

ADVANTAGE TECHNOLOGIES GROUP INC
Form 10-Q
May 13, 2008

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, 2008

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 (I.R.S. Employer Identification No.)
organization)

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 issuer (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 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. (Check one):

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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 Exchange Act). Yes No

Shares outstanding of the issuer's \$.01 par value common stock as of April 25, 2008 were 10,272,015.

ADVANTAGE TECHNOLOGIES GROUP, INC.
Form 10-Q
For the Period Ended March 31, 2008

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SIGNATURES

ADVANTAGE TECHNOLOGIES GROUP, INC.
CONSOLIDATED BALANCE SHEET

| | March 31, 2008 (Unaudited) | September 30, 2007 (Audited) |
|---|----------------------------------|---------------------------------------|
| Assets | | |
| Current assets: | | |
| Cash | \$ 28,890 | \$ 60,993 |
| Accounts receivable, net allowance of \$250,000 and \$261,000, respectively | 6,746,436 | 6,709,879 |
| Income Tax Receivable | - | 153,252 |
| Inventories, net of allowance for excess and obsolete inventory of \$1,066,000 and \$697,000, respectively | 34,350,624 | 31,464,527 |
| Deferred income taxes | 968,000 | 678,000 |
| Total current assets | 42,093,950 | 39,066,651 |
| Property and equipment, at cost: | | |
| Land and buildings | 7,103,399 | 6,488,731 |
| Machinery and equipment | 3,199,903 | 3,144,927 |
| Leasehold improvements | 205,797 | 205,797 |
| | 10,509,099 | 9,839,455 |
| Less accumulated depreciation and amortization | (2,520,092) | (2,341,431) |
| Net property and equipment | 7,989,007 | 7,498,024 |
| Other assets: | | |
| Deferred income taxes | 899,000 | 679,000 |
| Goodwill | 1,560,183 | 1,560,183 |
| Other assets | 241,602 | 204,843 |
| Total other assets | 2,700,785 | 2,444,026 |
| Total assets | \$ 52,783,742 | \$ 49,008,701 |

See notes to unaudited consolidated financial statements.

ADVANTAGE TECHNOLOGIES GROUP, INC.
CONSOLIDATED BALANCE SHEETS

| | March 31, 2008 (Unaudited) | September 30, 2007 (Audited) |
|--|----------------------------------|---------------------------------------|
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 3,219,674 | \$ 4,301,672 |
| Accrued expenses | 940,559 | 1,331,890 |
| Income taxes payable | 237,940 | - |
| Bank revolving line of credit | 4,325,540 | 1,735,405 |
| Notes payable – current portion | 1,858,911 | 1,427,693 |
| Dividends payable | - | 210,000 |
| Total current liabilities | 10,582,624 | 9,006,660 |
| Notes payable | 16,793,380 | 5,845,689 |
| Other liabilities | 816,050 | - |
| Total liabilities | 28,192,054 | 14,852,349 |
| Stockholders' equity: | | |
| Preferred stock, 5,000,000 shares authorized, \$1.00 par value, at stated value: | | |
| Series B, 7% cumulative; 300,000 shares issued and outstanding with a stated value of \$40 per share | - | 12,000,000 |
| Common stock, \$.01 par value; 30,000,000 shares authorized; 10,293,115 and 10,270,756 shares issued, respectively | 102,931 | 102,708 |
| Paid-in capital | (6,291,793) | (6,383,574) |
| Retained earnings | 31,324,764 | 28,454,024 |
| Accumulated other comprehensive income: | | |
| Unrealized (loss) gain on interest rate swap, net of tax | (490,050) | 37,358 |
| | 24,645,852 | 34,210,516 |
| Less: Treasury stock, 21,100 shares at cost | (54,164) | (54,164) |
| Total stockholders' equity | 24,591,688 | 34,156,352 |
| Total liabilities and stockholders' equity | \$ 52,783,742 | \$ 49,008,701 |

See notes to unaudited consolidated financial statements.

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

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|--|---------------------------------|---------------|-------------------------------|---------------|
| | 2008 | 2007 | 2008 | 2007 |
| Net new sales income | \$ 8,914,517 | \$ 11,431,382 | \$ 17,567,278 | \$ 21,670,254 |
| Net refurbished sales income | 3,505,844 | 3,390,127 | 8,316,807 | 6,618,169 |
| Net service income | 1,431,458 | 1,219,042 | 2,707,102 | 2,500,645 |
| Total income | 13,851,819 | 16,040,551 | 28,591,187 | 30,789,068 |
| Costs of sales | 9,283,756 | 10,818,540 | 19,275,303 | 20,887,900 |
| Gross profit | 4,568,063 | 5,222,011 | 9,315,884 | 9,901,168 |
| Operating, selling, general and administrative expenses | 1,999,742 | 2,153,216 | 4,012,429 | 4,028,687 |
| Depreciation and amortization | 44,120 | 41,316 | 82,868 | 70,813 |
| Income from operations | 2,524,201 | 3,027,479 | 5,220,587 | 5,801,668 |
| Interest expense | 266,092 | 169,225 | 412,367 | 301,135 |
| Income before income taxes | 2,258,109 | 2,858,254 | 4,808,220 | 5,500,533 |
| Provision for income taxes | 847,000 | 1,087,000 | 1,804,000 | 2,091,000 |
| Net income | 1,411,109 | 1,771,254 | 3,004,220 | 3,409,533 |
| Other comprehensive income: | | | | |
| Unrealized loss on interest rate swap, (net of taxes) | (341,706) | (17,317) | (490,050) | (24,606) |
| Comprehensive income | \$ 1,069,403 | \$ 1,753,937 | \$ 2,514,170 | \$ 3,384,927 |
| Net income | \$ 1,411,109 | \$ 1,771,254 | \$ 3,004,220 | \$ 3,409,533 |
| Preferred dividends | - | 210,000 | 133,480 | 420,000 |
| Net income attributable to common stockholders | \$ 1,411,109 | \$ 1,561,254 | \$ 2,870,740 | \$ 2,989,533 |
| Earnings per share: | | | | |
| Basic | \$ 0.14 | \$ 0.15 | \$ 0.28 | \$ 0.29 |
| Diluted | \$ 0.14 | \$ 0.15 | \$ 0.28 | \$ 0.29 |
| Shares used in per share calculation | | | | |
| Basic | 10,257,776 | 10,233,756 | 10,254,216 | 10,233,256 |
| Diluted | 10,281,066 | 10,248,254 | 10,286,734 | 10,250,896 |

See notes to unaudited consolidated financial statements.

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

| | Six Months Ended March 31, | |
|---|----------------------------|--------------|
| | 2008 | 2007 |
| Cash Flows from Operating Activities | | |
| Net income | \$ 3,004,220 | \$ 3,409,533 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 82,868 | 70,813 |
| (Recovery of) Provision for losses on accounts receivable | (3,920) | 17,470 |
| Provision for excess and obsolete inventory | 382,572 | 194,124 |
| Deferred income tax benefit | (184,000) | 92,000 |
| Share based compensation expense | 9,088 | 54,187 |
| Change in: | | |
| Receivables | 120,615 | (2,449,742) |
| Inventories | (3,268,669) | (1,998,432) |
| Other assets | 87,342 | 164,806 |
| Accounts payable | (1,081,998) | 1,764,480 |
| Accrued expenses | (153,391) | 101,997 |
| Net cash (used in) provided by operating activities | (1,005,273) | 1,421,236 |
| Cash Flows from Investing Activities | | |
| Additions to machinery and equipment | (59,976) | (335,621) |
| Disposal of Machinery and Equipment | 3,500 | - |
| Additions of Land and Building | (614,668) | (3,250,000) |
| Acquisition of business and certain assets | - | (166,951) |
| Net cash (used in) investing activities | (671,144) | (3,752,572) |
| Cash Flows from Financing Activities | | |
| Net borrowings under bank revolving line of credit | 2,590,135 | 807,159 |
| Proceeds from notes payable | 12,000,000 | 2,760,291 |
| Repurchase of preferred stock | (12,000,000) | - |
| Payments on notes payable | (621,091) | (682,073) |
| Proceeds from stock options exercised | 18,750 | 2,460 |
| Payments of preferred dividends | (343,480) | (420,000) |
| Net cash provided by financing activities | 1,644,314 | 2,467,837 |
| Net (decrease) increase in cash | (32,103) | 136,501 |
| Cash, beginning of period | 60,993 | 98,898 |
| Cash, end of period | 28,890 | 235,399 |
| Supplemental Cash Flow Information | | |
| Cash paid for interest | 324,895 | 270,160 |
| Cash paid for income taxes | 1,574,086 | 1,423,382 |
| Supplemental Schedule of Non-Cash Financing Activities | | |

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| | | |
|--|-----------|----------|
| Unrealized loss on interest rate swap | (816,050) | (39,687) |
| Deferred tax | 326,000 | 15,081 |
| Unrealized loss on interest rate swap net of tax | (490,050) | (24,606) |

See notes to unaudited consolidated financial statements.

Notes to unaudited consolidated financial statements

Note 1 - Basis of Presentation

The accompanying unaudited consolidated 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 financial statements not misleading. The consolidated financial statements as of September 30, 2007 have been audited by an independent registered public accounting firm. It is suggested that these consolidated financial statements be read in conjunction with the financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2007, filed with the Securities and Exchange Commission on December 28, 2007.

Reclassifications

Certain reclassifications have been made to the fiscal 2007 financial statements to conform to the fiscal 2008 presentation.

Note 2 - Description of Business

ADDvantage Technologies Group, Inc., through its subsidiaries Tulsat Corporation, ADDvantage Technologies Group of Nebraska, Inc. (dba Tulsat-Nebraska), NCS Industries, Inc., ADDvantage Technologies Group of Missouri, Inc., (dba ComTech Services), ADDvantage Technologies Group of Texas, Tulsat – Atlanta, LLC, Jones Broadband International, Inc., and Tulsat-Pennsylvania LLC (dba Broadband Remarketing International) (collectively, the "Company"), sells new and refurbished cable television equipment throughout North America and Latin America in addition to being a repair center for various cable companies. The Company operates in one business segment and product sales consist of different types of equipment used in the cable television equipment industry (CATV).

Note 3 – Earnings Per Share

Basic and diluted net earnings per share were computed in accordance with Statement of Financial Accounting Standards No. 128, "Earnings Per Share." Basic net earnings per share is computed by dividing net earnings available to common shareholders (numerator) by the weighted average number of common shares outstanding (denominator) during the period and excludes the dilutive effect of stock options. Diluted net earnings per share gives effect to all potentially dilutive common stock equivalents during a period. In computing diluted net earnings per share, the average stock price for the period is used in determining the number of shares assumed to be reacquired under the treasury stock method from the exercise of stock options.

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|--------------|------------------------------|------|----------------------------|------|
| | 2008 | 2007 | 2008 | 2007 |
| Basic EPS | | | | |
| Computation: | | | | |

Net income attributable
to

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| | | | | | | | | |
|-------------------------------------|----|------------|----|------------|----|------------|----|------------|
| common stockholders | \$ | 1,411,109 | \$ | 1,561,254 | \$ | 2,870,740 | \$ | 2,989,533 |
| Weighted average outstanding | | | | | | | | |
| common shares | | 10,257,776 | | 10,233,756 | | 10,254,216 | | 10,233,256 |
| Earnings per Share - Basic | | | | | | | | |
| | \$ | 0.14 | \$ | 0.15 | \$ | 0.28 | \$ | 0.29 |
| Diluted EPS Computation: | | | | | | | | |
| Net income attributable to | | | | | | | | |
| common stockholders | \$ | 1,411,109 | \$ | 1,561,254 | \$ | 2,870,740 | \$ | 2,989,533 |
| Weighted average outstanding | | | | | | | | |
| common shares | | 10,257,776 | | 10,233,756 | | 10,254,216 | | 10,233,256 |
| Potentially dilutive securities | | | | | | | | |
| Effect of dilutive stock options | | 23,290 | | 14,498 | | 32,518 | | 17,640 |
| Weighted average shares outstanding | | | | | | | | |
| - assuming dilution | | 10,281,066 | | 10,248,254 | | 10,286,734 | | 10,250,896 |
| Earnings per Share – Diluted | | | | | | | | |
| | \$ | 0.14 | \$ | 0.15 | \$ | 0.28 | \$ | 0.29 |

Note 4 – Line of Credit and Notes Payable

On November 27, 2007 the Company executed the Fourth Amendment to Revolving Credit and Term Loan Agreement (“Fourth Amendment”) with its primary financial lender, Bank of Oklahoma. The Fourth Amendment renewed the \$7.0 Million Revolving Line of Credit (“Line of Credit”) and extended the maturity date to November 30, 2010. The Fourth Amendment also extended the maturity of and increased the \$8.0 Million Term Loan Commitment to \$16.3 million.

At March 31, 2008, a \$4.3 million balance was outstanding under a \$7.0 million line of credit due November 30, 2010, with interest payable quarterly on the prevailing 30-day LIBOR rate plus 1.4% (4.11% at March 31, 2008). \$2.7 million of the \$7.0 million line of credit was available to the Company to borrow at March 31, 2008. 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. 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. The line of credit is collateralized by inventory, accounts receivable, equipment and fixtures, and general intangibles.

Cash receipts are applied from the Company’s lockbox account directly against the bank line of credit, and checks clearing the bank are funded from the line of credit. The resulting overdraft balance, consisting of outstanding checks, was \$0.7 million at March 31, 2008 and is included in the bank revolving line of credit.

The outstanding balance of the \$8.0 million Term Loan prior to being amended on November 27, 2007 was \$4.3 million. The \$12.0 million of additional funds available under the amended \$16.3 million Term Loan were fully advanced upon executing the Fourth Amendment and the proceeds were used to redeem all of the issued and outstanding shares of the Company’s Series B 7% Cumulative Preferred Stock. These shares of preferred stock were beneficially held by David E. Chymiak, Chairman of the Company, and Kenneth A. Chymiak, President and Chief Executive Officer of the Company, and his spouse. The outstanding balance on this note was \$15.9 million at March 31, 2008. The note is due on November 30, 2012, with quarterly payments beginning the last business day of February 2008 of approximately \$0.4 million plus accrued interest. The note bears interest at the prevailing 30-day LIBOR rate plus 1.4% (4.11% as of March 31, 2008).

The Revolving Line of Credit and Term Loan Agreement also includes a Term Loan Commitment of \$2.8 million. This loan was secured to finance the purchase of Company’s headquarters facility located in Broken Arrow, Oklahoma on November 20, 2006. The outstanding balance on this note was \$2.5 million at March 31, 2008. The note is due on November 20, 2021, with monthly principal payments of \$15,334 plus accrued interest. Interest on the outstanding note balance accrues at the prevailing 30-day LIBOR rate plus 1.4% (4.11% at March 31, 2008).

The Company’s other note payable of \$0.2 million, secured by real estate, is due in monthly payments through 2013 with interest at 5.5% through 2008, converting thereafter to prime minus .25%.

Note 5 – Derivative Financial Instruments

In 2004, the Company entered into an interest rate swap to effectively fix the interest rate of the \$8.0 million term note at 6.13%. Upon entering into this interest rate swap, the Company designated this derivative as a cash flow hedge by documenting the Company’s risk management objective and strategy for undertaking the hedge along with methods for assessing the swap’s effectiveness in accordance with Statement of Financial Accounting Standards 133, Accounting for Derivative Instruments and Hedging Activities (“SFAS 133”). On November 20, 2007 the Company terminated this swap agreement upon amending and extending the \$8.0 million term note to \$16.3 million. The Company received approximately \$25,000 upon termination of this agreement which represented the fair value of the swap on that date and offset this gain against interest expense in the current year.

Additionally, on November 27, 2007, the Company entered into a new interest rate swap agreement to effectively fix the interest rate on the \$16.3 million term note at 5.92%. The notional value of the interest rate swap amortizes quarterly with payments that mirror the \$16.3 million term note. Upon entering into this interest rate swap, the Company designated this derivative as a cash flow hedge by documenting the Company's risk management objective and strategy for undertaking the hedge along with methods for assessing the swap's effectiveness in accordance with SFAS 133. The fair value of the hedge, which incorporates both an "effective" portion and "ineffective" portion, has been recorded on the Company's Consolidated Balance Sheet. The effective portion of the change in the fair value of this interest rate swap during the period has been reflected in the other comprehensive income section of the Consolidated Statements of Income and Comprehensive Income. The ineffective portion of the change in the fair value of the interest rate swap was recognized as interest expense in the current period and was not significant. At March 31, 2008, the notional value of the swap was \$15.9 million and the fair value of the interest rate swap was approximately \$0.8 million, which is included in other liabilities on the Company's Consolidated Balance Sheet.

Note 6 – Stock Option Plans

The 1998 Incentive Stock Plan (the "Plan") provides for the award to officers, directors, key employees and consultants of stock options and restricted stock. The Plan provides that upon any issuance of additional shares of common stock by the Company, other than pursuant to the Plan, the number of shares covered by the Plan will increase to an amount equal to 10% of the then outstanding shares of common stock. Under the Plan, option prices will be set by the Board of Directors and may be greater than, equal to, or less than fair market value on the grant date.

At March 31, 2008, 1,024,656 shares of common stock were reserved for the exercise of stock awards under the 1998 Incentive Stock Plan. Of the shares reserved for exercise of stock awards, 744,656 shares were available for future grants.

A summary of the status of the Company's stock options for the six months ended March 31, 2008 is presented below.

| | 2008 Wtd. Avg. Shares | Ex. Price |
|-----------------------------------|-----------------------------|-----------|
| Outstanding at September 30, 2007 | 117,850 | \$ 4.20 |
| Granted | - | - |
| Exercised | 6,000 | 3.13 |
| Canceled | - | - |
| Outstanding at March 31, 2008 | 111,850 | \$ 4.26 |
| Exercisable at March 31, 2008 | 104,350 | \$ 4.15 |

In the first quarter of fiscal year 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), Share Based Payment ("SFAS 123R"). SFAS 123R requires all share-based payments to employees, including grants of employee stock options, be recognized as compensation costs in the financial statements based on their grant date fair value. 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.

The Company estimates the fair value of the options granted using the Black-Scholes option valuation model and the assumptions shown in the table below. The Company estimates the expected term of options granted based on the historical grants and exercises of the Company's options. The Company estimates 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 123R and Securities and Exchange Commission Staff Accounting Bulletin No. 107 (SAB No. 107). The Company bases the risk-free rate that is 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 term. The Company has never paid cash dividends on its common stock and does not anticipate paying cash dividends in the foreseeable future. Consequently, the Company uses 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 uses historical data to estimate the pre-vesting option forfeitures and records share-based expense only for those awards that are expected to vest. A summary of the Company's current estimates are presented below.

| | Six Months Ended March 31, 2008 |
|------------------------------------|------------------------------------|
| Average expected life | 5.0 years |
| Average expected volatility factor | 25% |
| Average risk-free interest rate | 4.45% |
| Average expected dividend yield | ----- |

For the six months ended March 31, 2008, the Company recorded compensation expense of \$3,255 representing the amortizing fair value of the unvested options granted prior to fiscal 2008. As of March 31, 2008, compensation costs related to unvested stock awards not yet recognized in the statements of operations totaled \$8,250 which will be recognized over the remaining two year vesting term.

On March 5, 2008 the Company issued restricted shares under the plan totaling 16,359 shares to directors as part of their 2008 compensation. The shares are being held by the Company for 12 months and will be delivered to the directors at the end of the 12 month holding period. The fair value of these shares upon issuance totaled \$70,000, which was included in prepaid assets on the Company's March 31, 2008 balance sheet, and is being recognized as compensation expense over the 12 month holding period.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Special Note on Forward-Looking Statements

Certain statements in Management's Discussion and Analysis ("MD&A"), other than purely historical information, including estimates, projections, statements relating to our business plans, objectives and expected operating results, and the assumptions upon which those statements are based, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of

the Securities Exchange Act of 1934. These forward-looking statements generally are identified by the words "believe," "will," "would," "will be," "will continue," "will likely result," and similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. These statements are subject to a number of risks, uncertainties and developments beyond our control or foresight including changes in the trends of the cable television industry, formation of competitors, changes in governmental regulation or taxation, changes in our personnel and other such factors. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events, or otherwise. Readers should carefully review the risk factors described under Item 1A of our Annual Report on Form 10-K filed for the year ended September 30, 2007 and in other documents we file from time to time with the Securities and Exchange Commission.

Overview

The following MD&A is intended to help the reader understand the results of operations, financial condition, and cash flows of ADDvantage Technologies Group, Inc. MD&A is provided as a supplement to, and should be read in conjunction with, our financial statements and the accompanying notes to the financial statements ("Notes").

We are a Value Added Reseller ("VAR") for select Cisco and Motorola new products and we are a distributor for several other manufacturers of cable television ("CATV") equipment. We also specialize in the sale of surplus new and refurbished previously-owned CATV equipment to CATV operators and other broadband communication companies. It is through our development of these vendor relationships that we have focused our initiative to market our products and services to the larger cable multiple system operators ("MSOs") and Telecommunication Companies ("Telcoms"). 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.

Result of Operations

Comparison of Results of Operations for the Three Months Ended March 31, 2008 and March 31, 2007

Net Sales. Net sales decreased \$2.1 million, or 13%, to \$13.9 million for the second quarter of fiscal 2008 from \$16.0 million for the same period of fiscal 2007. New equipment sales declined by \$2.5 million, or 22%, to \$8.9 million in the second quarter of fiscal 2008 from \$11.4 million in the second quarter of fiscal 2007. The decrease in new equipment sales was primarily due to reduced sales volumes of new equipment to two large customers of approximately \$1.0 million each. Sales to the first customer have declined as there the customer has been able to obtain the equipment necessary for its scheduled capital projects directly from the manufacturer without interruption or delay. The second customer, which serves as a primary equipment distributor to several regional and large cable operators, has produced less sales orders as certain customers have delayed upgrading projects, due to the lack of financing available in the market, and other customers have been able to obtain their needed equipment directly from the manufacturers. Refurbished equipment sales increased \$0.1 million, or 3%, to \$3.5 million in the second quarter of fiscal 2008, from \$3.4 million for the same period last year. Sales of digital converter boxes to customers in the U.S. and Latin America totaled \$1.3 million for the quarter which represented an increase of \$0.6 million over the second quarter sales volumes in fiscal 2007. This increase was offset by a reduction in other refurbished product sales of \$0.5 million due to the slowdown in upgrades being performed by regional cable operators during the quarter. Repair service revenue increased \$0.2 million, to \$1.4 million in the second quarter of fiscal year 2008 compared to \$1.2 million in the same period of fiscal 2007. Repairs increased during the period as certain customers, that are delaying equipment upgrades, are incurring additional out of warranty equipment failures. We continue to expect repair services to increase during the remainder of the year as several smaller cable operators and large MSOs continue to delay rebuild projects and experience increased failures in older equipment.

Costs of Sales. Costs of sales includes (i) the costs of new and refurbished equipment, on a weighted average cost basis, sold during the period, (ii) the costs of equipment used in repairs, (iii) the related transportation costs, and (iv) the labor and overhead directly related to these sales. Costs of sales decreased \$1.5 million, or 14%, to \$9.3 million in the second quarter of fiscal 2008 from \$10.8 million for the same period in fiscal 2007. This decrease was primarily due to the decreased product sales for the period.

Gross Profit. Gross profit decreased \$0.6 million, or 12%, to \$4.6 million in the second quarter of fiscal 2008 from \$5.2 million for the same period in fiscal 2007. The decrease in gross profit was a direct result of the decrease in sales for the quarter. Gross profit margins increased to 33.0% in the second quarter of fiscal 2008 from 32.6% in the second quarter of fiscal 2007. Gross profit margins improved due to the increase in sales of refurbished digital converter boxes, which have higher margins than new product sales, as well as a change in the mix of new products.

Operating, Selling, General and Administrative Expenses. Operating, selling, general and administrative expenses include personnel costs (including fringe benefits, insurance and taxes), occupancy, communication and professional services, among other less significant cost categories. Operating, selling, general and administrative expenses for the second quarter of fiscal 2008 were \$2.0 million which represented a decrease of \$0.2 million from the \$2.2 million reported in the same period of fiscal 2007. We recorded \$0.1 million less payroll during the quarter due primarily to reduced bonus expectations and \$0.1 million of reduced property taxes and rentals resulting from properties in Broken Arrow, Oklahoma that were vacated in the last year.

Income from Operations. Income from operations decreased \$0.5 million, or 16.7%, to \$2.5 million for the second quarter of fiscal 2008 from \$3.0 million for the same period of fiscal 2007. Income from operations primarily decreased as a result of the decrease in sales for the period offset by reduced operating, selling, general and administrative expenses.

Interest Expense. On November 27, 2007 we amended our \$8.0 million term note with our primary financial lender to \$16.3 million and extended the maturity to November 30, 2012. The outstanding balance of the \$8.0 million term loan prior to the amendment was \$4.3 million. The \$12.0 million of additional funds available under the amended \$16.3 million term loan were fully advanced at closing and the proceeds were used to redeem all of the issued and outstanding shares of our Series B 7% Cumulative Preferred Stock. The impact on income available to holders of common stock from the increased interest expense is expected to be fully offset by the elimination of dividends paid on the outstanding preferred shares. Also on November 27, 2007, we entered into an interest rate swap agreement to effectively fix the interest on the new \$16.3 million quarterly amortizing note at 5.92%. Interest on the remaining debt instruments, which had outstanding principal balances totaling \$7.1 million as of March 31, 2008, fluctuates periodically based on the specific criteria outlined in the corresponding debt agreements. Interest expense for the second quarter of fiscal 2008 was \$0.3 million, or an increase of \$0.1 million over the \$0.2 million of interest expense reported in the second quarter of fiscal 2007. The increased interest expense was associated with the additional borrowings under the amended \$16.3 million term note.

Income Taxes. The provision for income taxes for the second quarter of fiscal 2008 was \$0.8 million, or 37.5% of profit before taxes, compared to \$1.1 million, or 38.0% of profit before taxes for the same period last year. Our estimated effective tax rate for 2008 was decreased slightly as the Company's effective tax rate is expected to be less due to our utilization of certain investment tax credits utilized to reduce state taxes.

Comparison of Results of Operations for the Six months ended March 31, 2008 and March 31, 2007

Net Sales. Net sales decreased by \$2.2 million, or 7%, to \$28.6 million for the six months ended March 31, 2008 from \$30.8 million for the same period in fiscal 2007. New equipment sales declined \$4.1 million, or 19%, to \$17.6 million for the six months ended March 31, 2008 from \$21.7 million for the same period in fiscal 2007. The decline in new product sales resulted primarily from the continued reduced sales volumes to two of our large customers totaling \$2.1 and \$2.6 million, respectively. The decline in sales to the first customer resulted from delays in scheduled upgrade projects during the first quarter and reduced sales orders in the second quarter as the customer was able to obtain delivery of its needed equipment, without minimal interruption or delay, directly from the manufacturers. Sales to the second customer, which supplies equipment to several regional and large MSO cable operators, has been below historical volumes during the first six months as these operators have reduced their capital expenditure budgets for the year or been able to obtain their equipment, at scheduled delivery times, directly from the manufacturers. Sales of refurbished products grew \$1.7 million, or 26%, to \$8.3 million for the six months ended March 31, 2008 from \$6.6 million for the same period fiscal 2007. Sales of refurbished products increased \$2.0 million from the sales of our legacy digital converter box product line, offset by decreased sales of other refurbished products of \$0.3 million, due to the reduced number of equipment upgrades being performed by regional cable operators. Repair service revenues increased \$0.2 million, or 8%, to \$2.7 million for the six months ended March 31, 2008 from \$2.5 million for the same period of fiscal 2007. The increase in service revenues results from higher

volumes of equipment failures as certain customers, that are delaying equipment upgrades, are incurring additional out of warranty equipment failures. We continue to expect repair services to increase during the remainder of the year as smaller cable operators and large MSOs continue to delay rebuild projects and experience out of warranty failures in older equipment.

Costs of Sales. Costs 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. Costs of sales decreased \$1.6 million, or 8%, to \$19.3 million for the six months ended March 31, 2008 from \$20.9 million for the same period of fiscal 2007. Costs of sales as a percentage of net sales decreased to 67% for the first six months of fiscal 2008 from 68% for the same period of fiscal 2007. The decrease in cost of sales was directly related to the decrease in revenues during the year.

Gross Profit. Gross profit decreased \$0.6 million, or 6%, to \$9.3 million for the six months ended, March 31, 2008 from \$9.9 million for the same period of fiscal 2007. The decrease in gross profit was a direct result of the decrease in sales for the quarter. Gross profit margins increased to 32.6% during the first six months of fiscal 2008 from 32.2% in the same period last year. Gross profit margins improved due to the increase in sales of refurbished digital converter boxes, which have higher margins than new product sales, as well as a change in the mix of new products.

Operating, Selling, General and Administrative Expenses. Operating, selling, general and administrative expenses include personnel costs (including fringe benefits, insurance and taxes), occupancy, communication and professional services, among other less significant cost categories. Operating, selling, general and administrative expenses remained consistent at \$4.0 million for the six months ended March 31, 2008 compared to the expenses reported in same period of fiscal 2007. During the first six months we incurred reduced bonus accrual, property taxes and rental costs, which combined to a savings of approximately \$0.1 million. This savings was offset by increased professional services from consultants we hired to assist us with meeting the internal control assessment requirements of the Sarbanes Oxley Act of 2002. We expect these increased professional fees to continue during the second half of the year but do not believe they will have a material impact on our overall financial performance.

Income from Operations. Income from operations decreased \$0.6 million, or 10%, to \$5.2 million for the six months ended March 31, 2008 from \$5.8 million for the same period last year. Income from operations decreased primarily due to decreased new product sales to two of our large customers.

Interest Expense. As discussed previously, on November 27, 2007 we amended our \$8.0 million term note with our primary financial lender to \$16.3 million, extended the maturity to November 30, 2012 and entered into an interest rate swap to effectively fix the rate on this increased debt at 5.92%. Interest on our remaining debt instruments, which had outstanding principal balances totaling \$7.1 million as of March 31, 2008, fluctuates periodically based on the specific criteria outlined in the corresponding debt agreements. Interest expense for the six months ended March 31, 2008 was \$0.4 million, or an increase of \$0.1 million over the \$0.3 million of interest expense reported during the same period in fiscal 2007. The increased interest expense was associated with the additional borrowings under the amended \$16.3 million term note.

Income Taxes. The provision for income taxes for the first six months of fiscal 2008 was \$1.8 million, or 37.5% of profit before taxes, compared to \$2.1 million, or 38% of profit before taxes for the same period last year. Our estimated effective tax rate for 2008 decreased slightly as we expect to utilize certain investment tax credits which will result in reduced state taxes.

Recently issued Accounting Standards

In March 2008, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133, which requires additional disclosures about the objectives of the derivative instruments and hedging activities, the method of accounting for such instruments under SFAS No. 133 and its related interpretations, and a tabular disclosure of the effects of such instruments and related hedged items on our financial position, financial performance, and cash flows. SFAS No. 161 is effective for us beginning January 1, 2009. We are currently assessing the disclosure requirements SFAS No. 161 and plan on including the required information in our first quarter fiscal 2009 financials, if not adopted earlier.

In December 2007, the FASB issued SFAS No. 141R, Business Combinations, which replaces SFAS No. 141. The statement retains the purchase method of accounting for acquisitions, but requires a number of changes, including changes in the way assets and liabilities are recognized in the purchase accounting. It also changes the recognition of assets acquired and liabilities assumed arising from contingencies, requires the capitalization of in-process research and development at fair value, and requires the expensing of acquisition-related costs as incurred. SFAS No. 141R is effective for us beginning July 1, 2009 and will apply prospectively to business combinations completed on or after that date. We do not expect the adoption of SFAS No. 141R to have a material effect on our financial statements.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Current Year Misstatements. SAB No. 108 requires analysis of misstatements being both an income statement (rollover) approach and a balance sheet (iron curtain) approach in assessing materiality and provides for a one-time cumulative effect transition adjustment. We adopted SAB No. 108 in the first quarter of fiscal year 2007 and its adoption had no impact on our financial statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. This statement is effective for us beginning October 1, 2008. We do not expect the adoption of SFAS No. 157 to have a material effect on our financial statements.

In June 2006, the FASB issued FIN No. 48, Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109, which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. The interpretation prescribes a recognition threshold and measurement of a tax position taken or expected to be taken in a tax return. FIN No. 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. In fiscal 2006, we elected early adoption of FIN No. 48 and there was no impact on our financial statements.

In June 2006, the FASB ratified the Emerging Issues Task Force ("EITF") consensus on EITF issue No. 06-2, "Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43." EITF Issue No. 06-2 requires companies to accrue the costs of compensated absences under a sabbatical or similar benefit arrangement over the requisite service period. EITF issue No. 06-2 was effective for us beginning October 1, 2007 and the adoption of EITF Issue No. 06-2 did not result in a material adjustment to our financial statements.

Critical Accounting Policies

Note 1 to the Consolidated Financial Statements in Form 10-K for fiscal 2007 includes a summary of the significant accounting policies or methods used in the preparation of our Consolidated Financial Statements. Some of those significant accounting policies or methods require us to make estimates and assumptions that affect the amounts reported by us. We believe the following items require the most significant judgments and often involve complex estimates.

General

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. We base our estimates and judgments on historical experience, current market conditions, and various other factors we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The most significant estimates and assumptions relate to the carrying value of our inventory and, to a lesser extent, the adequacy of our allowance for doubtful accounts.

Inventory Valuation

Inventory consists of new and used electronic components for the cable television industry. Inventory is stated at the lower of cost or market. Market is defined principally as net realizable value. Cost is determined using the weighted average method.

We market our products primarily to MSOs and other users of cable television equipment who are seeking products that can be shipped on a same-day basis, or seeking products which manufacturers have discontinued production. Our position in the industry requires us to carry large inventory quantities relative to quarterly sales, but also allows us to realize high overall gross profit margins on our sales. Carrying these significant inventories represents our greatest risk. For individual inventory items, we may carry inventory quantities that are excessive relative to market potential, or we may not be able to recover our acquisition costs for sales we make in a reasonable period. Our investment in inventory is predominantly new products purchased from manufacturers and surplus-new products, which are unused products purchased from other distributors or MSOs.

In order to address the risks associated with our investment in inventory, we regularly review inventory quantities on hand and reduce the carrying value by recording a provision for excess and obsolete inventory based primarily on inventory aging and forecasts of product demand and pricing. The broadband industry is characterized by changing customer demands and changes in technology that could result in significant increases or decreases of inventory pricing or increases in excess or obsolete quantities on hand. Our estimates of future product demand may prove to be inaccurate, in which case the provision required for excess and obsolete inventory may have been understated or overstated. Although every effort is made to ensure the accuracy of internal forecasting, any significant changes in demand or prices could have a significant impact on the carrying value of our inventory and reported operating results. As of March 31, 2008 we have reduced inventories by maintaining an allowance for excess and obsolete inventories totaling \$1.1 million.

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 creditworthiness, current economic trends and changes in our customer payment terms. Significant changes in customer concentration or payment terms, deterioration of customer creditworthiness, 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, additional allowances may be required. At March 31, 2008, accounts receivable, net of allowance for doubtful accounts of \$0.3 million, amounted to \$6.7 million.

Liquidity and Capital Resources

We finance our operations primarily through internally generated funds and a bank line of credit. During the first six months of fiscal 2008, our operating activities resulted in a net use of cash of \$1.0 million, primarily due to our increased investment in inventories of \$3.3 million and reduction of payables of \$1.1 million.

During the first six months, we also invested an additional approximate \$0.7 million to complete two warehouse construction projects in Broken Arrow, Oklahoma and Sedalia, Missouri. The new 62,500 square foot warehouse facility in Broken Arrow, Oklahoma is located at the back section of our 10 acre headquarters facility. The completed warehouse addition, which cost approximately \$1.6 million, was constructed to gain additional operating efficiencies by consolidating the operations and multiple outside warehouses of our Tulsat subsidiary into one facility. The new 18,000 square foot warehouse facility in Sedalia, Missouri, which cost approximately \$0.4 million, will expand the revenue generating capacity of this location as it increases the square footage of the operation by approximately 30% and allowed us to consolidate our Stockton, California warehouse into a more cost effective location. The combined annual savings from vacated rental properties is expected to total approximately \$0.2 million per year.

In November 2007, we executed the Fourth Amendment to Revolving Credit and Term Loan Agreement with our primary financial lender, Bank of Oklahoma. The Fourth Amendment renews the \$7.0 Million Revolving Line of Credit ("Line of Credit") and extends the maturity date to November 30, 2010. The Fourth Amendment also extends the maturity of and increases the \$8.0 Million Term Loan Commitment to \$16.3 million.

The \$7.0 Million Line of Credit will continue to be used to finance our working capital requirements. The lesser of \$7.0 million or the total of 80% of the qualified accounts receivable, plus 50% of qualified inventory, less the outstanding balances under of the term loans identified in the agreement, is available to us under the revolving credit facility. The entire outstanding balance on the revolving credit facility is due on maturity.

The outstanding balance of the \$8.0 million Term Loan prior to being amended was \$4.3 million. The \$12.0 million of additional funds available under the amended \$16.3 million Term Loan were fully advanced at closing and the proceeds were used to redeem all of the issued and outstanding shares of our Series B 7% Cumulative Preferred Stock. These shares of preferred stock were beneficially held by David A. Chymiak, Chairman of the Company, and Kenneth A. Chymiak, President and Chief Executive Officer of the Company, and his spouse. The \$16.3 million Term Loan is payable over a 5 year period with quarterly payments beginning the last business day of February 2008 of approximately \$0.4 million plus accrued interest.

The Revolving Line of Credit and Term Loan Agreement also includes a Term Loan Commitment of \$2.8 million. This loan was secured to finance the purchase of the Company's headquarters facility located in Broken Arrow, Oklahoma on November 20, 2006. The \$2.8 million Term Loan matures over 15 years and payments are due monthly at \$15,334 plus accrued interest.

During the first six months, we paid the scheduled accrued dividends of approximately \$0.3, representing the final dividends earned on the outstanding Series B 7% Cumulative Preferred Stock from October 1, 2007 to November 20, 2007, as well as other scheduled note payments totaling approximately \$0.6 million.

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

Item 3A. Quantitative and Qualitative Disclosures About Market Risk.

Market risk represents the risk of loss that may impact our financial position, results of operations, or cash flow due to adverse changes in market prices, foreign currency exchange rates, and interest rates. We maintain no material assets that are subject to market risk and attempt to limit our exposure to market risk on material debts by entering into swap arrangements that effectively fix the interest rates. In addition, the Company has limited market risk associated with foreign currency exchange rates as all sales and purchases are denominated in U.S. dollars.

We are exposed to market risk related to changes in interest rates on our \$7.0 million revolving line of credit and our \$2.8 million term note. Borrowings under these obligations bear interest at rates indexed to the 30 day LIBOR rate, which exposes us to increased costs if interest rates rise. At March 31, 2008, the outstanding borrowings subject to variable interest rate fluctuations totaled \$6.8 million, and was as high as \$6.8 million and as low as \$2.6 million at different times during the year. A hypothetical 30% increase in the published LIBOR rate, causing our borrowing costs to increase, would not have a material impact on our financial results. We do not expect the LIBOR rate to fluctuate more than 30% in the next twelve months.

In addition to these debts, we have a \$16.3 million term note which also bears interest at a rate indexed to the 30 day LIBOR rate. To mitigate the market risk associated with the floating interest rate, we entered into an interest rate swap on November 27, 2007, in an amount equivalent to the \$16.3 million term note. Although the note bears interest at the prevailing 30-day LIBOR rate plus 1.4%, the swap effectively fixed the interest rate at 5.92%. The fair value of this derivative will increase or decrease opposite any future changes in interest rates.

Item 4T. Controls and Procedures.

We maintain disclosure controls and procedures that are designed to ensure the information we are required to disclose in the reports we file or submit under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Based on their evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to accomplish their objectives and to ensure the information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

During the period covered by this report on Form 10-Q, there have been no changes in our internal controls over financial reporting that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders.

The annual meeting of shareholders of the Company was held in Broken Arrow, Oklahoma at the Corporate Offices of ADDvantage Technologies Group, Inc. on March 6, 2008. At the meeting, the following directors were elected for one year terms (with the votes as indicated):

| | | |
|--------------------|-----------|----------|
| | FOR | WITHHELD |
| Kenneth A. Chymiak | 8,777,902 | 695,242 |

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| | | |
|-------------------|-----------|---------|
| David E. Chymiak | 8,774,818 | 695,242 |
| Thomas J. Franz | 8,770,362 | 699,698 |
| Paul F. Largess | 8,767,062 | 702,998 |
| James C. McGill | 8,768,682 | 701,198 |
| Daniel E. O'Keefe | 8,769,599 | 700,461 |
| Stephen J. Tyde | 8,768,259 | 701,801 |

The shareholders also approved the appointment of Hogan & Slovacek as the Company's auditors for the 2008 fiscal year with 8,796,069 votes FOR, 665,142 votes AGAINST, and 8,848 votes ABSTAINING.

Item 6. Exhibits

| Exhibit No. | Description |
|-------------|--|
| 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 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

SIGNATURES

Pursuant to the requirements 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.

ADVANTAGE
TECHNOLOGIES GROUP,
INC.
(Registrant)

Date: May 13, 2008

/s/ Kenneth A. Chymiak
Kenneth A. Chymiak
President and Chief Executive
Officer
(Principal Executive Officer)

Date: May 13, 2008

/s/ Daniel E. O'Keefe
Daniel E. O'Keefe
Chief Financial Officer
(Principal Financial Officer)

Exhibit Index

The following documents are included as exhibits to this Form 10-Q:

| Exhibit No. | Description |
|-------------|--|
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