ADDVANTAGE TECHNOLOGIES GROUP INC
Form 10-K
December 15, 2015

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

FORM 10-K

x ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended September 30, 2015

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

Commission file number 1-10799

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

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

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.	Yes o	No x
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.	Yes o	No x
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.	Yes x	No o

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

The aggregate market value of the outstanding shares of common stock, par value $.01 per share, held by non-affiliates computed by reference to the closing price of the registrant's common stock as of March 31, 2015 was $12,198,302.

The number of shares of the registrant's outstanding common stock, $.01 par value per share, was 10,063,563 as of November 30, 2015.

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 2016 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.

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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", "We" or "ADDvantage") 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", " "goals", "strategy", "likely", "may", "should" and similar expressions often identify forward-looking statements. The 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 and telecommunications 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

The Company was incorporated under the laws of Oklahoma in September 1989 as "ADDvantage Media Group, Inc." In December 1999, its name was changed to ADDvantage Technologies Group, Inc. Our headquarters are located in Broken Arrow, Oklahoma.

We (through our subsidiaries) distribute and service a comprehensive line of electronics and hardware for the cable television ("Cable TV") and telecommunications industries. We also provide equipment repair services to cable operators. In addition, we offer our telecommunications customers decommissioning services for surplus and obsolete equipment, which we in turn process through our recycling services.

Several of our subsidiaries, through their long-standing relationships with the original equipment manufacturers ("OEMs") and specialty repair facilities, have established themselves as value-added resellers ("VARs"). ADDvantage has a reseller agreement with Arris Solutions to sell cable television equipment in the United States. We are also one of only three distributors of Arris broadband products. We are a distributor of Cisco video products as a Cisco Premier Partner, which also allows us to sell Cisco's IT related products. In addition, we are designated as an authorized third party Cisco repair center for select video products. 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 sell surplus-new and refurbished equipment that we purchase in the market as a result of cable or telecommunications operator system upgrades or an overstock in their warehouses. We maintain one of the industry's largest inventories of new and used equipment, which allows us to expedite delivery of products to our customers. 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 Cable TV equipment.

Website Access to Reports

Our public website is addvantagetechnologies.com. We make available free of charge through the "Investor Relations" section of our website our annual reports to stockholders, annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission ("SEC"). Any material we file with or furnish to the SEC is also maintained on the SEC website (sec.gov).

The information contained on our website, or available by hyperlink from our website, is not incorporated into this Form 10-K or other documents we file with, or furnish to, the SEC. We intend to use our website as a means of disclosing material non-public information and for complying with our disclosure obligations under Regulation FD. Such disclosures will be included on our website in the "Investor Relations" section. Accordingly, investors should monitor such portions of our website, in addition to following our press releases, SEC filings and public conference calls and webcasts.

Operating Segments

The Company reports its financial performance based on two reporting segments: Cable Television ("Cable TV") and Telecommunications ("Telco").

The Cable TV segment sells new, surplus and refurbished cable television equipment to cable television operators (called multiple system operators or "MSOs") or other resellers that sell to these customers throughout North America, Central America, South America and, to a substantially lesser extent, other international regions that utilize the same technology. In addition, this segment also repairs cable television equipment for various Cable TV companies.

The Telco segment provides quality used telecommunication networking equipment to its world-wide customer base of telecommunications providers and resellers by utilizing its inventory from a broad range of manufacturers as well as other supply channels. In addition, this segment offers its customers decommissioning services for surplus and obsolete equipment, which it in turn processes through its recycling services.

Products and Services

Cable TV Segment

We offer our customers a wide range of new, surplus-new and refurbished products across the leading OEM suppliers in the industry 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 ("CPE") – CPE includes digital converters and modems that are boxes placed inside the home that receive, record and transmit video, data and telephony signals. They are the primary interface equipment between the cable operator and the consumer.

Test Equipment – Test equipment is used in the set-up, signal testing and maintenance of electronic equipment and the overall support of the cable television plant. Test equipment is vital in maintaining the proper function and efficiency of this electronic equipment, which helps to provide high quality video, telephone and high speed data to the end user.

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

We also offer repair services for most brands of cable equipment at our seven service centers.

Telco Segment

We offer our customers a wide range of used telecommunication equipment across most major manufacturers consisting primarily of component parts to expand capacity, provide spares or replace non-working components.

Central Office Equipment – Central office equipment includes optical, switching, and data equipment on a customer's communication network. Optical equipment products aggregate and transport internet traffic, switching equipment products originate, terminate and route voice traffic, and data equipment products transport internet and voice over internet protocol ("VOIP") traffic via routers.

Customer Premise Equipment – CPE includes integrated access devices, channel banks and routers that are placed inside the customer site that will receive the communication signal from the communication services provider.

In addition, we offer our customers decommissioning services for surplus and obsolete equipment, which we then process through our Responsible Recycling ("R2")-certified recycling program.

Revenues by Geographic Area

Our revenues by geographic areas were as follows:

	2015	2014	2013
United States			
Cable TV	$23,975,197	$25,738,706	$27,541,137
Telco (a)	16,031,293	6,533,458	–
Canada, Central America, Asia, Europe, Mexico, South America and Other			
Cable TV	1,418,488	1,465,514	1,136,214
Telco (a)	2,308,642	2,151,014	–
	$43,733,620	$35,888,692	$28,677,351

(a) The Telco segment revenues for fiscal year 2014 are from February 28, 2014 through September 30, 2014.

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 2015, Cable TV segment sales of new products represented 68% of Cable TV segment revenues and refurbished product sales represented 19%. Repair and other services contributed the remaining 13% of Cable TV segment revenues. Telco segment sales of refurbished products represented 93% of Telco segment revenues. Recycle sales and other services contributed the remaining 7% of Telco segment revenues.

We market and sell our products to franchise and private MSOs, telecommunication companies, system contractors and other resellers. Our sales and marketing are predominantly performed by our experienced internal sales and customer service staff as well as our 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 and advertising in trade journals.

We maintain a wide breadth of inventory of new and used products and many times can offer our customers same day shipments. We carry one of the most diverse inventories of any cable television or telecommunication product reseller in the country, and we also have access to additional 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.

Suppliers

In fiscal year 2015, the Cable TV segment purchased approximately 18% of its total inventory purchases directly from Arris Solutions and approximately 26% of its total inventory purchases either directly from Cisco or indirectly through Cisco's primary stocking distributor. In addition to purchasing inventory from OEMs, this segment also purchases used or surplus-new inventory from MSOs, who have upgraded or are in the process of upgrading their systems, and from other resellers in this business.

In fiscal year 2015, the Telco segment purchased approximately 11% of its total inventory purchases from Westworld Telecom. This segment of our business primarily purchases its used inventory from telecommunication companies that have excess equipment on hand or have upgraded their systems or from other resellers in this segment.

Seasonality

In the Cable TV segment, many of the products that we sell are installed outdoors and can be damaged by storms and power surges. Consequently, we can 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.

In the Telco segment, we do not anticipate that quarterly operating results will generally be impacted by seasonal fluctuations.

Competition

The overall telecommunications equipment industry is highly competitive. We compete with numerous resellers in the marketplace and declines in the economy have reduced the amount of capital expenditures in our industry, which heightens the competition. In addition, especially for the Cable TV segment, we sell current production products in competition with the OEMs.

Cable TV Segment

We believe we have differentiated ourselves from the OEMs, other resellers and repair operations in the marketplace in the following ways:

- we sell both new and refurbished Cable TV equipment as well as repair what we sell, while most of our competition does not offer all of these services;
- we stock both new and refurbished inventory;
- we stock a wide breadth of inventory, which many of our competitors do not due to working capital constraints;
- we can reconfigure new and refurbished equipment to meet the different needs of our customers;
- we can meet our customers' timing needs for product due to our inventory on hand; and

- we have experienced sales support staff that have the technical know-how to assist our customers regarding solutions for various products and configurations.

In terms of sales and inventory on hand or available via our supply channels, we believe we are one of the largest resellers in this industry, providing both sales and service of new and refurbished Cable TV 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 time frame than the OEM.

Telco Segment

For the Telco segment, we believe our differentiation from other resellers in the marketplace is primarily the following:

- we stock a broad range of used inventory, which allows us to meet our customers' timing needs;
- we have experienced sales support staff that have strong relationships with our customers and technical knowledge of the products we offer;
- we have the following quality certifications: TL9000 (telecommunications quality certification), ISO 14001 (environmental management certification), OHSAS18000 (occupational safety and health management certification), and R2 (EPA responsible recycling practices for electronics); and
- we provide multiple services for our customers including deinstallation and decommission of products, storage and management of spares inventory and recycling.

Working Capital Practices

Working capital practices in our business center on inventory and accounts receivable. We choose to carry a relatively large volume of inventory due to our on-hand, on-demand business model. We typically utilize excess cash flows to reinvest in inventory to maintain or 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. In 2015, we increased our inventory $1.4 million (before excess and obsolescence reserves) due primarily to increasing our Telco segment inventory $2.4 million due in large part to purchasing previously consigned inventory, partially offset by a decreased inventory position in our Cable TV segment. Currently, we are not anticipating increasing our inventory levels any further, but are instead working to decrease our inventory position. Our working capital requirements are generally met by cash flows 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 sold our equipment and services to approximately 1,300 customers in fiscal year 2015. We are not dependent on one or a few customers to support our business on an on-going basis. Sales to our largest customer accounted for approximately 9% of our consolidated sales in fiscal year 2015, while our sales to our largest five customers were 26% of our consolidated sales in fiscal year 2015, three of which were in the Cable TV segment and two were in the Telco segment.

Personnel

At September 30, 2015, we had 156 employees, including 152 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.

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Item 2. Properties.

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

Cable TV Segment

- Broken Arrow, Oklahoma – We own a facility in a suburb of Tulsa consisting of our headquarters, additional offices, 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, we also constructed a 62,500 square foot warehouse facility on the rear of our existing property in Broken Arrow, OK, with an investment of $1.6 million, financed with cash flows from operations.

- Deshler, Nebraska – We own a facility near Lincoln consisting of land and an office, warehouse and service center of approximately 8,000 square feet.

- Warminster, Pennsylvania – We own a facility in a suburb of Philadelphia consisting of an office, warehouse and service center of approximately 12,000 square feet, with an investment of $0.6 million. We also lease property of approximately 2,000 square feet, with monthly rental payments of $1,425 through December 31, 2015. We also rent on a month-to-month basis another property of approximately 2,000 square feet, with monthly rental payments of $1,325.

- Sedalia, Missouri – We own a facility near Kansas City consisting of land and an office, warehouse and service center of approximately 24,300 square feet. In 2007, we also constructed an 18,000 square foot warehouse facility on the back of our existing property in Sedalia, MO, with an investment of $0.4 million.

- New Boston, Texas – We own a facility near Texarkana consisting of land and an office, warehouse and service center of approximately 13,000 square feet.

- Suwanee, Georgia – We rent on a month-to-month basis a facility in a suburb of Atlanta consisting of an office and service center of approximately 5,000 square feet, with monthly rental payments of $3,060.

- Phoenix, Arizona – We lease a facility in Phoenix, Arizona consisting of an office, service center and warehouse of approximately 6,300 square feet, with monthly rental payments of $3,565, $3,690, and $3,815 plus common area operating expenses of approximately $1,500 through May 31, 2016, 2017 and 2018, respectively.

Telco Segment

- Jessup, Maryland – We lease a facility in a suburb of Baltimore consisting of an office, warehouse, and service center of approximately 88,000 square feet, with monthly rental payments of $41,000 increasing each year by 2.5% through November 30, 2023.

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 Registrant's 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, 2015	High	Low
First Quarter	$2.70	$2.24
Second Quarter	$2.49	$2.18
Third Quarter	$2.49	$2.27
Fourth Quarter	$2.40	$2.20
Year Ended September 30, 2014	High	Low
First Quarter	$3.28	$2.41
Second Quarter	$3.42	$2.55
Third Quarter	$3.55	$2.55
Fourth Quarter	$2.80	$2.25

Holders

At November 30, 2015, we had approximately 70 shareholders of record and, based on information received from brokers, there were approximately 2,000 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, 2015:

Plan Category	Number of securities to be issued upon exercise of outstanding options,	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))

	warrants and rights (a)		(c)
Equity compensation plans approved by security holders	535,000	$2.88	539,883
Equity compensation plans not approved by security holders	0	0	0
Total	535,000	$2.88	539,883

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Item 6. Selected Financial Data.

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

	Fiscal Year Ended September 30,				
	2015	2014	2013	2012	2011
Sales	$43,734	$35,889	$28,677	$29,677	$36,145
Income from operations	$2,576	$1,097	$2,896	$2,619	$4,754
Income from continuing operations	$1,498	$659	$1,772	$939	$2,431
Continuing operations earnings per share					
Basic	$0.15	$0.07	$0.18	$0.09	$0.24
Diluted	$0.15	$0.07	$0.18	$0.09	$0.24
Total assets	$51,973	$53,406	$43,116	$42,033	$52,888
Long-term obligations inclusive of current maturities	$5,240	$6,086	$1,503	$1,687	$12,058

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

The Company reports its financial performance based on two external reporting segments: Cable Television and Telecommunications. These reportable segments are described below.

Cable Television ("Cable TV")

The Company’s Cable TV segment sells new, surplus and refurbished cable television equipment to cable MSOs throughout North America, Central America and South America. Our Cable TV segment is a Premier Partner for Cisco’s products, which allows them to sell both video-related and IT-related products in the United States and a leading distributor of Arris broadband products. The Cable Television segment also distributes products from other OEMs including Alpha, Blonder-Tongue, RL Drake, Corning-Gilbert, Promax, Quintech, Standard and Triveni Digital. In addition, we also operate technical service centers that offer repair services for our cable MSO customers on most products that we sell.

Telecommunications ("Telco")

The Company's Telco segment sells used telecommunications networking equipment from a wide range of manufacturers. We have an extensive stock on hand in order to serve our telecommunications customers. We primarily resell our inventory in North America, but we have a worldwide customer base, which we are actively trying to expand, especially in the European market. In addition, this segment offers its customers decommissioning services for surplus and obsolete equipment, which it then processes through its recycling services.

Recent Business Developments

Business Strategy

In fiscal year 2015, we continued to execute on our growth strategy of organic growth and acquisitions. Our Cable TV segment has experienced top-line revenue declines since 2008 due to decreased plant expansions and bandwidth equipment upgrades as a result of lower new housing developments and an overall lower cable television subscriber base. In addition, in the last quarter of fiscal year 2015, we observed a general weakness in the industry, which further negatively impacted our sales, and we anticipate that this revenue decline will continue into fiscal year 2016. For the Cable TV segment, our growth strategy is primarily focused on organic growth in order to gain market share in a shrinking capital equipment expenditure market. We seek to increase this business segment primarily along three major fronts: 1) expand product offerings among existing OEM vendors, 2) add additional vendors to our product offering mix and 3) expand our sales force.

Our Telco segment was formed when we acquired Nave Communications in February 2014. Our Telco segment continued to increase its top-line revenue performance in fiscal year 2015. We have expanded the inventory base in fiscal year 2015 in order to better serve our telecommunication's customers. We believe that this segment will continue to grow both top-line revenue and operating income by expanding sales to new and existing telecommunication end-user customers. This growth will be driven by increasing our sales force and utilizing our on-hand inventory supply and extensive supplier network to support our overall sales efforts. In addition, in fiscal year 2015, the Telco segment also received its R2 certification, which will allow them to grow their recycling efforts as well.

In addition to organically growing our existing businesses, we are seeking additional acquisition opportunities that will enable us to expand the scope of our business within the broader telecommunications industry. We believe that the current state of the industry provides opportunities for expansion of our business through acquisitions. In fiscal 2015, we engaged an investment banker to help us identify a strategic acquisition. We will continue to evaluate companies in the telecommunications market and are optimistic that we will identify and execute a strategic acquisition. 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.

Results of Operations

Year Ended September 30, 2015, compared to Year Ended September 30, 2014 (all references are to fiscal years)

Consolidated

Consolidated sales increased $7.8 million, or 22%, to $43.7 million for 2015 from $35.9 million for 2014. The increase in sales was due to an increase in the Telco segment of $9.6 million primarily resulting from the Nave Communications acquisition in February 2014, partially offset by a decrease in the Cable TV segment of $1.8 million.

Consolidated gross profit increased $3.7 million, or 32%, to $15.3 million for 2015 from $11.6 million for 2014. The increase in gross profit was due to an increase in the Telco segment of $3.5 million as a result of the Nave Communications acquisition, and an increase in the Cable TV segment of $0.2 million.

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 $2.2 million, or 21%, to

$12.7 million for 2015 compared to $10.5 million for 2014. This increase was primarily due to increased expenses of the Telco segment of $2.7 million, which was a result of the Nave Communications acquisition, offset by a decrease in Cable TV segment expenses of $0.5 million.

Interest expense increased $0.1 million to $0.3 million for 2015 from $0.2 million for the same period last year. The increase was due primarily to interest expense incurred on the $5.0 million term loan entered into in connection with the Nave Communications acquisition.

The provision for income taxes from continuing operations increased by $0.6 million to $0.8 million, or an effective rate of 34%, for 2015 from $0.2 million, or an effective rate of 25%, for the same period last year. The 2014 provision for income taxes includes an adjustment to the federal tax provision for an additional deduction for state income taxes with an impact of approximately $40 thousand.

Segment results

Cable TV

Sales for the Cable TV segment decreased $1.8 million, or 7%, to $25.4 million for the year ended September 30, 2015 from $27.2 million for the same period last year. The decrease in sales was primarily due to a decrease of $1.0 million, $0.4 million and $0.4 million in new equipment sales, refurbished equipment sales, and repair service revenues, respectively.

In spite of lower sales, gross profit increased $0.2 million, or 3%, to $8.0 million for the year ended September 30, 2015 from $7.8 million for the same period last year. Gross margin was 32% for 2015 and 29% for 2014. The increase in gross margin was primarily due to higher gross margins on refurbished equipment sales.

Operating, selling, general and administrative expenses decreased $0.5 million, or 7%, to $5.8 million for the year ended September 30, 2015 from $6.3 million for the same period last year. The decrease was due primarily to lower allocations of corporate overhead to this segment of $0.3 million and lower payroll-related costs of $0.2 million.

Telco

Sales for the Telco segment increased $10.1 million, or 116%, to $18.8 million for the year ended September 30, 2015 from $8.7 million for the same period last year primarily as a result of the acquisition of Nave Communications. The increase in sales resulted from an increase in used equipment sales of $10.0 million and recycling revenue of $0.1 million.

Gross profit increased $3.5 million, or 90%, to $7.3 million for the year ended September 30, 2015 from $3.8 million for the same period last year. Gross margin was 39% for 2015 and 44% for 2014. The decrease in the gross margin was primarily due to lower margins on recycling revenue as a result of lower commodity prices.

Operating, selling, general and administrative expenses increased $2.7 million, or 63%, to $6.9 million for the year ended September 30, 2015 from $4.2 million for the same period last year. The increase in expenses was primarily to the acquisition of Nave Communications. In addition, these expenses included $0.7 million and $0.4 million for 2015 and 2014, respectively, for earn-out payments related to the Nave Communications acquisition. In March 2015, we made our first of three earn-out payments for $0.7 million, which was equal to 70% of Nave Communications' annual adjusted EBITDA in excess of $2.0 million for the twelve month period ending February 28, 2015. We will make earn-out payments in March 2016 and 2017, which we estimate will be between $0.8 million and $1.5 million each. Also, in 2014, these expenses included $0.6 million of direct costs in connection with the acquisition of Nave Communications, which are not expected to recur.

Discontinued Operations

Loss from discontinued operations, net of tax, was zero for the year ended September 30, 2015 compared to $36 thousand for the same period last year. This activity included the operations of AGC prior to the sale on January 31, 2014.

Loss on sale of discontinued operations, net of tax, was $0.6 million for the year ended September 30, 2014. This loss consisted of a pretax loss of $0.9 million from the sale of the net assets of AGC on January 31, 2014 for $2 million in cash and a pretax loss of $0.1 million from the sale of the AGC facility on June 30, 2014 for $1.5 million in cash.

Non-GAAP Financial Measure

EBITDA is a supplemental, non-GAAP financial measure. EBITDA is defined as earnings before interest expense, income taxes, depreciation and amortization. EBITDA is presented below because this metric is used by the financial community as a method of measuring our financial performance and of evaluating the market value of companies considered to be in similar businesses. Since EBITDA is not a measure of performance calculated in accordance with GAAP, it should not be considered in isolation of, or as a substitute for, net earnings as an indicator of operating performance. EBITDA, as calculated below, may not be comparable to similarly titled measures employed by other companies. In addition, EBITDA is not necessarily a measure of our ability to fund our cash needs.

A reconciliation by segment of operating income (loss) to EBITDA follows:

	Year Ended September 30, 2015			Year Ended September 30, 2014		
	Cable TV	Telco	Total	Cable TV	Telco	Total
Operating income (loss)	$2,210,414	$365,796	$2,576,210	$1,492,100	$(395,001)	$1,097,099
Depreciation	296,876	111,827	408,703	293,353	66,926	360,279
Amortization	–	825,805	825,805	–	481,722	481,722
EBITDA (a)	$2,507,290	$1,303,428	$3,810,718	$1,785,453	$153,647	$1,939,100

(a) The Telco segment for the year ended September 30, 2014 includes acquisition-related costs of $0.6 million related to the acquisition of Nave Communications.

Year Ended September 30, 2014, compared to Year Ended September 30, 2013

Consolidated

Consolidated sales increased $7.2 million, or 25%, to $35.9 million for 2014 from $28.7 million for 2013. The increase in net sales was a result of the addition of the Telco segment of $8.7 million as a result of the Nave Communications acquisition, partially offset by a decrease in the Cable TV segment of $1.5 million.

Consolidated gross profit increased $2.9 million, or 33%, to $11.6 million for 2014 from $8.7 million for 2013. The increase in gross profit was due primarily to the addition of the Telco segment of $3.8 million as a result of the Nave Communications acquisition, partially offset by a decrease in the Cable TV segment of $0.9 million.

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 $4.7 million, or 81%, to $10.5 million for 2014 compared to $5.8 million for 2013. This increase was primarily due to increased expenses of the Cable TV segment of $0.5 million and the Telco segment of $4.2 million, which was a result of the Nave Communications acquisition.

Interest expense increased $0.2 million to $0.2 million for 2014 from $26,000 for the same period last year. The increase was due primarily to interest expense incurred on the $5.0 million term loan entered into in connection with the Nave Communications acquisition.

The provision for income taxes from continuing operations decreased by $0.9 million to $0.2 million, or an effective rate of 25.0%, for 2014 from $1.1 million, or an effective rate of 38.3%, for the same period last year. The 2014 provision for income taxes includes an adjustment to the federal tax provision for an additional deduction for state income taxes with an impact of approximately $40 thousand.

Segment results

Cable TV

Sales for the Cable TV segment decreased $1.5 million, or 5%, to $27.2 million for the year ended September 30, 2014 from $28.7 million for the same period last year. The decrease in sales was primarily due to a decrease of $0.7 million, $0.6 million and $0.2 million in new equipment sales, refurbished equipment sales, and repair service revenues, respectively.

Gross profit decreased $0.9 million, or 11%, to $7.8 million for the year ended September 30, 2014 from $8.7 million for the same period last year. The decrease in gross profit was primarily due to lower sales. Gross margin was 29% for 2014 and 30% for 2013.

Operating, selling, general and administrative expenses increased $0.5 million, or 8%, to $6.3 million for the year ended September 30, 2014 from $5.8 million for the same period last year. The increase was due primarily to increased personnel costs as a result of expanding our sales force in 2014.

Telco

Sales for the Telco segment were $8.7 million for the year ended September 30, 2014 and zero for the same period last year as a result of the acquisition of Nave Communications. Sales for the Telco segment consisted of $7.5 million of used equipment sales and $1.2 million of recycling revenue. Gross margin was 44% for the year ended September 30, 2014.

Operating, selling, general and administrative expenses were $4.2 million for the year ended September 30, 2014. These expenses included $0.6 million of direct costs in connection with the acquisition of Nave Communications.

Discontinued Operations

Loss from discontinued operations, net of tax, was $36 thousand for the year ended September 30, 2014 compared to $100 thousand for the same period last year. This activity included the operations of AGC prior to the sale on January 31, 2014.

Loss on sale of discontinued operations, net of tax, was $0.6 million for the year ended September 30, 2014. This loss consisted of a pretax loss of $0.9 million from the sale of the net assets of AGC on January 31, 2014 for $2 million in cash and a pretax loss of $0.1 million from the sale of the AGC facility on June 30, 2014 for $1.5 million in cash.

Non-GAAP Financial Measure

EBITDA is a supplemental, non-GAAP financial measure. EBITDA is defined as earnings before interest expense, income taxes, depreciation and amortization. EBITDA is presented below because this metric is used by the financial community as a method of measuring our financial performance and of evaluating the market value of companies considered to be in similar businesses. Since EBITDA is not a measure of performance calculated in accordance with GAAP, it should not be considered in isolation of, or as a substitute for, net earnings as an indicator of operating performance. EBITDA, as calculated below, may not be comparable to similarly titled measures employed by other companies. In addition, EBITDA is not necessarily a measure of our ability to fund our cash needs.

A reconciliation by segment of operating income (loss) to EBITDA follows:

	Year Ended September 30, 2014			Year Ended September 30, 2013		
	Cable TV	Telco	Total	Cable TV	Telco	Total
Operating income (loss)	$1,492,100	$(395,001)	$1,097,099	$2,896,254	$–	$2,896,254
Depreciation	293,353	66,926	360,279	276,356	–	276,356
Amortization	–	481,722	481,722	–	–	–
EBITDA (a)	$1,785,453	$153,647	$1,939,100	$3,172,610	$–	$3,172,610

(a) The Telco segment for the year ended September 30, 2014 includes acquisition-related costs of $0.6 million related to the acquisition of Nave Communications.

Liquidity and Capital Resources

Cash Flows Provided by Operating Activities

We generally finance our operations primarily through cash flows provided by operations, and we also have available to us a bank line of credit of $7.0 million. During 2015, we generated $2.8 million of cash flows from operations. The cash flows from operations was favorably impacted by a $2.1 million reduction in accounts receivable. Our accounts receivable decreased from 2014 due primarily to decreased sales during the fourth quarter of 2015 as compared to the fourth quarter of 2014. The cash flows from operations was unfavorably impacted by $1.4 million from a net increase in inventory due primarily to purchases of used telecommunications equipment and by $1.1 million from a net decrease in accounts payable. The decrease in accounts payable was due primarily to the timing of inventory purchases.

During 2015, we increased the earn-out liability related to the Nave Communications acquisition by $0.7 million, for which the outstanding portion of this liability is included in accrued expenses. The earn-out is equal to 70% of Nave Communications adjusted EBITDA earnings in excess of $2.0 million for the twelve month period beginning March 1 each year. In March 2015, we paid $0.7 million for the first of three annual Nave Earn-out payments. We estimate the remaining two annual payments will be between $0.8 million and $1.5 million each.

Cash Flows Used in Investing Activities

During 2015, cash used in investing activities was $1.2 million. In March 2015, we paid $1.0 million for the first of three annual installment payments to the Nave Communications owners for deferred consideration resulting from the Nave Communications acquisition. The deferred consideration, which consisted of $3.0 million to be paid in equal annual installments over the three years, is recorded at its present value of $1.8 million at September 30, 2015. During 2015, cash used in investing activities was $0.2 million related to capital expenditures.

Cash Flows Used in Financing Activities

During 2015, cash used in financing activities was $0.8 million. We made principal payments of $0.8 million on our two term loans under our Credit and Term Loan Agreement with our primary lender. The first term loan requires monthly payments of $15,334 plus accrued interest through November 2021. Our second term loan is a five year term loan with a seven year amortization payment schedule with monthly principal and interest payments of $68,505 through March 2019.

At September 30, 2015, there was not a balance outstanding under our 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, 2015). Any future borrowings under the revolving credit facility are due at maturity.

Subsequent to September 30, 2015, the Company signed the Sixth Amendment to the Amended and Restated Revolving Credit and Term Loan Agreement with its primary financial lender dated November 27, 2015. This amendment extended the Line of Credit maturity to March 31, 2017. The Line of Credit remains at $7.0 million, and the interest rate remains at the prevailing 30-day LIBOR rate plus 2.75%.

We believe that our cash and cash equivalents of $6.1 million at September 30, 2015, cash flows from operations and our existing line of credit provide sufficient liquidity and capital resources to meet our working capital and debt payment needs.

Critical Accounting Policies and Estimates

Note 1 to the Consolidated Financial Statements in this Form 10-K for fiscal year 2015 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, telecommunication providers and other users of cable television and telecommunication equipment who are seeking products for which manufacturers have discontinued production or cannot ship new equipment on a same-day basis as well as providing used products as an alternative to new products from the manufacturer. Carrying these large inventory quantities represents our largest risk.

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.

Our inventories consist 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, 2015, we had total inventory, before the reserve for excess and obsolete inventory, of $26.4 million, consisting of $16.3 million in new products and $10.1 million in used or refurbished products.

For the Cable TV segment, our reserve at September 30, 2015 for excess and obsolete inventory was $2.8 million, which reflects an increase of $0.6 million. 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 materially adversely affected.

For the Telco segment, we do not maintain an inventory reserve as we recycle any surplus and obsolete equipment on hand through our recycling program when it is identified.

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, 2015 and $0.2 million at September 30, 2014. At September 30, 2015, accounts receivable, net of allowance for doubtful accounts, was $4.3 million.

Goodwill

Goodwill represents the excess of purchase price of acquisitions over the acquisition date fair value of the net assets of businesses acquired. Goodwill is not amortized and is tested at least annually for impairment. We perform our annual analysis during the fourth quarter of each fiscal year and in any other period in which indicators of impairment warrant additional analysis. Goodwill is evaluated for impairment by first comparing our estimate of the fair value of each reporting unit, or operating segment, with the reporting unit's carrying value, including goodwill. Our reporting units for purposes of the goodwill impairment calculation are the Cable TV operating segment and the Telco operating segment.

Management utilizes a discounted cash flow analysis to determine the estimated fair value of each reporting unit. Significant judgments and assumptions including the discount rate and anticipated revenue growth rate, gross margins and operating expenses are inherent in these fair value estimates, which are based on historical operating results. As a result, actual results may differ from the estimates utilized in our discounted cash flow analysis. The use of alternate judgments and/or assumptions could result in the recognition of different levels of impairment charges in the financial statements. If the carrying value of one 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. If an impairment charge is incurred, it would negatively impact our results of operations and financial position.

We performed our annual impairment test for both reporting units in the fourth quarter of 2015 and determined that the fair value of our reporting units significantly exceeded their carrying values. Therefore, no impairment existed as of September 30, 2015.

We did not record a goodwill impairment for either of our two reporting units in the three year period ended September 30, 2015. Although we do not anticipate a future impairment charge, certain events could occur that might adversely affect the reported value of goodwill. Such events could include, but are not limited to, economic or competitive conditions, a significant change in technology, the economic condition of the customers and industries we serve, a significant decline in the real estate markets we operate in, and a material negative change in the relationships with one or more of our significant customers or equipment suppliers. If our judgments and assumptions change as a result of the occurrence of any of these events or other events that we do not currently anticipate, our expectations as to future results and our estimate of the implied value of each reporting unit also may change.

Intangibles

Intangible assets that have finite useful lives are amortized on a straight-line basis over their estimated useful lives ranging from 3 years to 10 years.

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. Management is evaluating the impact that ASU No. 2014-09 will have on the Company's consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11: "Inventory (Topic 330) – Simplifying the Measurement of Inventory." This guidance was issued to simplify the measurement of inventory. The amendments in this Update require an entity to measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The amendments in this Update are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years with earlier application permitted. Management has decided to early adopt ASU 2015-11.

In November 2015, the FASB issued ASU No. 2015-17: "Income Taxes (Topic 740) – Balance Sheet Classification of Deferred Taxes." This guidance was issued to simplify the presentation of deferred income taxes. The amendments in this Update require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The effective date of ASU No. 2015-17 is for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Management is evaluating the impact that ASU No. 2015-17 will have on the Company's consolidated financial statements.

Off-Balance Sheet Arrangements

None.

Item 8. Financial Statements and Supplementary Data.

Index to Financial Statements

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, 2015 and 2014, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended September 30, 2015. 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 financial statement 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, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2015, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related 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 15, 2015
Tulsa, Oklahoma

ADDVANTAGE TECHNOLOGIES GROUP, INC.
CONSOLIDATED BALANCE SHEETS

	September 30, 2015	2014
Assets		
Current assets:		
Cash and cash equivalents	$6,110,986	$5,286,097
Accounts receivable, net of allowance for doubtful accounts of $250,000 and $200,000, respectively	4,286,377	6,393,580
Income tax receivable	–	220,104
Inventories, net of allowance for excess and obsolete inventory of $2,756,628 and $2,156,628, respectively	23,600,996	22,780,523
Prepaid expenses	153,454	174,873
Deferred income taxes	1,776,000	1,416,000
Total current assets	35,927,813	36,271,177
Property and equipment, at cost:		
Land and buildings	7,218,678	7,208,679
Machinery and equipment	3,415,164	3,244,153
Leasehold improvements	151,957	206,393
Total property and equipment, at cost	10,785,799	10,659,225
Less: Accumulated depreciation	(4,584,796)	(4,191,516)
Net property and equipment	6,201,003	6,467,709
Intangibles, net of accumulated amortization	5,799,473	6,625,278
Goodwill	3,910,089	3,910,089
Other assets	134,678	131,428
Total assets	$51,973,056	$53,405,681

See notes to consolidated financial statements.

ADDVANTAGE TECHNOLOGIES GROUP, INC.
CONSOLIDATED BALANCE SHEETS