

ADVANTAGE TECHNOLOGIES GROUP INC
Form 10-K
December 11, 2012

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

FORM 10-K

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

For the fiscal year ended September 30, 2012

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

Commission file number 1-10799

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

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

1221 E. Houston, Broken Arrow, Oklahoma 74012
(Address of principal executive offices) (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 No

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark 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.

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 Accelerated filer
Non-accelerated filer Smaller reporting company

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

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, 2012 was \$12,816,612.

The number of shares of the registrant's outstanding common stock, \$.01 par value per share, was 10,189,120 as of November 30, 2012.

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 2013 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.

ADVANTAGE TECHNOLOGIES GROUP, INC.
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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”, “goals”, “strategies”, “may”, “should” and similar expressions often 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 cable television industry, changes in customer and supplier relationships, technological developments, changes in the economic environment generally, the growth or formation of competitors, changes in governmental regulation or taxation, changes in our personnel, our ability to identify, complete and integrate acquisitions on favorable terms 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”), ADDvantage Technologies Group of Missouri, Inc. (dba “ComTech Services”), NCS Industries, Inc. (“NCS”), and Adams Global Communications, LLC (“AGC”).

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 distributor of Cisco video products. Tulsat is also a Cisco Premier Partner allowing it to sell Cisco’s IT related products as well. Tulsat is also designated as an authorized third party Cisco repair center for select video 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. AGC, located in Lenexa, Kansas, has a reseller agreement with Arris Solutions to sell cable television equipment in the United States. Our subsidiaries also sell products from other OEMs including Alpha, Blonder-Tongue, RL Drake, Corning-Gilbert, Promax, Quintech, Standard and Triveni Digital.

In addition to offering a broad range of new products, we also purchase and sell surplus-new 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 that service/repair most brands of CATV equipment.

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. Most MSOs 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 over the past several years to convert their systems to digital networks and 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.

The cable television industry has seen and is continuing to see several changes in recent years. The industry for the most part transitioned from analog to digital in 2009 and 2010 and upgraded its headend equipment in connection with this transition. Since the transition to digital, the cable television industry has not made significant plant expansions or additional bandwidth upgrades, and we do not believe this trend will change until internet television (“IPTV”) technology is fully ready to be deployed. The number of cable operators is also transitioning in that many of the larger MSOs have purchased the smaller operating systems in the United States. These same MSOs have also reduced the number of headends required for their overall systems.

We believe that we have been able to provide many of the products and services sought by MSOs as they established and expanded their services and territories. Our Company resells current production CATV equipment in competition with other resellers in the market. We believe we have differentiated ourselves from the other resellers in the marketplace in the following ways: 1) we stock and resell current production equipment; 2) we stock and resell new equipment that is no longer manufactured (“legacy equipment”); 3) we stock and resell refurbished current production and legacy equipment; 4) we service all of the CATV equipment that we sell; and 5) our experienced sales support staff has the technical know-how to consult with our customers regarding solutions for various products and configurations.

In addition, we continue to expand our relationships with vendors and establish new vendors and product lines for our company. In 2011, we acquired the net operating assets of Adams Global Communications, LLC. With this acquisition, we became a reseller of Arris Solutions cable television products in the United States, so we now offer products from the top three vendors, Cisco, Motorola and Arris Solutions, in the cable television industry. We are a Premier Partner with Cisco and continue to be the leading broadband access network stocking distributor for Motorola. We have added Triveni Digital test equipment to our product mix, still have our other existing OEM suppliers, including Alpha, Blonder-Tongue, RL Drake, Corning-Gilbert, Promax, Quintech and Standard and look to add other OEM suppliers to satisfy our existing customers’ needs. 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. This relationship has allowed us to begin to expand our customer base into the broadcast market segment of the industry.

Recent Business Developments

Business Strategy and Corporate Structure

Given the changes impacting the cable television industry and our Company discussed above, our Board of Directors enacted a strategy to not only try to grow our Company via organic growth but also via acquisitions. We believe that the current state of the industry may provide opportunities for expansion of our business through acquisitions. While our past acquisitions have primarily added new suppliers to our core resale business or expanded our existing customer base within our current business, we are currently seeking acquisition opportunities that will enable us to

expand the scope of our business within the cable industry about which we believe we have gained substantial expertise through our past operations. To that end, on April 4, 2012, the Company announced that its Board of Directors had appointed David Humphrey as the Company's new President and Chief Executive Officer. Mr. Humphrey has substantial experience in operations to assist in the growth of our existing business as well as in the area of mergers and acquisitions, particularly with companies of the size that we believe would present expansion opportunities for the Company. Initially, the Company plans to focus on acquisition opportunities within

the existing CATV market, but eventually the Company may explore opportunities outside its existing market space. It should be noted, however, that the identification and completion of acquisitions on terms favorable to the Company and the successful integration of acquired businesses into our existing business are matters posing some risk to any company and about which we can give no assurance.

As part of this executive transition plan, Ken Chymiak, who had been President and Chief Executive Officer of the Company since September 1999, was appointed as Chairman of ADDvantage's Board of Directors and will continue to focus on the Company's ongoing business strategy in that role. Also, David Chymiak, who had been Chairman since September 1999, will remain on the Company's Board of Directors and has been appointed as Chief Technology Officer of ADDvantage. In this role, David Chymiak will focus on supporting the product lines the Company currently offers and expanding its product offerings in the cable television industry as well as other markets. David Chymiak will also continue his current responsibilities of leading Tulsat.

Products and Services

We offer our customers a wide range of new, surplus-new and refurbished products across many brands, including Cisco, Motorola and Arris Solutions, that are used in connection with video, telephone and internet data signals.

Headend Products – 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 – 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.

Access and Transport Products – Access and transport 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.

Customer Premise Equipment – 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, Motorola and Arris digital converter boxes and modems.

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

In addition, we also offer Fujitsu Frontech North America encoders, decoders and other media solutions products used primarily for the broadcast industry. These products encode and decode signals with an industry leading encode/decode latency for exceptional high definition satellite news gathering and sports broadcasting.

Revenues by Geographic Area

Our revenues by geographic areas were as follows:

	2012	2011	2010
United States	\$29,520,146	\$33,599,080	\$40,523,492
Canada, Central America, Mexico, South America and Other	5,696,257	4,480,450	6,782,638
	\$35,216,403	\$38,079,530	\$47,306,130

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 2012, sales of new products represented 59% of our total revenues and refurbished product sales represented 28%. Repair and other services contributed the remaining 13% 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, trade shows, advertising in trade journals, telemarketing and direct mail to our customer base in the United States. We have developed contacts with 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 maintain a wide breadth of inventory of new and used cable television products and many times can offer our customers same day shipments. Even though we have been decreasing the amount of inventory we carry, we still carry one of the most diverse inventories of any cable television product reseller in the country, and we have access to inventory via our various supply channels. We believe our investment in on-hand inventory, our product supply channels, 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. Even though the terms of our Cisco agreement restrict our activities with respect to reselling Cisco products in international markets, we still can sell our other brands we carry and our refurbished equipment as well. 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 2012, we purchased approximately 24% of our total inventory purchases either directly from Cisco or indirectly through its primary stocking distributor and approximately 18% of our total inventory purchases directly from

Motorola. In addition to purchasing inventory from OEMs, 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 refurbished CATV equipment similar to the products that we offer. However, most of these competitors do not maintain the breadth of inventory that we carry due to working capital limitations. We maintain the practice of carrying the wide breadth of inventory to meet both the customers' urgent needs and mitigate the extended lead times of our suppliers. In addition, even though we do not stock current production Cisco cable television equipment, we can still purchase directly from Cisco's stocking distributor. We also have a wide array of other equipment suppliers in the event we do not have the necessary inventory in stock. In terms of sales and inventory on hand or available via our supply channels, we believe we are still the largest reseller in this industry, providing both sales and service of new and refurbished CATV equipment.

We also compete with our OEM suppliers as they can 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 shorter timeframe than the OEM.

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, over the last two years, due to the continued economic downturn, we have continued to reduce our overall inventory levels, which helped in generating additional cash flows of \$2.5 million and \$1.9 million in 2012 and 2011, respectively. 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 950 active accounts. Sales to our largest customer accounted for approximately 4% of our revenues in fiscal year 2012. Approximately 18% and 22% of our revenues for fiscal years 2012 and 2011, respectively, were derived from sales of products and services to our five largest customers. There are approximately 1,100 cable television operating companies operating approximately 6,600 cable television headends within the United States alone, each of which is a potential customer.

Personnel

At September 30, 2012, we had 123 employees, including 122 full-time 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%. In 2007, 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 leased warehouse space of approximately 56,000 square feet from an entity that is controlled by David E. Chymiak and Kenneth A. Chymiak. This warehouse space was leased on a month-to-month basis with a monthly payment of \$7,500. This lease was terminated on September 30, 2012.

- 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 \$1,364 through December 31, 2012. NCS also rents on a month-to-month basis another property of approximately 2,000 square feet, with monthly rental payments of \$1,325.
- Sedalia, Missouri – ComTech Services owns land and an office, warehouse and service center of approximately 24,300 square feet. In 2007, 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 rents on a month-to-month basis an office and service center of approximately 5,000 square feet, with monthly rental payments of \$3,360.
- Lenexa, Kansas – ADDvantage Technologies Group purchased, in July 2011, land, an office and a warehouse of approximately 26,400 square feet to be used by AGC, with an investment of \$1.5 million.

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, 2012	High	Low
First Quarter	\$2.25	\$1.90
Second Quarter	\$2.55	\$2.04
Third Quarter	\$2.53	\$1.91
Fourth Quarter	\$2.36	\$1.90
Year Ended September 30, 2011	High	Low
First Quarter	\$3.90	\$2.85
Second Quarter	\$3.25	\$2.61
Third Quarter	\$3.19	\$2.40
Fourth Quarter	\$2.67	\$2.02

Holders

At November 30, 2012, we had approximately 70 shareholders of record and, based on information received from brokers, there were 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. 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

The information in the following table is as of September 30, 2012:

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	370,000	\$2.83	306,956
Equity compensation plans not approved by security holders	0	0	0
Total	370,000	\$2.83	306,956

Item 6. Selected Financial Data.

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

	Fiscal Year Ended September 30,				
	2012	2011	2010	2009	2008
Net sales and service income	\$35,216	\$38,080	\$47,306	\$42,244	\$56,449
Income from operations	\$3,130	\$4,925	\$7,554	\$5,768	\$8,452
Net income applicable to common shareholders	\$1,250	\$2,536	\$4,186	\$3,019	\$4,534
Earnings per share					
Basic	\$0.12	\$0.25	\$0.41	\$0.30	\$0.44
Diluted	\$0.12	\$0.25	\$0.41	\$0.30	\$0.44
Total assets	\$42,033	\$52,888	\$52,260	\$49,433	\$51,800
Long-term obligations inclusive of current maturities	\$1,687	\$12,058	\$13,872	\$15,857	\$20,510

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 Premier Partner for Cisco's products, which allows Tulsat to sell both video-related and IT-related products in the United States. NCS Industries is a leading distributor of Motorola broadband products. AGC is a reseller of Arris cable television equipment in the United States. We also distribute products from other OEMs including Alpha, Blonder-Tongue, RL Drake, Corning-Gilbert, Promax, Quintech, Standard and Triveni Digital. 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 much of our efforts to market our products and services to the 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.

NCS Industries is a Master Distributor for the United States distribution of Fujitsu Frontech North America encoders, decoders and media solutions products. These products are primarily for the broadcast industry, which is expanding our customer base into this industry.

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

Recent Business Developments

Business Strategy and Corporate Structure

Given the changes impacting the cable television industry and our Company discussed above, our Board of Directors enacted a strategy to not only try to grow our Company via organic growth but also via acquisitions. We believe that the current state of the industry may provide opportunities for expansion of our business through acquisitions. While our past acquisitions have primarily added new suppliers to our core resale business or expanded our existing customer base within our current business, we are currently seeking acquisition opportunities that will enable us to expand the scope of our business within the cable industry about which we believe we have gained substantial expertise through our past operations. To that end, on April 4, 2012, the Company announced that its Board of Directors had appointed David Humphrey as the Company's new President and Chief Executive Officer. Mr. Humphrey has substantial experience in operations to assist in the growth of our existing business as well as in the area of mergers and acquisitions, particularly with companies of the size that we believe would present expansion opportunities for the Company. Initially, the Company plans to focus on acquisition opportunities within the existing CATV market, but eventually the Company may explore opportunities outside its existing market space. It should be noted, however, that the identification and completion of acquisitions on terms favorable to the Company and the successful integration of acquired businesses into our existing business are matters posing some risk to any company and about which we can give no assurance.

As part of this executive transition plan, Ken Chymiak, who had been President and Chief Executive Officer of the Company since September 1999, was appointed as Chairman of ADDvantage's Board of Directors and will continue to focus on the Company's ongoing business strategy in that role. Also, David Chymiak, who had been Chairman since September 1999, will remain on the Company's Board of Directors and has been appointed as Chief Technology Officer of ADDvantage. In this role, David Chymiak will focus on supporting the product lines the Company currently offers and expanding its product offerings in the cable television industry as well as other markets. David Chymiak will also continue his current responsibilities of leading Tulsat.

Results of Operations

Year Ended September 30, 2012, compared to Year Ended September 30, 2011 (all references are to fiscal years)

Total Net Sales. Total net sales decreased \$2.9 million, or 8%, to \$35.2 million for 2012 from \$38.1 million for 2011. New equipment sales decreased \$4.7 million, or 19%, to \$20.7 million for 2012 from \$25.5 million for 2011. The decrease in new equipment sales was primarily due to the continued decrease in plant expansions and bandwidth upgrades in the cable television industry, partially offset by \$2.0 million of revenue from Adams Global Communications, which was acquired in May 2011. Net refurbished sales increased \$2.4 million, or 32%, to \$9.8 million for 2012 from \$7.4 million for the same period last year. The increase in refurbished equipment sales was primarily due to revenues from Adams Global Communications. Net repair service revenues decreased \$0.5 million, or 10%, to \$4.7 million for 2012 from \$5.2 million for the same period last year.

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 \$1.7 million, or 6%, to \$24.9 million for 2012 from \$26.5 million for 2011. The decrease in cost of sales was primarily due to lower overall net sales. Cost of sales was also impacted by an increase in the provision for excess and obsolete inventory of \$0.2 million to \$0.6 million for 2012 from \$0.4 million for 2011. Cost of sales as a percent of revenue was 71% for 2012 and 70% for the same

period last year. The increase in cost of sales as percent of revenue was due primarily to increased sales from Adams Global Communications of customer premise equipment, which typically yields a lower margin than most of our other product lines.

Gross Profit. Gross profit decreased \$1.2 million, or 10%, to \$10.4 million for 2012 from \$11.6 million for 2011. The decrease in gross profit was primarily due to the overall decline in net sales and reduced margins resulting from increased sales of customer premise equipment as discussed above. Gross profit margins were 29% for 2012 as compared to 30% for the same period last year.

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 and professional services, among other less significant cost categories. Operating, selling, general and administrative expenses increased \$0.6 million, or 9%, to \$7.2 million for 2012 compared to \$6.6 million for 2011. The increase was due primarily to increased personnel costs of \$0.5 million resulting primarily from the acquisition of Adams Global Communications.

Income from Operations. Income from operations decreased \$1.8 million, or 36%, to \$3.1 million for 2012 from \$4.9 million for 2011 for the reasons described above.

Interest Expense. Interest expense increased \$0.4 million to \$1.1 million for 2012 from \$0.7 million for the same period last year. The increase was due primarily to the \$0.8 million payment made in order to terminate the interest rate swap agreement in March 2012 in connection with paying off the associated term loan, partially offset by lower interest expense of \$0.4 million for 2012 as a result of paying off the term loan and terminating the interest rate swap agreement. The interest rate swap agreement termination payment was recorded as interest expense.

Income Taxes. The provision for income taxes decreased by \$0.9 million to \$0.8 million, or an effective rate of 38.0%, for 2012 from \$1.7 million, or an effective rate of 40.0%, for the same period last year.

Year Ended September 30, 2011, compared to Year Ended September 30, 2010

Total Net Sales. Total net sales declined \$9.2 million, or 20%, to \$38.1 million for 2011 from \$47.3 million for 2010. Equipment sales were negatively impacted by several factors including the continued economic downturn in the cable television industry as the MSO customers continue to conserve cash and limit capital expenditures and the negative impact of the Cisco agreement entered into in December 2010 as well as severe weather conditions in the second fiscal quarter of 2011. Among other things, the Cisco agreement no longer allows Tulsat to sell current production Cisco products to (1) Latin America, which contributed to our \$2.3 million decrease in foreign sales for fiscal year 2011 as compared to fiscal year 2010, and (2) other resellers or brokers, which was a significant part of Tulsat's business, although Tulsat is able to utilize its existing inventory to sell to certain resellers and brokers. New equipment sales decreased \$6.6 million, or 21%, to \$25.5 million for 2011 from \$32.1 million for 2010. Net refurbished sales decreased \$2.0 million, or 21%, to \$7.4 million for 2011 from \$9.4 million for the same period last year. The decrease in refurbished equipment sales was primarily due to a decrease in sales of digital converter boxes of \$1.3 million and the factors discussed above. The decrease in sales of digital converter boxes is primarily due to lower demand in the market and market price erosion, partially offset by sales volume resulting from the acquisition of Adams Global Communications. Net repair service revenues decreased \$0.6 million, or 10%, to \$5.2 million for 2011 from \$5.8 million for 2010. The repair service revenue decline for 2011 was primarily attributable to the closure of our Tulsat-West facility in the fiscal first quarter of 2011.

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 \$6.3 million, or 19%, to \$26.5 million for 2011 from \$32.9 million for 2010. The decrease in cost of sales was primarily attributable to the overall decrease in equipment sales. Cost of sales was also impacted by a decrease in the provision for excess and obsolete inventory of \$0.4 million to \$0.4 million for 2011 from \$0.8 million for 2010. Cost of sales as a percent of revenue was 70% for 2011 and 69% for 2010.

Gross Profit. Gross profit decreased \$2.9 million, or 20%, to \$11.6 million for 2011 from \$14.5 million for 2010. The decrease in gross profit was primarily due to the overall decline in net sales, partially offset by the impact of the \$0.4 million decrease in the provision for excess and obsolete inventory discussed above. Gross profit margins were 30% for 2011 as compared to 31% for 2010.

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 and professional services, among other less significant cost categories. Operating, selling, general and administrative expenses decreased \$0.3 million, or 4%, to \$6.6 million for 2011 compared to \$6.9 million for 2010. The decrease was due primarily to reduced costs of \$0.3 million resulting from the closure of the Tulsat-West facility in the first quarter of fiscal 2011, reduced bonus expenses of \$0.1 million and reduced credit card and banking expenses of \$0.1 million. These decreases were partially offset by increased operating costs of \$0.4 million resulting from the acquisition of Adams Global Communications in the third quarter of fiscal 2011.

Income from Operations. Income from operations decreased \$2.6 million, or 35%, to \$4.9 million for 2011 from \$7.6 million for 2010 for the reasons described above.

Interest Expense. Interest expense decreased \$0.1 million, or 13%, to \$0.7 million for 2011 from \$0.8 million for 2010.

Income Taxes. The provision for income taxes for 2011 and 2010 was \$1.7 million and \$2.6 million, respectively. The effective income tax rate was 40.0% and 38.0% for 2011 and 2010, respectively.

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 2012, we generated \$4.9 million of cash flow from operations. The cash flow from operations was favorably impacted by \$1.2 million from a net decrease in our accounts receivable from 2011. Our accounts receivable decreased from 2011 due primarily to decreased revenues during the fourth quarter of 2012 as compared to the fourth quarter of 2011. We have not experienced a significant deterioration in collections of accounts receivable, so we have maintained our reserve for doubtful accounts at the same level as 2011. The cash flow from operations was also favorably impacted by \$2.5 million from a net decrease in inventory due primarily to management's efforts to continue to reduce overall inventory purchases, partially offset by timing of increased customer premise equipment purchases. Additionally, the cash flow from operations was negatively impacted by \$1.2 million from a net decrease in accounts payable due primarily to decreased inventory purchases and timing of inventory purchases.

During 2012, we made principal payments totaling \$1.0 million on our two term loans under our Amended and Restated Revolving Credit and Term Loan Agreement with our primary lender. On March 12, 2012, we paid off the outstanding amount owed of \$9.4 million under the second term loan in the Amended and Restated Revolving Credit and Term Loan Agreement. In connection with the loan payoff, the Company also terminated the associated interest rate swap agreement for \$0.8 million. Therefore, the remaining debt on our balance sheet is the first term loan with a balance of \$1.7 million at September 30, 2012. The first term loan requires monthly payments of \$15,334 plus accrued interest through November 2021.

We expect that our cash and cash equivalents of \$5.2 million at September 30, 2012 will be sufficient to finance 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, 2012, there was not a balance outstanding under the line of credit. The lesser of \$7.0 million or the total of 80% of the qualified accounts receivable plus 50% of qualified inventory is available to us under the revolving credit facility (\$7.0 million at September 30, 2012). The entire outstanding balance on the revolving credit facility is due on maturity.

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.

Subsequent to September 30, 2012, the Company signed the Second Amendment to the Amended and Restated Revolving Credit and Term Loan Agreement with its primary financial lender dated November 30, 2012. Among other things, this amendment extended the Line of Credit maturity to November 30, 2013. In addition, this amendment removed the payment of dividends restriction. The Line of Credit remains at \$7.0 million, and the interest rate remains at the prevailing 30-day LIBOR rate plus 2.75%.

Critical Accounting Policies and Estimates

Note 1 to the Consolidated Financial Statements in this Form 10-K for fiscal year 2012 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, with cost determined using the weighted-average method. At September 30, 2012, we had total inventory of \$23.7 million, consisting of \$17.3 million in new products and \$6.4 million in used or refurbished products against which we have a reserve of \$1.0 million for excess and obsolete inventory, leaving us a net inventory of \$22.7 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 2012, we increased our reserve for excess and obsolete inventory by approximately \$0.6 million and wrote down the carrying value of certain inventory items by approximately \$1.1 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, 2012 and September 30, 2011. At September 30, 2012, accounts receivable, net of allowance for doubtful accounts, was \$3.1 million.

Impact of recently issued accounting standards

In June 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update 2011-05, Presentation of Comprehensive Income. This Update amended the provisions of FASB Accounting Standards

Codification (“ASC”) 220-10 by eliminating the option of reporting other comprehensive income in the statement of changes in stockholders’ equity. Companies will have the option of presenting net income and other comprehensive income in a single, continuous statement of comprehensive income or presenting two separate but consecutive statements of net income and comprehensive income. The new presentation requirements are effective for interim and annual periods beginning after December 15, 2011. We have adopted the new disclosure requirements in our consolidated financial statements.

In September 2011, the FASB issued Accounting Standards Update 2011-08, Testing Goodwill for Impairment. This Update amended the provisions of FASB ASC 350-20-35 by allowing an entity the option to make a qualitative evaluation about the likelihood of goodwill impairment to determine whether it should calculate the fair value of a reporting unit. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity’s financial statements for the most recent annual or interim period have not yet been issued. The adoption of this update to FASB ASC 350-20-35 did not have a material impact on our financial statements.

Off-Balance Sheet Arrangements

None.

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 as of September 30, 2012 and 2011, and the related consolidated statements of income and comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended September 30, 2012. Our audits of the consolidated financial statements also included the financial statement schedules of ADDvantage Technologies Group, Inc., listed in Item 15(a). These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

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 audits 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 financial position of ADDvantage Technologies Group, Inc. and subsidiaries as of September 30, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2012, in conformity with U.S. generally accepted accounting principles in the United States of America. Also, in our opinion, the financial statement schedules, 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 11, 2012
Tulsa, Oklahoma

ADVANTAGE TECHNOLOGIES GROUP, INC.
CONSOLIDATED BALANCE SHEETS

	September 30,	
	2012	2011
Assets		
Current assets:		
Cash and cash equivalents	\$5,191,514	\$10,943,654
Accounts receivable, net of allowance of \$300,000	3,050,796	4,244,049
Income tax refund receivable	409,386	349,745
Inventories, net of allowance for excess and obsolete inventory of \$1,000,000 and \$1,556,000, respectively	22,666,385	25,777,747
Prepaid expenses	129,357	177,486
Deferred income taxes	920,000	1,059,000
Total current assets	32,367,438	42,551,681
Property and equipment, at cost:		
Land and buildings	8,794,272	8,683,679
Machinery and equipment	2,953,949	2,856,615
Leasehold improvements	9,633	205,797
Total property and equipment, at cost	11,757,854	11,746,091
Less accumulated depreciation and amortization	(3,666,327)	(3,392,329)
Net property and equipment	8,091,527	8,353,762
Other assets:		
Deferred income taxes	-	403,000
Goodwill	1,560,183	1,560,183
Other assets	13,778	19,245
Total other assets	1,573,961	1,982,428
Total assets	\$42,032,926	\$52,887,871

See notes to audited consolidated financial statements.

ADVANTAGE TECHNOLOGIES GROUP, INC.
CONSOLIDATED BALANCE SHEETS

	September 30,	
	2012	2011
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$1,437,492	\$2,675,907
Accrued expenses	1,030,174	1,240,224
Notes payable – current portion	184,008	1,814,008
Total current liabilities	2,651,674	5,730,139
Notes payable, less current portion	1,502,612	10,244,120
Deferred income taxes	62,000	–
Other liabilities	–	957,258
Shareholders' equity:		
Common stock, \$.01 par value; 30,000,000 shares authorized; 10,465,323 and 10,431,354 shares issued, respectively; 10,189,120 and 10,207,390 shares outstanding, respectively	104,653	104,314
Paid in capital	(5,748,503)	(5,884,521)
Retained earnings	43,980,590	42,730,098
Accumulated other comprehensive loss:		
Unrealized loss on interest rate swap, net of tax	–	(587,258)
Total shareholders' equity before treasury stock	38,336,740	36,362,633
Less: Treasury stock, 276,203 and 223,964 shares, respectively, at cost	(520,100)	(406,279)
Total shareholders' equity	37,816,640	35,956,354
Total liabilities and shareholders' equity	\$42,032,926	\$52,887,871

See notes to audited consolidated financial statements.

ADVANTAGE TECHNOLOGIES GROUP, INC.
CONSOLIDATED STATEMENTS OF INCOME AND
COMPREHENSIVE INCOME

	Years ended September 30,		
	2012	2011	2010
Sales:			
Net new sales income	\$20,743,264	\$25,467,734	\$32,108,559
Net refurbished sales income	9,814,763	7,430,603	9,444,802
Net service income	4,658,376	5,181,193	5,752,769
Total net sales	35,216,403	38,079,530	47,306,130
Cost of sales	24,854,960	26,528,682	32,850,524
Gross profit	10,361,443	11,550,848	14,455,606
Operating, selling, general and administrative expenses	7,231,097	6,625,907	6,901,946
Income from operations	3,130,346	4,924,941	7,553,660
Interest expense	1,113,854	696,634	801,211
Income before income taxes	2,016,492	4,228,307	6,752,449
Provision for income taxes	766,000	1,692,000	2,566,000
Net income attributable to common shareholders	1,250,492	2,536,307	4,186,449
Other comprehensive loss:			
Unrealized gain (loss) on interest rate swap, net of \$370,000, \$106,000 and \$(72,000) tax provision (benefit), respectively	587,258	189,425	(130,998)
Comprehensive income	\$1,837,750	\$2,725,732	\$4,055,451
Earnings per share:			
Basic	\$0.12	\$0.25	\$0.41
Diluted	\$0.12	\$0.25	\$0.41
Shares used in per share calculation:			
Basic	10,196,241	10,175,213	10,132,658
Diluted	10,197,496	10,178,763	10,136,610

See notes to audited consolidated financial statements.

ADVANTAGE TECHNOLOGIES GROUP, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years ended September 30, 2012, 2011 and 2010

	Common Stock		Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
	Shares	Amount					
Balance, September 30, 2009	10,340,784	\$ 103,408	\$(6,151,530)	\$36,007,342	\$ (645,685)	\$(406,279)	\$28,907,256
Net income	–	–	–	4,186,449	–	–	4,186,449
Stock issuance	27,150	271	59,729	–	–	–	60,000
Net unrealized loss on interest swap	–	–	–	–	(130,998)	–	(130,998)
Share based compensation expense	–	–	20,815	–	–	–	20,815
Balance, September 30, 2010	10,367,934	\$ 103,679	\$(6,070,986)	\$40,193,791	\$ (776,683)	\$(406,279)	\$33,043,522
Net income	–	–	–	2,536,307	–	–	2,536,307
Stock issuance	58,920	590	169,410	–	–	–	170,000
Stock options exercised	4,500	45	6,706	–	–	–	6,751
Net unrealized gain on interest swap	–	–	–	–	189,425	–	189,425
Share based compensation expense	–	–	10,349	–	–	–	10,349
Balance, September 30, 2011	10,431,354	\$ 104,314	\$(5,884,521)	\$42,730,098	\$ (587,258)	\$(406,279)	\$35,956,354
Net income	–	–	–	1,250,492	–	–	1,250,492
Stock issuance	31,969	320	69,680	–	–	–	70,000
Stock options exercised	2,000	20	1,600	–	–	–	1,620
Net unrealized gain on interest swap	–	–	–	–	587,258	–	587,258
	–	–	64,738	–	–	–	64,738

Share based
compensation
expense

Purchase of common stock	–	–	–	–	–	(113,821)	(113,821)
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Balance,
September 30,
2012

10,465,323	\$ 104,653	\$(5,748,503)	\$43,980,590	\$ –	\$(520,100)	\$37,816,640
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See notes to audited consolidated financial statements.

ADVANTAGE TECHNOLOGIES GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended September 30,		
	2012	2011	2010
Operating Activities			
Net income	\$ 1,250,492	\$ 2,536,307	\$ 4,186,449
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	356,091	370,965	398,778
Provision for losses on accounts receivable	–	–	26,162
Provision for excess and obsolete inventories	580,587	407,303	805,684
(Gain) loss on disposal of property and equipment	114,071	(1,350)	7,704
Deferred income tax provision (benefit)	234,000	533,000	(3,000)
Share based compensation expense	201,404	109,516	84,984
Cash provided (used) by changes in operating assets and liabilities:			
Accounts receivable	1,193,253	892,459	(732,759)
Income tax refund receivable	(59,641)	(146,340)	(114,994)
Inventories	2,530,775	1,896,005	4,950,218
Prepaid expenses	(18,538)	(52,451)	14,856
Other assets	5,467	74,825	693
Accounts payable	(1,238,415)	(403,790)	228,355
Accrued expenses	(210,050)	(199,782)	244,592
Net cash provided by operating activities	4,939,496	6,016,667	10,097,722
Investing Activities			
Acquisition of net operating assets, net of cash acquired	–	(549,785)	–
Additions to machinery and equipment	(97,333)	(23,132)	(77,078)
Additions of land and buildings	(110,594)	(1,475,000)	(19,743)
Disposals of machinery and equipment	–	43,011	22,750
Net cash used in investing activities	(207,927)	(2,004,906)	(74,071)
Financing Activities			
Payments on notes payable	(10,371,508)	(1,814,008)	(1,984,504)
Purchase of treasury stock	(113,821)	–	–
Proceeds from stock options exercised	1,620	6,750	–
Net cash used in financing activities	(10,483,709)	(1,807,258)	(1,984,504)
Net increase (decrease) in cash and cash equivalents	(5,752,140)	2,204,503	8,039,147
Cash and cash equivalents at beginning of year	\$ 10,943,654	8,739,151	700,004
Cash and cash equivalents at end of year	\$ 5,191,514	\$ 10,943,654	\$ 8,739,151
Supplemental cash flow information:			
Cash paid for interest	\$ 1,164,522	\$ 704,878	\$ 814,332
Cash paid for income taxes	\$ 622,210	\$ 1,344,399	\$ 2,767,180

See notes to audited consolidated financial statements.

ADVANTAGE TECHNOLOGIES GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Description of Business and Summary of Significant Accounting Policies

Description of business

ADDvantage Technologies Group, Inc. through its subsidiaries (collectively, the “Company”) sells new, surplus-new, and refurbished cable television equipment throughout North America, Central America, South America and, to a substantially lesser extent, other international regions that utilize the same technology. In addition, the Company is also a repair center for various cable companies.

Summary of Significant Accounting Policies

Principles of consolidation and segment reporting

The consolidated financial statements include the accounts of ADDvantage Technologies Group, Inc. and its subsidiaries: Tulsat Corporation, Tulsat-Atlanta LLC, ADDvantage Technologies Group of Nebraska, Inc. (dba Tulsat-Nebraska), ADDvantage Technologies Group of Texas, Inc. (dba Tulsat-Texas), NCS Industries, Inc., ADDvantage Technologies Group of Missouri, Inc. (dba ComTech Services) and Adams Global Communications, LLC. All significant inter-company balances and transactions have been eliminated in consolidation. In addition, each subsidiary represents a separate operating segment of the Company and is aggregated for segment reporting purposes.

FASB Accounting Standards Codification

The Company follows accounting standards set by the Financial Accounting Standards Board (“FASB”). The FASB sets generally accepted accounting principles (“GAAP”) that the Company follows to ensure that the Company’s financial condition, results of operations and cash flows are consistently reported. References to GAAP issued by the FASB in these footnotes are to the FASB Accounting Standards Codification (“Codification” or “ASC”).

Cash and cash equivalents

Cash and cash equivalents includes demand and time deposits, money market funds and other marketable securities with maturities of three months or less when acquired.

Accounts receivable

Trade receivables are carried at original invoice amount less an estimate made for doubtful accounts. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer’s financial condition, credit history and current economic conditions. Trade receivables are written off against the allowance when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received. The Company generally does not charge interest on past due 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 with market defined principally as net realizable value. Cost is determined using the weighted-average method. The Company records inventory reserve provisions to reflect inventory at its estimated

realizable value based on a review of inventory quantities on hand, historical sales volumes and technology changes. These reserves are to provide for items that are potentially slow-moving, excess or obsolete.

Property and equipment

Property and equipment consists of software, office equipment, warehouse and service equipment and buildings with estimated useful lives generally of 3 years, 5 years, 10 years and 40 years, respectively. Depreciation is provided using the straight-line method over the estimated useful lives of the related assets. Leasehold improvements are amortized over the remainder of the lease agreement. Gains or losses from the ordinary sale or retirement of property and equipment are recorded in other income (expense). Repairs and maintenance costs are generally expensed as incurred, whereas major improvements are capitalized. Depreciation and amortization expense was \$0.4 million for each of the years ended September 30, 2012, 2011 and 2010, respectively.

Goodwill

Goodwill represents the excess of cost over fair value of the assets of businesses acquired. Goodwill is evaluated at least annually for impairment by first comparing our estimate of the fair value of the reporting unit, or operating segment, with the reporting unit's carrying value, including goodwill. If the carrying value of the reporting unit exceeds its fair value, a computation of the implied fair value of goodwill would then be compared to its related carrying value. If the carrying value of the reporting unit's goodwill exceeds the implied fair value of goodwill, an impairment loss would be recognized in the amount of the excess. Judgments and assumptions are inherent in our estimate of future cash flows used to determine the estimate of the reporting unit's fair value. The use of alternate judgments and/or assumptions could result in the recognition of different levels of impairment charges in the financial statements. At September 30, 2012 and 2011, the fair value of our reporting unit exceeded its carrying value, so goodwill was not impaired.

Income taxes

The Company provides for income taxes in accordance with the liability method of accounting pursuant to ASC Topic 740, 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 a valuation allowance against deferred tax assets for amounts which are not considered "more likely than not" to be realized.

Revenue recognition and product line reporting

The Company's principal sources of revenues are from sales of new, refurbished or used equipment and repair services. As a distributor for several cable television equipment manufacturers, the Company offers a broad selection of inventoried and non-inventoried products. The Company's sales of different products fluctuate from year to year as its customers' needs change. Because the Company's product line sales change from year to year, the Company does not report sales by product line for management reporting purposes and does not disclose sales by product line in these financial statements.

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

Derivatives

FASB ASC 815, Derivatives and Hedging, requires that all derivatives, whether designated in hedging relationships or not, be recorded on the balance sheet at fair value. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. If the derivative is designated as a cash flow hedge, the effective portions of the changes in the fair value of the derivative are recorded in Other Comprehensive Income and are recognized in the income statement when the hedged item affects earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized in other income (expense). The Company's objective of holding derivatives was to minimize the risk of interest rate fluctuation.

Freight

Amounts billed to customers for shipping and handling represent revenues earned and are included in Net New Sales Income, Net Refurbished Sales Income and Net Service Income in the accompanying Consolidated Statements of Income and Comprehensive Income. Actual costs for shipping and handling of these sales are included in Cost of Sales.

Advertising costs

Advertising costs are expensed as incurred. Advertising expense was \$0.2 million for each of the years ended September 30, 2012, 2011 and 2010, respectively.

Management estimates

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 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 the Company's inventory and operating results.

Concentrations of credit risk

The Company holds cash with one major financial institution, which at times exceeds FDIC insured limits. Historically, the Company has not experienced any losses due to such concentration of credit risk.

Other 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. The Company had no customer in 2012, 2011 or 2010 that contributed in excess of 10% of the total net sales. The Company's sales to foreign (non-U.S. based customers) were approximately \$5.7 million, \$4.5 million and \$6.8 million for the years ended September 30, 2012, 2011 and 2010, respectively. In 2012, the Company purchased approximately 24% of its inventory either directly from Cisco or indirectly through their primary stocking distributor and approximately 18% of its inventory from Motorola. The concentration of suppliers of the Company's inventory subjects the Company to risk.

Employee stock-based awards

FASB ASC 718, Stock Compensation, requires all share-based payments to employees, including grants of employee stock options, be recognized in financial statements based on their grant date fair value over the requisite service period. The Company determines the fair value of the options issued, using the Black-Scholes valuation model, and amortizes the calculated value over the vesting term of the stock options. Compensation expense for stock-based awards is included in the operating, selling, general and administrative expense section of the consolidated statements of income and comprehensive income.

Earnings per share

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

Fair value of financial instruments

The carrying amounts of accounts receivable and accounts payable approximate fair value due to their short maturities. The carrying value of the Company's line of credit and term debt approximates fair value since their interest rates fluctuate periodically based on a floating interest rate.

Impact of recently issued accounting standards

In June 2011, the FASB issued Accounting Standards Update 2011-05, Presentation of Comprehensive Income. This Update amended the provisions of FASB ASC 220-10 by eliminating the option of reporting other comprehensive income in the statement of changes in stockholders' equity. Companies will have the option of presenting net income and other comprehensive income in a single, continuous statement of comprehensive income or presenting two separate but consecutive statements of net income and comprehensive income. We have adopted the new disclosure requirements in our consolidated financial statements.

In September 2011, the FASB issued Accounting Standards Update 2011-08, Testing Goodwill for Impairment. This Update amended the provisions of FASB ASC 350-20-35 by allowing an entity the option to make a qualitative evaluation about the likelihood of goodwill impairment to determine whether it should calculate the fair value of a reporting unit. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity's financial statements for the most recent annual or interim period have not yet been issued. The adoption of this update to FASB ASC 350-20-35 did not have a material impact on our financial statements.

Note 2 – Acquisition

On May 20, 2011, the Company acquired the net operating assets of Adams Global Communications, LLC ("AGC"). AGC, located in Overland Park, Kansas, purchases and sells cable television access and transport equipment, digital converter boxes and modems in the United States, Canada and Latin American markets. In addition, the Company hired all 12 of AGC's employees.

The purchase price was allocated to the major categories of assets and liabilities based on their estimated fair values at the acquisition date. The following table summarizes the final purchase price allocation:

Current assets, excluding inventory	\$313,458
Inventory	670,333
Property and equipment	44,000
Current liabilities	(427,791)
Total	600,000
Cash acquired	(50,215)
Acquisition price, net of cash acquired	\$549,785

On July 7, 2011, the Company purchased land and a 26,000 square foot building in Lenexa, Kansas for \$1.475 million in cash. The Company received rental payments from the current tenants of \$10,250 per month through October 31, 2011. AGC relocated its operations from their facility in Overland Park, Kansas, which was leased on a month-to-month basis, to the Lenexa, Kansas facility in November 2011.

Note 3 – Inventories

Inventories at September 30, 2012 and 2011 are as follows:

	2012	2011
New	\$17,283,788	\$19,970,510
Refurbished	6,382,597	7,363,237
Allowance for excess and obsolete inventory	(1,000,000)	(1,556,000)
	\$22,666,385	\$25,777,747

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

The Company regularly reviews inventory quantities on hand, and an adjustment to cost is recognized when the loss of usefulness of an item or other factors, such as obsolete and excess inventories, indicate that cost will not be recovered when an item is sold. The Company recorded charges to allow for obsolete inventory during the fiscal years ended September 30, 2012, 2011 and 2010, increasing the cost of sales by approximately \$0.6 million, \$0.4 million and \$0.8 million, respectively.

Note 4 – Income Taxes

The provision (benefit) for income taxes for the years ended September 30, 2012, 2011 and 2010 consists of:

	2012	2011	2010
Current	\$532,000	\$1,159,000	\$2,569,000
Deferred	234,000	533,000	(3,000)
	\$766,000	\$1,692,000	\$2,566,000

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 years ended September 30, 2012, 2011 and 2010:

	2012		2011		2010	
Statutory tax rate	34.0	%	34.0	%	34.0	%
State income taxes, net of U.S. federal tax benefit	3.5	%	4.6	%	4.0	%
Charges without tax benefit	1.4	%	0.7	%	0.5	%
Tax credits and other exclusions	(0.9)	%	0.7	%	(0.5)	%
Company’s effective tax rate	38.0	%	40.0	%	38.0	%

The tax effects of temporary differences related to deferred taxes at September 30, 2012 and 2011 consist of the following:

	2012	2011
Deferred tax assets:		
Net operating loss carryforwards	\$500,000	\$624,000
Accounts receivable	115,000	116,000
Inventory	639,000	755,000
Interest rate swap	–	370,000
Other, net	196,000	192,000
	1,450,000	2,057,000
Deferred tax liabilities:		
Financial basis in excess of tax basis of certain assets	592,000	595,000
Net deferred tax asset	\$858,000	\$1,462,000

The above net deferred tax asset is presented in the Company's Consolidated Balance Sheets at September 30, 2012 and 2011 as follows:

	2012	2011
Deferred tax asset – current	\$920,000	\$1,059,000
Deferred tax asset (liability) – noncurrent	(62,000)	403,000
	\$858,000	\$1,462,000

Utilization of the Company's net operating loss carryforward, totaling approximately \$1.4 million at September 30, 2012, to reduce future taxable income is limited to an annual deductible amount of approximately \$0.3 million. The net operating loss carryforward expires in varying amounts in 2019 and 2020.

In accordance with FASB ASC 740, Income Taxes, the Company records net deferred tax assets to the extent the Company believes these assets will more likely than not be realized. In making such determination, the Company considers all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial performance. The Company has concluded, based on its historical earnings and projected future earnings, that it will be able to realize the full effect of the deferred tax assets and no valuation allowance is needed.

Based upon a review of its income tax positions, the Company believes that its positions would be sustained upon an examination by the Internal Revenue Service and does not anticipate any adjustments that would result in a material change to its financial position. Therefore, no reserves for uncertain income tax positions have been recorded. Generally, the Company is no longer subject to examinations by the U.S. federal, state or local tax authorities for tax years before 2009.

Note 5 – Accrued Expenses

Accrued expenses at September 30, 2012 and 2011 are as follows:

	2012	2011
Employee costs	\$823,978	\$905,536
Taxes other than income tax	176,296	219,662
Interest	1,153	51,821
Other, net	28,747	63,205
	\$1,030,174	\$1,240,224

Note 6 – Line of Credit and Notes Payable

Notes Payable

The Company has an Amended and Restated Revolving Credit and Term Loan Agreement (“Credit and Term Loan Agreement”), which includes two separate term loans, which are also collateralized by inventory, accounts receivable, equipment and fixtures and general intangibles. The first term loan has an outstanding balance of \$1.7 million at September 30, 2012 and is due on November 20, 2021, with monthly principal payments of \$15,334 plus accrued interest. The interest rate is the prevailing 30-day LIBOR rate plus 1.4% (1.63% at September 30, 2012) and is reset monthly.

On March 12, 2012, the Company paid off the outstanding amount owed of \$9.4 million under the second term loan under the Credit and Term Loan Agreement. In connection with the loan payoff, the Company also terminated the associated interest rate swap agreement for \$0.8 million.

The aggregate minimum maturities of notes payable for each of the next five years are as follows:

2013	\$184,008
2014	184,008
2015	184,008
2016	184,008
2017	184,008
Thereafter	766,580
Total	\$1,686,620

Line of Credit

The Company has a \$7.0 million Revolving Line of Credit (“Line of Credit”) under the Credit and Term Loan Agreement with its primary financial lender. At September 30, 2012, the Company had no amount outstanding under the Line of Credit. The Line of Credit requires quarterly interest payments based on the prevailing 30-day LIBOR rate plus 2.75% (2.98% at September 30, 2012), and the interest rate is reset monthly. Any outstanding balance under the Line of Credit is due on November 30, 2012. Borrowings under the Line of Credit are limited to the lesser of \$7.0 million or the net balance of 80% of qualified accounts receivable plus 50% of qualified inventory less any outstanding term note balances identified in the Credit and Term Loan Agreement and less the fair value of the

interest rate swap agreement in excess of \$900,000. Under these limitations, the Company's total Line of Credit borrowing base was \$7.0 million at September 30, 2012. Since one term loan was paid off and the interest rate swap was terminated in March 2012, the Line of Credit borrowing base is no longer limited by these items. Among other financial covenants, the Line of Credit agreement provides that the Company must maintain a fixed charge ratio of coverage (EBITDA to total fixed charges) of not less than 1.25 to 1.0, determined quarterly, and restricts the payment of dividends to no more than 50% of the Company's net income. The Line of Credit is collateralized by inventory, accounts receivable, equipment and fixtures and general intangibles.

Subsequent to September 30, 2012, the Company signed the Second Amendment to the Amended and Restated Revolving Credit and Term Loan Agreement with its primary financial lender dated November 30, 2012. Among other things, this amendment extended the Line of Credit maturity to November 30, 2013. In addition, this amendment removed the payment of dividends restriction. The Line of Credit remains at \$7.0 million, and the interest rate remains at the prevailing 30-day LIBOR rate plus 2.75%.

The carrying value of the Company's borrowings approximates fair value since the interest rate fluctuates periodically based on a floating interest rate.

Note 7 – Derivative Financial Instruments

On November 27, 2007, the Company entered into an interest rate swap agreement on the \$16.3 million term loan 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. On March 12, 2012, the Company terminated the interest rate swap agreement for \$0.8 million in connection with paying off the associated term loan as discussed above. The termination payment was recorded as interest expense.

Note 8 – Stock-Based Compensation and Preferred Stock

Plan Information

The 1998 Incentive Stock Plan (the "Plan") provides for awards of stock options and restricted stock to officers, directors, key employees and consultants. 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, 2012, 1,024,656 million shares of common stock were reserved for the exercise of, or lapse of restrictions on, stock awards under the Plan. Of these reserved shares, 306,956 shares were available for future grants.

Stock Options

Stock options are accounted for in accordance with the provisions of FASB ASC 718, Stock Compensation. FASB ASC 718 requires all share-based payments to employees, including grants of employee stock options, be recognized in financial statements based on their grant date fair value over the requisite service period. Compensation expense for stock-based awards is included in the operating, selling, general and administrative expense section of the consolidated statements of income and comprehensive income.

Stock options are valued at the date of the award, which does not precede the approval date, and compensation cost is recognized on a straight-line basis over the vesting period. Stock options granted to employees generally become exercisable over a four-year period from the date of grant and generally expire ten years after the date of grant. Stock options granted to the Board of Directors generally become exercisable on the date of grant and generally expire ten years after the date of grant.

A summary of the status of the Company's stock options at September 30, 2012 and changes during the year then ended is presented below:

	Options	Weighted Average Exercise Price	Aggregate Intrinsic Value
Outstanding at September 30, 2011	122,000	\$3.57	
Granted	250,000	\$2.45	
Exercised	(2,000)	\$0.81	\$2,640
Expired	–	\$–	
Forfeited	–	\$–	
Outstanding at September 30, 2012	370,000	\$2.83	\$1,100
Exercisable at September 30, 2012	120,000	\$3.62	\$1,100

The total intrinsic value of options exercised was \$2,640, \$5,670 and \$0 for the years ended September 30, 2012, 2011 and 2010, respectively.

Information about the Company's outstanding and exercisable stock options at September 30, 2012 is as follows:

Exercise Price	Stock Options Outstanding	Exercisable Stock Options Outstanding	Remaining Contractual Life
\$2.450	250,000	–	9.5 years
\$3.001	70,000	70,000	5.9 years
\$3.450	15,000	15,000	4.4 years
\$5.780	15,000	15,000	3.4 years
\$4.620	15,000	15,000	2.4 years
\$4.400	3,000	3,000	1.4 years
\$1.650	2,000	2,000	0.4 years
	370,000	120,000	

In the third quarter of fiscal year 2012, the Company granted nonqualified stock options to executives of the Company totaling 250,000 shares. No nonqualified stock options were granted in fiscal year 2011 or 2010. The Company estimated the fair value of the options granted using the Black-Scholes option valuation model and the assumptions shown in the table below. The Company estimated the expected term of options granted based on the historical grants and exercises of the Company's options. The Company estimated the volatility of its common stock at the date of the grant based on both the historical volatility as well as the implied volatility on its common stock, consistent with SFAS 123(R) and Securities and Exchange Commission Staff Accounting Bulletin No. 107. The Company based the risk-free rate that was used in the Black-Scholes option valuation model on the implied yield in effect at the time of the option grant on U.S. Treasury zero-coupon issues with equivalent expected terms. The Company has never paid cash dividends on its common stock and does not anticipate paying any cash dividends in the foreseeable future. Consequently, the Company used an expected dividend yield of zero in the Black-Scholes option valuation model. The Company amortizes the resulting fair value of the options ratably over the vesting period of the awards. The Company used historical data to estimate the pre-vesting options forfeitures and records share-based expense only for those awards that are expected to vest.

The estimated fair value at date of grant for stock options utilizing the Black-Scholes option valuation model and the assumptions that were used in the Black-Scholes option valuation model for the fiscal year 2012 stock option grants are as follows:

	2012	
Estimated fair value of options at grant date	\$267,925	
Black-Scholes model assumptions:		
Average expected life (years)	6	
Average expected volatility factor	41	%
Average risk-free interest rate	2.99	%
Average expected dividends yield	-	

Compensation expense related to stock options recorded for the years ended September 30, 2012, 2011 and 2010 is as follows:

	2012	2011	2010
Fiscal year 2008 grant	\$3,562	\$10,349	\$20,815
Fiscal year 2012 grant	61,176	-	-
Total compensation expense	\$64,738	\$10,349	\$20,815

The Company records compensation expense over the vesting term of the related options. At September 30, 2012, compensation costs related to these unvested stock options not yet recognized in the statements of operations was \$206,749.

Restricted stock

The Company granted restricted stock in March 2012 and 2010 to its Board of Directors totaling 31,969 shares and 27,150 shares, respectively, and in March and May 2011 to its Board of Directors and certain employees totaling 58,920 shares. The restricted stock grants were valued at market value on the date of grant. The restricted shares are delivered to the directors and employees at the end of the 12 month holding period. The fair value of the shares upon issuance totaled \$70,000, \$170,000 and \$60,000 for the 2012, 2011 and 2010 fiscal year grants, respectively. The grants are amortized over the 12 month holding period as compensation expense. Compensation expense related to restricted stock recorded for the years ended September 30, 2012, 2011 and 2010 is as follows:

	2012	2011	2010
Fiscal year 2009 grant	\$-	\$-	\$29,169
Fiscal year 2010 grant	-	25,000	35,000
Fiscal year 2011 grant	95,833	74,167	-
Fiscal year 2012 grant	40,833	-	-
	\$136,666	\$99,167	\$64,169

Note 9 – Retirement Plan

The Company sponsors a 401(k) plan that allows participation by all employees who are at least 21 years of age and have completed one year of service. The Company's contributions to the plan consist of a matching contribution as

determined by the plan document. Costs recognized under the 401(k) plan were \$0.2 million for each of the years ended September 30, 2012, 2011 and 2010.

Note 10 – Earnings per Share

Basic and diluted earnings per share for the years ended September 30, 2012, 2011 and 2010 are:

	2012	2011	2010
Net income attributable to common shareholders	\$1,250,492	\$2,536,307	\$4,186,449
Basic weighted average shares	10,196,241	10,175,213	10,132,658
Effect of dilutive securities:			
Stock options	1,255	3,550	3,952
Diluted weighted average shares	10,197,496	10,178,763	10,136,610
Earnings per common share:			
Basic	\$0.12	\$0.25	\$0.41
Diluted	\$0.12	\$0.25	\$0.41

The table below includes information related to stock options that were outstanding at the end of each respective year but have been excluded from the computation of weighted-average stock options for dilutive securities due to the option exercise price exceeding the average market price per share of our common stock for the fiscal year.

	2012	2011	2010
Stock options excluded	368,000	118,000	118,000
Weighted average exercise price of stock options	\$2.84	\$3.65	\$3.60
Average market price of common stock	\$2.22	\$2.73	\$2.49

Note 11 – Related Parties

The Company leased on a month-to-month basis one warehouse in Oklahoma from a company owned by David E. Chymiak and Kenneth A. Chymiak. The total payments made on the lease to this company were \$0.1 million for each of the years ended September 30, 2012, 2011 and 2010. This lease was terminated on September 30, 2012.

David E. Chymiak and Kenneth A. Chymiak beneficially owned 26% and 22%, respectively, of the Company's outstanding common stock at September 30, 2012.

Note 12 – Commitments and Contingencies

The Company leases and rents various office and warehouse properties in Oklahoma, Georgia, Kansas, North Carolina and Pennsylvania. The Oklahoma facility is a 56,000 square foot warehouse and was rented on a month-to-month basis from an entity that is controlled by David E. Chymiak and Kenneth A. Chymiak. This lease was terminated on September 30, 2012. The terms on its other operating leases in Georgia, Kansas, North Carolina and Pennsylvania vary but all mature in less than one year and contain renewal options or are rented on a month-to-month basis.

Rental payments associated with leased properties totaled approximately \$0.2 million for each of the years ended September 30, 2012, 2011 and 2010, respectively. The Company's minimum annual future obligations as of September 30, 2012 under all existing operating leases are \$4,000 for fiscal year 2013. The Company has no further minimum annual future obligations as all of its existing operating leases expire in fiscal year 2013.

Note 13 – Quarterly Results of Operations (Unaudited)

The following is a summary of the quarterly results of operations for the years ended September 30, 2012, 2011 and 2010:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal year ended 2012				
Net sales and service income	\$9,004,395	\$9,230,956	\$8,498,773	\$8,482,279
Gross profit	\$2,739,021	\$2,527,319	\$2,587,836	\$2,507,267
Net income (loss)	\$446,780	\$(76,279)	\$459,298	\$420,693
Basic earnings (loss) per common share	\$0.04	\$(0.01)	\$0.05	\$0.04
Diluted earnings (loss) per common share	\$0.04	\$(0.01)	\$0.05	\$0.04
Fiscal year ended 2011				
Net sales and service income	\$9,229,446	\$8,896,705	\$8,695,205	\$11,258,174
Gross profit	\$2,879,565	\$2,684,710	\$2,567,397	\$3,419,176
Net income	\$740,635	\$598,706	\$467,577	\$729,389
Basic earnings per common share	\$0.07	\$0.06	\$0.05	\$0.07
Diluted earnings per common share	\$0.07	\$0.06	\$0.05	\$0.07
Fiscal year ended 2010				
Net sales and service income	\$10,219,221	\$12,055,521	\$13,297,449	\$11,733,939
Gross profit	\$3,330,340	\$3,619,796	\$4,207,974	\$3,297,496
Net income	\$859,639	\$1,081,845	\$1,396,234	\$848,731
Basic earnings per common share	\$0.08	\$0.11	\$0.14	\$0.08
Diluted earnings per common share	\$0.08	\$0.11	\$0.14	\$0.08

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures.

We maintain disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e) and 15d-15(e)) that are designed to ensure that information required to be disclosed by us in the reports that we file or submit to the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified by the Commission's rules and forms, and that information is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Our Chief Executive Officer and Chief Financial Officer evaluated our disclosure controls and procedures as of September 30, 2012. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective.

Management's Annual Report on Internal Control over Financial Reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) and for the assessment of the effectiveness of internal control over financial reporting. Our internal control system was designed to provide reasonable assurance to our management and board of directors regarding the preparation and fair presentation of financial statements in accordance with accounting principles generally accepted in the United States. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorization of our management and board of directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of September 30, 2012. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control — Integrated Framework. Based on our assessment, we believe that, as of September 30, 2012, our internal control over financial reporting is effective based on those criteria.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit us to provide only management's report in this annual report.

Changes in Internal Control over Financial Reporting.

During the fourth quarter ended September 30, 2012, there has been no change in our internal controls over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by this item concerning our officers, directors, compliance with Section 16(a) of the Securities Exchange Act of 1934, as amended, Code of Business Conduct and Ethics and Audit Committee is incorporated by reference to the information in the sections entitled "Identification of Officers," "Election of Directors," "Section 16(a) Beneficial Ownership Reporting Compliance," "Code of Ethics" and "Audit Committee," respectively, of our Proxy Statement for the 2012 Annual Meeting of Shareholders to be filed with the Securities and Exchange Commission within 120 days after the end of our fiscal year ended September 30, 2012 (the "Proxy Statement"). A copy of our Code of Business Conduct and Ethics is posted on our website at www.addvantagetechologies.com.

Item 11. 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 the Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this item regarding security ownership and equity compensation plans is incorporated by reference to the information set forth in the section entitled "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" of the Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by this item regarding certain relationships and related transactions and director independence is incorporated by reference to the information set forth in the section entitled "Certain Relationships and Related Transactions" and "Board of Directors," respectively, of the Proxy Statement.

Item 14. Principal Accounting Fees and Services.

The information required by this item regarding principal accounting fees and services is incorporated by reference to the information set forth in the section entitled "Principal Accounting Fees and Services" of the Proxy Statement.

PART IV

Item 15. Exhibits, Financial Statements Schedules.

- (a) 1. The following financial statements are filed as part of this report in Part II, Item 8.

Report of Independent Registered Public Accounting Firm as of September 30, 2012 and 2011, and for the three years in the period ended September 30, 2012, 2011 and 2010.

Consolidated Balance Sheets as of September 30, 2012 and 2011.

Consolidated Statements of Income and Comprehensive Income for the years ended September 30, 2012, 2011 and 2010.

Consolidated Statements of Changes in Shareholders' Equity for the years ended September 30, 2012, 2011 and 2010.

Consolidated Statements of Cash Flows for the years ended September 30, 2012, 2011 and 2010.

Notes to Consolidated Financial Statements.

2. The following financial statement Schedule II – Valuation and Qualifying Accounts for the years ended September 30, 2012, 2011 and 2010 is filed as part of this report. All other financial statement schedules have been omitted because they are not applicable or are not required or the information required to be set forth therein is included in the financial statements or notes thereto contained in Part II, Item 8 of this current report.

Schedule II – Valuation and Qualifying Accounts

	Balance at Beginning of Year	Charged to Costs and Expenses	Write offs	Recoveries	Balance at End of Year
Year Ended September 30, 2012					
Allowance for Doubtful Accounts	\$300,000	–	(2,404)	2,404	\$300,000
Allowance for Excess and Obsolete Inventory	\$1,556,000	580,587	(1,136,587)	–	\$1,000,000
Year Ended September 30, 2011					
Allowance for Doubtful Accounts	\$300,000	3,453	(3,453)	–	\$300,000
Allowance for Excess and Obsolete Inventory	\$2,545,000	415,808	(1,404,808)	–	\$1,556,000
Year Ended September 30, 2010					
Allowance for Doubtful Accounts	\$300,000	26,162	(26,162)	–	\$300,000
Allowance for Excess and Obsolete Inventory	\$2,196,000	804,565	(455,565)	–	\$2,545,000

3. The following documents are included as exhibits to this Form 10-K.

Exhibit	Description
3.1	Certificate of Incorporation of the Company and amendments thereto incorporated by reference to Exhibit 3.1 to the Annual Report on Form 10-KSB filed with the Securities and Exchange Commission by the Company on January 10, 2003.
3.2	Bylaws of the Company, as amended, incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission by the Company on December 31, 2007.
4.1	Certificate of Designation, Preferences, Rights and Limitations of ADDvantage Media Group, Inc. Series A 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 and Exchange Commission by the Company on October 14, 1999.
10.1	The ADDvantage Media Group, Inc. 1998 Incentive Stock Plan, incorporated by reference to Appendix A to the Company's Proxy Statement relating to the Company's 1998 Annual Meeting, filed with the Securities and Exchange Commission on April 28, 1998.
10.2	First Amendment to ADDvantage Media Group, Inc. 1998 Incentive Stock Plan, incorporated by reference to Exhibit 4.4 to the Company's Registration Statement on Form S-8 filed with the Securities and Exchange Commission on November 20, 2003.
10.3	Senior Management Incentive Compensation Plan, incorporated by reference to the Current Report on Form 8-K filed with the Securities and Exchange Commission by the Company on March 9, 2007.
10.4	Employment Contract between the Company and Scott A. Francis, incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission by the Company on September 18, 2008.
10.5	Amended and Restated Revolving Credit and Term Loan Agreement dated November 30, 2010, incorporated by reference to Exhibit 10.6 to the Company's Form 10-K filed with the Securities and Exchange Commission on December 14, 2010.
10.6	Amendment One to Amended and Restated Revolving Credit and Term Loan Agreement dated November 30, 2011, incorporated by reference to Exhibit 10.6 to the Company's Form 10-K filed with the Securities and Exchange Commission on December 15, 2011.
10.7	Employment Agreement dated April 2, 2012 between the Company and David L. Humphrey, incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission by the Company on April 6, 2012.
10.8	Form of Non-Qualified Stock Option Agreement under the Company's 1998 Incentive Stock Plan as amended, incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed with the Securities and Exchange Commission by the Company on April 6, 2012.
10.9	Change in Control Agreement dated April 2, 2012 between the Company and Scott A. Francis, incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed with the Securities and Exchange Commission

by the Company on April 6, 2012.

10.10 Form of Restricted Stock Agreement under the Company's 1998 Incentive Stock Plan as amended, incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K filed with the Securities and Exchange Commission by the Company on April 6, 2012.

10.11 Amendment Two to Amended and Restated Revolving Credit and Term Loan Agreement dated November 30, 2012.

21.1 Listing of the Company's subsidiaries.

23.1 Consent of HoganTaylor LLP.

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002.

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002.

32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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101.INS XBRL Instance Document.

101.SCH XBRL Taxonomy Extension Schema.

101.CAL XBRL Taxonomy Extension Calculation Linkbase.

101.DEF XBRL Taxonomy Extension Definition Linkbase.

101.LAB XBRL Taxonomy Extension Label Linkbase.

101.PRE XBRL Taxonomy Extension Presentation Linkbase.

SIGNATURES

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

ADDvantage Technologies Group, Inc.

Date: December 11, 2012 By: /s/ David L. Humphrey
David L. Humphrey, President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, 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 11, 2012 /s/ Kenneth A.
Chymiak
Kenneth A. Chymiak, Chairman of the Board of Directors

Date: December 11, 2012 /s/ Scott A.
Francis
Scott A. Francis, Chief Financial Officer (Principal Financial Officer) and Director

Date: December 11, 2012 /s/ David E.
Chymiak
David E. Chymiak, Chief Technology Officer and Director

Date: December 11, 2012 /s/ Thomas J.
Franz
Thomas J. Franz, Director

Date: December 11, 2012 /s/ Paul F.
Largess
Paul F. Largess, Director

Date: December 11, 2012 /s/ James C.
McGill
James C. McGill, Director

Date: December 11, 2012 /s/ Stephen J.
Tyde
Stephen J. Tyde, Director

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