	3,295,234	4,518,430
Provision for income taxes	1,104,000	1,667,000
	-----	-----
Net income	2,191,234	2,851,430
Preferred dividends	1,240,000	1,240,000
	-----	-----
Net income attributable to common stockholders	\$ 951,234	\$ 1,611,430
	=====	=====
Earnings per share:		
Basic	\$ 0.10	\$ 0.16
Diluted	\$ 0.10	\$ 0.16

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See notes to consolidated financial statements.

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

	Common Stock		Series A Preferred Stock	Series B Preferred Stock	Common Stockholders' Deficit
	Shares	Amount			
Balance, September 30, 2000	9,992,956	\$ 99,930	\$8,000,000	\$12,000,000	\$(4,735,000)
Net income					2,851,430
Preferred stock dividends					(1,240,000)
Issue common shares	18,760	187			13,000
Balance, September 30, 2001	10,011,716	100,117	8,000,000	12,000,000	(3,110,000)
Net income					2,191,234
Preferred stock dividends					(1,240,000)
Balance, September 30, 2002	10,011,716	\$100,117	\$8,000,000	\$12,000,000	\$(2,159,000)

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See notes to consolidated financial statements.

ADVANTAGE TECHNOLOGIES GROUP, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended September 30,	
	2002	2001
Cash Flows from Operating Activities		
Net income	\$ 2,191,234	\$ 2,851,430
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	325,665	312,441
Provision for deferred income taxes	(81,000)	117,000
Change in:		
Receivables	(509,811)	1,118,782

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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 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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See notes to consolidated financial statements.

ADVANTAGE TECHNOLOGIES GROUP, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	September 30, 2002	2001
Supplemental Cash Flow Information		
Cash paid for interest	\$ 244,253	\$ 343,460
Cash paid for income taxes	\$ 1,832,342	\$ 1,462,000

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See notes to consolidated financial statements.

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

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 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. Revenue is recognized when inventory

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or service components are shipped to the customers. The Company's revenue recognition policies are in compliance with Staff Accounting Bulletin No. 101 "Revenue Recognition in Financial Statements" issued by the Securities and Exchange Commission.

### 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.

### 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 2001, was \$168,398 and \$144,838, respectively.

### 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,

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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

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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.

### 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

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.

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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

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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.

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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### Note 2 - Inventories

Inventories are summarized as follows:

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



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 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. In The line of credit agreement provides that the Company's net worth must be greater than \$14.0 million and net income greater than \$2.0 million. The line of credit is collateralized by inventory, accounts receivable, equipment and fixtures, and general intangibles.

Cash receipts are applied from the Company's lockbox account directly against the bank line of credit, and checks clearing the bank are funded from the line of credit. The resulting overdraft balance, consisting of outstanding checks, is \$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%.

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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

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

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
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%
	=====	

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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
	=====	

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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.

Note 5 - Stockholders' Equity

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.

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	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
	=====	=====	=====	=====

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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	
Range of Exercise Prices	Number Outstanding At 9/30/02	Weighted Average Remaining Contract 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
\$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%.

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

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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

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the option of the holder. Each share of Series A Preferred Stock is convertible into 10 shares of common stock.

### Note 6 - Operating Leases

The Company leases various properties primarily from a company owned by the Company's 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
	=====

Total rental expense for all operating leases was \$520,282 for the year ended September 30, 2002 and \$482,800 for the year ended September 30, 2001. \$438,000 of the total rental expense was paid to the Company's principal shareholders for 2002 and 2001.

### Note 7 - 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 8 - 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

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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-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.

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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. 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.

### Note 9 - 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.

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### Note 10 - Earnings per Share

Year ended September 30 2002	Year ended September 30 2001
-----	-----

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Net income	\$ 2,191,234	\$ 2,851,430
Dividends on preferred stock	1,240,000	1,240,000
Net income attributable to common shareholders -basic	951,234	1,611,430
Dividends on Series A convertible preferred stock	400,000	400,000
	-----	-----
Net income attributable to common shareholders - diluted	\$ 1,351,234	\$ 2,011,430
	=====	=====
Weighted average shares outstanding	9,991,716	9,991,716
Weighted average shares outstanding assuming dilution	11,991,716	11,991,716
	=====	=====
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.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

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PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS, AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

The information required by this item concerning the Company's officers, directors and compliance with Section 16(a) of the Securities Exchange Act of 1934, as amended, is incorporated by reference to the information in the sections entitled "Identity of Officers," "Election of Directors" and "Compliance with Section 16(a) of the Exchange Act," respectively, of the Company's Proxy Statement for the 2003 Annual Meeting of Shareholders (the "Proxy Statement") to be filed with the Securities and Exchange Commission within 120 days after the end of the Company's fiscal year ended September 30, 2002.

ITEM 10. EXECUTIVE COMPENSATION

The information required by this item concerning executive compensation is incorporated by reference to the information set forth in the section entitled "Compensation of Directors and Executive Officers" of

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the Company's Proxy Statement.

### ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this item regarding certain relationships and related transactions is incorporated by reference to the information set forth in the section entitled "Security Ownership of Certain Beneficial Owners and Management" of the Company's Proxy Statement.

### ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item regarding certain relationships and related transactions is incorporated by reference to the information set forth in the section entitled "Certain Relationships and Related Transactions" of the Company's Proxy Statement.

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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. 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.
- 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.



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- 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.
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- 3.2 Bylaws of the Company, as amended.
- 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.
- 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.
- 21.1 Subsidiaries.
- 23.1 Consent of Tullius Taylor Sartain & Sartain LLP.
- 99.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

None.

ITEM 14. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

With the participation of management, the Company's chief executive officer and chief financial officer evaluated the Company's disclosure controls and procedures on September 30, 2002. Based on this evaluation, the chief executive officer and chief financial officer concluded that the disclosure controls and procedures are effective in connection with ADDvantage Technologies, Inc.'s filing of its annual report on Form 10-KSB for the year ended September 30, 2002.

(b) Changes in internal controls.

Subsequent to September 30, 2002 through the date of this filing of Form 10-KSB for the year ended September 30, 2002, there have been no significant changes in the Company's internal controls or in other factors that could significantly affect those controls, including any significant deficiencies or material weaknesses of internal controls that would require corrective action.

SIGNATURES

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

ADDvantage Technologies Group, Inc.

Date: January 9, 2002 By:

/S/ Kenneth A. Chymiak

-----  
Kenneth A. Chymiak, President

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: December 30, 2002

/S/ David E. Chymiak

-----  
David E. Chymiak, Chairman of the Board  
of Directors

Date: December 30, 2002

/S/ Kenneth A. Chymiak

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

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Date: December 30, 2002 /S/ Adam R. Havig  
-----  
Adam R. Havig, Controller (Principal  
Accounting Officer)

Date: December 30, 2002 /S/ Gary W. Young  
-----  
Gary W. Young, Director

Date: December 30, 2002 /S/ Stephen J. Tyde  
-----  
Stephen J. Tyde, Director

Date: December 30, 2002 /S/ Freddie H. Gibson  
-----  
Freddie H. Gibson, Director

Date: December 30, 2002 /S/ Randy L. Weideman  
-----  
Randy L. Weideman, Director

### CERTIFICATION

I, Kenneth A. Chymiak, certify that:

1. I have reviewed this annual report on Form 10-KSB of ADDvantage Technologies Group, Inc, (the "Company");
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this annual report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Company and have:
  - a. Designed such disclosure controls and procedures to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b. Evaluated the effectiveness of the Company's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

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- c. Presented in this annual report my conclusions about the effectiveness of the disclosure controls and procedures based on my evaluation as of

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the Evaluation Date;

5. I have disclosed, based on my most recent evaluation, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
- a. All significant deficiencies in the design or operation of internal controls which could adversely affect the Company's ability to record, process, summarize and report financial data and have identified for the Company's auditors any material weakness in internal controls; and
  - b. Any fraud, whether or not material that involves management or other employees who have a significant role in the Company's internal controls; and
6. I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of my most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: January 9, 2003

/s/ Kenneth A. Chymiak

---

Kenneth A. Chymiak  
Chief Executive Office and Chief Financial  
Officer

### INDEX TO EXHIBITS

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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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- 23.1 Consent of Tullius Taylor Sartain & Sartain LLP.
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