ADDVANTAGE TECHNOLOGIES GROUP INC
Form 10-Q
May 15, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED March 31, 2018

OR

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

FOR THE TRANSITION PERIOD FROM________________ TO ______________

Commission File number 1 10799

ADDvantage Technologies Group, Inc.
(Exact name of registrant as specified in its charter)

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

1221 E. Houston
Broken Arrow, Oklahoma 74012
(Address of principal executive office)
(918) 251-9121
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule12b-2 of the Exchange Act.

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

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

Shares outstanding of the issuer's $.01 par value common stock as of April 30, 2018 were 10,306,145.

ADDVANTAGE TECHNOLOGIES GROUP, INC.
Form 10-Q
For the Period Ended March 31, 2018

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	March 31, 2018	September 30, 2017
Assets		
Current assets:		
Cash and cash equivalents	$886,367	$3,972,723
Accounts receivable, net of allowance for doubtful accounts of $150,000	5,238,520	5,567,005
Income tax receivable	242,327	247,186
Inventories, net of allowance for excess and obsolete inventory of $3,000,000 and $2,939,289, respectively	22,339,874	22,333,820
Prepaid expenses	404,800	298,152
Total current assets	29,111,888	32,418,886
Property and equipment, at cost:		
Land and buildings	7,211,190	7,218,678
Machinery and equipment	3,982,014	3,995,668
Leasehold improvements	200,617	202,017
Total property and equipment, at cost	11,393,821	11,416,363
Less: Accumulated depreciation	(5,550,601)	(5,395,791)
Net property and equipment	5,843,220	6,020,572
Investment in and loans to equity method investee	100,000	98,704
Intangibles, net of accumulated amortization	7,920,865	8,547,487
Goodwill	5,970,244	5,970,244
Deferred income taxes	1,438,000	1,653,000
Other assets	135,753	138,712
Total assets	$50,519,970	$54,847,605

See notes to unaudited consolidated condensed financial statements.

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

	March 31, 2018	September 30, 2017
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$4,375,342	$3,392,725
Accrued expenses	996,326	1,406,722
Notes payable – current portion	2,853,916	4,189,605
Other current liabilities	650,622	664,325
Total current liabilities	8,876,206	9,653,377
Notes payable, less current portion	–	2,094,246
Other liabilities	784,181	1,401,799
Total liabilities	9,660,387	13,149,422
Shareholders' equity:		
Common stock, $.01 par value; 30,000,000 shares authorized; 10,806,803 and 10,726,653 shares issued, respectively; 10,306,145 and 10,225,995 shares outstanding, respectively	108,068	107,267
Paid in capital	(4,619,408)	(4,746,466)
Retained earnings	46,370,937	47,337,396
Total shareholders' equity before treasury stock	41,859,597	42,698,197
Less: Treasury stock, 500,658 shares, at cost	(1,000,014)	(1,000,014)
Total shareholders' equity	40,859,583	41,698,183
Total liabilities and shareholders' equity	$50,519,970	$54,847,605

See notes to unaudited consolidated condensed financial statements.

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2018	2017	2018	2017
Sales	$11,649,528	$11,294,756	$23,934,293	$23,390,582
Cost of sales	8,304,463	7,530,327	17,208,073	15,602,524
Gross profit	3,345,065	3,764,429	6,726,220	7,788,058
Operating, selling, general and administrative expenses	3,429,282	3,677,425	7,076,105	7,274,249
Income (loss) from operations	(84,217)	87,004	(349,885)	513,809
Other income (expense):				
Loss from equity method investment	(258,558)	–	(258,558)	–
Interest expense	(45,922)	(97,333)	(142,016)	(193,977)
Total other expense, net	(304,480)	(97,333)	(400,574)	(193,977)
Income (loss) before income taxes	(388,697)	(10,329)	(750,459)	319,832
Provision (benefit) for income taxes	(129,000)	(21,000)	216,000	92,000
Net income (loss)	$(259,697)	$10,671	$(966,459)	$227,832
Earnings (loss) per share:				
Basic	$(0.03)	$0.00	$(0.09)	$0.02
Diluted	$(0.03)	$0.00	$(0.09)	$0.02
Shares used in per share calculation:				
Basic	10,252,712	10,153,571	10,239,353	10,143,903
Diluted	10,252,712	10,156,426	10,239,353	10,145,112

See notes to unaudited consolidated condensed financial statements.

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

	Six Months Ended March 31,	
	2018	2017
Operating Activities		
Net income (loss)	$(966,459)	$227,832
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	197,352	217,886
Amortization	626,622	640,560
Provision for excess and obsolete inventories	60,711	284,577
Charge for lower of cost or net realizable value for inventories	27,026	51,637
Gain on disposal of property and equipment	(8,762)	–
Deferred income tax provision (benefit)	215,000	(25,000)
Share based compensation expense	75,360	87,002
Loss from equity method investment	258,558	–
Changes in assets and liabilities:		
Accounts receivable	328,485	75,535
Income tax receivable\payable	4,859	113,725
Inventories	(93,792)	219,268
Prepaid expenses	(54,148)	(55,560)
Other assets	2,959	(424)
Accounts payable	982,617	375,140
Accrued expenses	(410,396)	(365,778)
Other liabilities	35,679	70,240
Net cash provided by operating activities	1,281,671	1,916,640
Investing Activities		
Acquisition of net operating assets	–	(6,643,540)
Guaranteed payments for acquisition of business	(667,000)	(1,000,000)
Loan repayments from (loans to) equity method investee	(259,854)	2,227,387
Purchases of property and equipment	(35,138)	(130,150)
Disposals of property and equipment	23,900	–
Net cash used in investing activities	(938,092)	(5,546,303)
Financing Activities		
Proceeds from notes payable	–	4,000,000
Debt issuance costs	–	(16,300)
Payments on notes payable	(3,429,935)	(976,833)
Net cash provided by (used in) financing activities	(3,429,935)	3,006,867
Net decrease in cash and cash equivalents	(3,086,356)	(622,796)
Cash and cash equivalents at beginning of period	3,972,723	4,508,126
Cash and cash equivalents at end of period	$886,367	$3,885,330

Supplemental cash flow information:

Cash paid for interest	$129,655	$161,612
Cash paid for income taxes	$2,000	$–
Supplemental noncash investing activities:		
Deferred guaranteed payments for acquisition of business	$–	$(1,897,372)

See notes to unaudited consolidated condensed financial statements.

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

Note 1 - Basis of Presentation and Accounting Policies

Basis of presentation

The consolidated condensed financial statements include the accounts of ADDvantage Technologies Group, Inc. and its subsidiaries, all of which are wholly owned (collectively, the “Company” or “we”). Intercompany balances and transactions have been eliminated in consolidation. The Company’s reportable segments are Cable Television (“Cable TV”) and Telecommunications (“Telco”).

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial statements and do not include all the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. However, the information furnished reflects all adjustments, consisting only of normal recurring items which are, in the opinion of management, necessary in order to make the consolidated condensed financial statements not misleading. It is suggested that these consolidated condensed financial statements be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended September 30, 2017.

Reclassification

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

Recently Issued Accounting Standards

In May 2014, the FASB issued ASU No. 2014-09: “Revenue from Contracts with Customers (Topic 606)”. This guidance was issued to clarify the principles for recognizing revenue and develop a common revenue standard for U.S. GAAP and International Financial Reporting Standards (“IFRS”). In addition, in August 2015, the FASB issued ASU No. 2015-14: “Revenue from Contracts with Customers (Topic 606). This update was issued to defer the effective date of ASU No. 2014-09 by one year. Therefore, the effective date of ASU No. 2014-09 is for annual reporting periods beginning after December 15, 2017. Based on management’s assessment of ASU No. 2014-09, management does not expect that ASU No. 2014-09 will have a material impact on the Company’s consolidated financial statements as the Company’s contracts generally consist of a single performance obligation to deliver tangible goods. As part of the Company’s review of its contracts, the Company changed its processes for contract review of performance obligation contracts to help ensure the Company will be in compliance with this standard.

In February 2016, the FASB issued ASU No. 2016-02: “Leases (Topic 842)” which is intended to improve financial reporting about leasing transactions. This ASU will require organizations (“lessees”) that lease assets with lease terms of more than twelve months to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Organizations that own the assets leased by lessees (“lessors”) will remain largely unchanged from current GAAP. In addition, this ASU will require disclosures to help investors and other financial statement users better understand the amount, timing and uncertainty of cash flows arising from leases. The guidance is effective for annual periods beginning after December 15, 2018 and early adoption is permitted. Based on management’s initial assessment, ASU No. 2016-02 will have a material impact on the Company’s consolidated financial statements. Management reviewed its lease obligations and determined that the Company generally does not enter into long-term lease obligations with the exception of its real estate leases for its facilities. The Company is a lessee on certain real estate leases that will need to be reported as right of use assets and liabilities at an estimated amount of $3 million on the Company’s consolidated financial statements on the date of adoption.

In March 2016, the FASB issued ASU No. 2016-09: “Compensation – Stock Compensation (Topic 718)” which is intended to improve employee share-based payment accounting. This ASU identifies areas for simplification involving several aspects of accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, an option to recognize gross stock compensation expense with

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actual forfeitures recognized as they occur, as well as certain classifications on the statement of cash flows. The guidance is effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods. Early adoption is permitted. Management has determined that ASU No. 2016-09 will not have a material impact on the Company's consolidated financial statements. The Company does not currently have excess tax benefits or deficiencies from stock compensation expense. The Company adopted ASU No. 2016-09 on October 1, 2017.

In June 2016, the FASB issued ASU 2016-13: "Financial Instruments — Credit Losses (Topic 326) – Measurement of Credit Losses on Financial Instruments. This ASU requires entities to measure all expected credit losses for most financial assets held at the reporting date based on an expected loss model which includes historical experience, current conditions, and reasonable and supportable forecasts. Entities will now use forward-looking information to better form their credit loss estimates. This ASU also requires enhanced disclosures to help financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an entity's portfolio. ASU 2016-13 is effective for annual periods beginning after December 15, 2019, including interim periods within those fiscal periods. Entities may adopt earlier as of the fiscal year beginning after December 15, 2018, including interim periods within those fiscal years. We are currently in the process of evaluating this new standard update.

In August 2016, the FASB issued ASU 2016-15: "Statement of Cash Flows (Topic 230) – Classification of Certain Cash Receipts and Cash Payments." This ASU addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. The amendments in this ASU are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. Based on management's initial assessment of ASU No. 2016-15, the cash flows associated with guaranteed payments for acquisition of businesses will be reported as a financing activity in the Statement of Cash Flows, as opposed to an investing activity where it is currently reported.

In January 2017, the FASB issued ASU 2017-04: "Intangibles – Goodwill and Other (Topic 350) – Simplifying the Test for Goodwill Impairment." This ASU eliminates the second step in the goodwill impairment test which requires an entity to determine the implied fair value of the reporting unit's goodwill. Instead, an entity should recognize an impairment loss if the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, with the impairment loss not to exceed the amount of goodwill allocated to the reporting unit. This ASU is effective for annual and interim goodwill impairment tests conducted in fiscal years beginning after December 15, 2019, with early adoption permitted. The Company is currently evaluating methodology changes that may be required in performing its annual goodwill impairment assessment in connection with this ASU and any impact that these changes may have on the Company's financial statements.

Note 2 – Inventories

Inventories at March 31, 2018 and September 30, 2017 are as follows:

	March 31, 2018	September 30, 2017
New:		
Cable TV	$13,524,487	$14,014,188
Telco	1,244,424	990,218
Refurbished and used:		