U.S. 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, 2004

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

Registrant's telephone number: (918) 251-9121

Securities registered under Section 12(b) of the Act:
Common Stock, $.01 par value

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

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No _____

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act)

Yes ______ No X

The aggregate market value of the shares of common stock, par value $.01 per share, held by non-affiliates of the issuer was $14,419,734 as of March 31, 2004.

The number of the registrant's common stock, $.01 par value per share, outstanding was 10,082,889 as of December 1, 2004.

The identified sections of definitive Proxy Statement to be filed as Schedule 14A pursuant to Regulation 14A in connection with the Registrant's 2005 annual meeting of shareholders is 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 close of the registrant's most recent fiscal year.

ADDVANTAGE TECHNOLOGIES GROUP, INC.
FORM 10-K
YEAR ENDED SEPTEMBER 30, 2004
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## Forward Looking-Statements

Certain matters discussed in this report constitute forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, including statements which relate to, among other things, expectations of the business environment in which the Company operates, projections of future performance, perceived opportunities in the market and statements regarding our goals and objectives and other similar matters. The words "estimates", "projects," "intends," "expects," "anticipates," "believes," "plans" and similar expressions are intended to identify forward-looking statements. These forward-looking statements are found at various places throughout this report and the documents incorporated into it by reference. These and other statements which are not historical facts are hereby identified as "forward-looking statements" for purposes of the safe harbor provided by Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended. These statements are subject to a number of risks, uncertainties and developments beyond the control or foresight of the Company, including changes in the trends of the cable television industry, technological developments, changes in the economic environment generally, the growth or formation of competitors, changes in governmental regulation or taxation, changes in our personnel 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. Readers should carefully review the risk factors described herein and in other documents we file from time to time with the Securities and Exchange Commission.

# PART I

## ITEM 1. BUSINESS

### Recent Developments in the Business

On September 30, 2004, the Company redeemed all of the outstanding shares of its Series A 5% Cumulative Convertible Preferred Stock at its aggregate stated value of $8 million. All of the outstanding shares of Series A Preferred Stock were held beneficially by David E. Chymiak, Chairman of the Board of the Company, and Kenneth A. Chymiak, President and Chief Executive Officer of the Company. The Company financed the redemption with a new credit agreement with its bank which includes a Revolving Credit Commitment in the amount of $7 million and a Term Loan Commitment in the amount of $8 million. The proceeds from the Term Loan were used to redeem the Series A Preferred Stock.

On September 29, 2004, the Company's majority shareholders, David Chymiak and Ken Chymiak, entered into a stock purchase agreement in which they sold 500,000 shares of their common stock to Barron Partners, LP ("Barron"), a private investment partnership, for $3.25 per share. Under this agreement, Barron also received options to purchase up to 3 million additional shares of the common stock owned by these majority shareholders. The Company did not receive any of the proceeds from the sale of the shares and will not receive any of the proceeds from the exercise of any of the options, but paid the cost of registering the sales for resale by the selling shareholders. The Company filed a registration statement covering the resale of the shares of common stock sold as well as the shares of common stock issuable upon exercise of the options.

## Risk Factors

Each of the following risk factors could adversely affect our business, operating results and financial condition, as well as adversely affect the value of an investment in our common stock. Additional risks not presently known, or which we currently consider immaterial also may adversely affect us.

We are highly dependent upon our principal executive officers who also control us. At September 30, 2004, David Chymiak, Chairman of the Board, and Kenneth Chymiak, President and Chief Executive Officer, owned approximately 74% of our outstanding common stock and 100% of our outstanding preferred stock. Our performance is highly dependent upon the skill, experience and availability of these two persons. Should either of them become unavailable to us, our performance and results of operations would probably be adversely affected to a material extent. In addition, they will continue to own a controlling interest in us, thus restricting our ability to take any action without their approval or acquiescence. Likewise, as shareholders, they may elect to take certain actions which may be contrary to the interests of the other shareholders.

Our business is dependent on our customers' capital budgets. Our performance is impacted by our customers' capital spending for constructing, rebuilding, maintaining or upgrading broadband communications systems. Capital spending in the telecommunications industry is cyclical. A variety of factors will affect the amount of capital spending, and therefore, our sales and profits, including:

- consolidations and recapitalizations in the cable television industry;
- general economic conditions;
- availability and cost of capital;
- other demands and opportunities for capital;
- regulations;
- demands for network services;
- competition and technology; and
- real or perceived trends or uncertainties in these factors.

Developments in the industry and in the capital markets in recent years have reduced access to funding for certain customers, causing delays in the timing and scale of deployments of our equipment, as well as the postponement or cancellation of certain projects by our customers.

On the other hand, a significant increase in the capital budgets of our customers could impact us in a negative fashion. Much of our inventory consists of refurbished and surplus-new equipment and materials that we have acquired from other cable operators. If our customers seek higher end, more expensive equipment, the demand for our products may suffer.

The markets in which we operate are very competitive, and competitive pressures may adversely affect our results of operations. The markets for broadband communication equipment are extremely competitive and dynamic, requiring the companies that compete in these markets to react quickly and capitalize on change. This will require us to make quick decisions and deploy substantial resources in an effort to keep up with the ever-changing demands of the industry. We compete with national and international manufacturers, distributors, resellers and wholesalers including many companies larger than we are.

The rapid technological changes occurring in the broadband markets may lead to the entry of new competitors, including those with substantially greater resources than we have. Because the markets in which we compete are characterized by rapid growth and, in some cases, low barriers to entry, smaller niche market companies and start-up ventures also may become principal competitors in the future. Actions by existing competitors and the entry of new competitors may have an adverse effect on our sales and profitability. The broadband communications industry is further characterized by rapid technological change. In the future, technological advances could lead to the obsolescence of a substantial portion of our current inventory, which could have a material adverse effect on our business.

Consolidations in the telecommunications industry could result in delays or reductions in purchases of products, which would have a material adverse effect on our business. The telecommunications industry has experienced the consolidation of many industry participants, and this trend is expected to continue. We and one or more of our competitors may each supply products to businesses that have merged, such as AT&T Broadband and Comcast, or will merge in the future. Consolidations could result in delays in purchasing decisions by the merged businesses, and we could play either a greater or lesser role in supplying the communications products to the merged entity. These purchasing decisions of the merged companies could have a material adverse effect on our business. Mergers among the supplier base also have increased, and this trend may continue. The larger combined companies with pooled capital resources may be able to provide solution alternatives with which we would be at a disadvantage to compete. The larger breadth of product offerings by these consolidated suppliers could result in customers electing to trim their supplier base for the advantages of one-stop shopping solutions for all of their product needs. Consolidation of the supplier base could have a material adverse effect on our business.

Our success depends in large part on our ability to attract and retain qualified personnel in all facets of our operations. Competition for qualified personnel is intense, and we may not be successful in attracting and retaining key executives, marketing, engineering and sales personnel, which could impact our ability to maintain and grow our operations. Our future success will depend, to a significant extent, on the ability of our management to operate effectively. The loss of services of any key personnel, the inability to attract and retain qualified personnel in the future or delays in hiring required personnel, particularly engineers and other technical professionals, could negatively affect our business.

We are substantially dependent on certain manufacturers, and an inability to obtain adequate and timely delivery of products could adversely affect our business. We are a value added reseller and master distributor for Scientific-Atlanta and a value added reseller of Motorola broadband and transmission products. Should these relationships terminate or deteriorate, or should either manufacturer be unable or unwilling to deliver the products needed by us for our customers, our performance could be adversely impacted. An inability to obtain adequate deliveries or any other circumstance that would require us to seek alternative sources of supplies could affect our ability to ship products on a timely basis. Any inability to reliably ship our products on time could damage relationships with current and prospective customers and harm our business.

We have a large investment in our inventory which could become obsolete or outdated. Much of our inventory is acquired from other cable operators and is in the nature of used, refurbished, remanufactured or surplus new equipment. Determining the amounts and types of inventory requires us to speculate to some degree as to what the future demands of our customers will be. Technological changes, consolidation in the industry or competition from other types of broadcast media could substantially reduce the demands for our inventory, which could have a material adverse effect upon our business and financial results.

Our outstanding common stock is very thinly traded. While we have approximately 10.1 million shares of common stock outstanding, 69.2% of these shares are beneficially owned at December 1, 2004 by David Chymiak and Kenneth Chymiak and 4.9% are beneficially held by Barron Partners, L.P. As a consequence, only about 21% of our shares of common stock are held by nonaffiliated, public investors and available for public trading. The average daily trading volume of our common stock is low. Thus, investors in our common stock may encounter difficulty in liquidating their investment in a timely and efficient manner.

We have not paid any dividends on our outstanding common stock and have no plans to pay dividends in the future. We currently plan to retain our earnings and have no plans to pay dividends on our common stock in the future. We may also enter into credit agreements or other borrowing arrangements which may restrict our ability to declare dividends on our common stock.

Our principal executive officers and shareholders have a number of conflicts of interest with us. Certain of our key properties are leased from entities owned by our principal executive officers. Also, these executives have made loans to us in various amounts in the past and were paid interest on these loans. These transactions are described in the proxy statement that is incorporated by reference into this report. These arrangements create certain conflicts of interest between these executives and us that may not always be resolved in a manner most beneficial to us.

Our international operations may be adversely affected by a number of factors. Although the majority of our business efforts are focused in the United States, we have international operations in the Philippines, Taiwan, Korea, Japan, Australia, Brazil, Ecuador, Dominican Republic, Honduras and a few other Latin American countries. We currently have no binding agreements or commitments to make any material international investment. Our foreign operations may be adversely affected by a number of factors, including:

- local political and economic developments could restrict or increase the cost of our

- foreign operations;

- exchange controls and currency fluctuations;

- tax increases and retroactive tax claims could increase costs of our foreign operations;

- expropriation of our property could result in loss of revenue, property and equipment;

- import and export regulations and other foreign laws or policies could result in loss of revenues; and

- laws and policies of the United States affecting foreign trade, taxation and investment could restrict our ability to fund foreign operations or make foreign operations more costly.

Current Business

We are a supplier of a comprehensive line of electronics and hardware for the cable television ("CATV") industry (both franchise and non-franchise, or private cable). Our products are used to acquire, distribute and protect the broad range of communications signals carried on fiber optic, coaxial cable and wireless distribution systems. These products are sold to customers providing an array of communications services including television, high-speed data (internet) and telephony, to single family dwellings, apartments and institutions such as hospitals, prisons, universities, schools, cruise boats and others.

TULSAT, one of our subsidiaries, is an exclusive Scientific-Atlanta Master Distributor for certain legacy products and distributes most of Scientific-Atlanta's other products. TULSAT has been designated an authorized third party Scientific-Atlanta repair center for selected products. Another subsidiary, NCS Industries, is a leading distributor of Motorola broadband products. Other subsidiaries distribute Standard, Corning-Gilbert, Blonder-Tongue, RL Drake, Quintech and Videotek products. We continue to upgrade our products to stay in the forefront of the communications broadband technology revolution.

We continue to expand our core product lines (head end and distribution), to maintain the ability to provide electronics equipment needed to build smaller cable systems and much of the equipment needed in larger systems for the most efficient operation and highest profitability in high density areas.

We also continue to purchase surplus equipment from cable operators and others that become available as a result of upgrades in their systems or overstocks in their warehouses. We maintain one of the industries' largest inventories of new and refurbished equipment, allowing us to provide products within a short period of time. Each of our six locations operates service centers specializing in Motorola, Magnavox, Scientific-Atlanta and Alpha Power Supplies repairs.

Overview of the Industry

We participate in markets for equipment sold primarily to cable operators and other related parties. As internet usage by households continues to increase, more customers are electing to switch from dial-up access services to high-speed services, particularly those offered by cable operators in the United States. Within the last few years, certain cable operators have begun to offer a "triple-play" bundle of services that includes voice, video and high-speed data over a single network with the objective of capturing higher average revenues per subscriber. We believe cable operators are well positioned to deliver next-generation voice, video and data services because cable operators have invested significantly over the past few years to upgrade their cable plants to digital networks. These upgrades allow them to leverage their incumbent video and high speed data positions further. Many cable operators have well-equipped networks to offer video and two-way high-speed data services to over 90% of their subscribers and through their existing Hybrid Fiber Co-axial (HFC) infrastructure, are capable of delivering symmetrical high-bandwidth video, voice and data to their subscribers.

For the past couple of years, we believe that we have been able to provide the products and services sought after by cable operators as they establish and expand their services and territories. Our relationships with our principal vendors, Scientific-Atlanta and Motorola, provide solutions with products that are required to implement and support existing cable operators. These relationships and our inventory are key factors in our significant revenue and profits.

We are focused on the opportunities provided by technological changes in fiber-to-the premises, the expansion of bandwidth, and our recent appointment as a Scientific-Atlanta International Distributor for Latin and South America. We will continue to stock legacy CATV equipment as well as digital and optical broadband telecommunications equipment from major suppliers so we can provide our customers one-stop shopping and access to "hard-to-find" products by reducing customer downtime by our having the product in stock. Our customers consult with us for solutions for various products and configurations. We have the technical know-how from our experienced sales support staff. Through our six "world-class" service centers that provide warranty and out-of-warranty repairs, we continue to reach new customers.

Business of the Company

We continue to add products and services to maintain and expand our current customer base in North America, Latin and South America, Europe and the Far East. Recently, Scientific-Atlanta has appointed one of our subsidiaries, Tulsat Corporation, to become one of their non-exclusive distributors in Latin and South America. Since the appointment, management has made several trips to the area, visiting with relationships that had previously been developed by our new sales associate for this area. In addition, Tulsat has contracted for 12 months of advertising in the leading magazine for the cable equipment market in this area and Spain.

Economics seem to be improving for the international cable operators in Latin and South America. The continuing advances in technology, products and services will continue to create a better financial model for potential customers. We require prepayment of purchases or letters of credit from U.S. banks prior to shipment of products to most international customers. Recently, we have found several other methods of guaranteeing payment through insurance companies or government agencies. The successful implementation of alternative methods of payments should put our companies in a better position to capture market share.

Geographic Areas

Revenues by geographic areas are as follows:

| | Year ended September 30, | | |
|---|---|---|---|
| | 2004 | 2003 | 2002 |
| Geographic Area | | | |
| United States | $46,163,254 | $32,026,494 | $24,710,724 |
| Latin America, Mexico, and Other | 908,075 | 1,301,251 | 698,207 |
| | $47,071,329 | $33,327,745 | $25,408,931 |

Revenues attributed to geographic areas are based on the location of the customer. All of our long-lived assets are located in the United States.

Products and Services

Our sales of new products represent 70% of our revenue and re-manufactured product sales represent 20% of our revenues. Repair services contribute the remaining 10% of our revenues.

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 locations 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 are used to transmit the output of cable system headend to multiple locations using fiber optic cable. Among the products offered are optical transmitters, receivers, couplers, splitters and compatible accessories. These products convert RF 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.

Distribution 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 optical transmitters, optical receivers, line extenders, broadband amplifiers, directional taps and splitters.

Other hardware such as test equipment, connector and cable products are also inventoried and sold to our customers.

Sales and Marketing

We market and sell our products to franchise and private cable operators, system contractors and others directly. Our sales and marketing are predominantly performed by our internal sales force. We also have sales representatives in particular 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, advertising in trade journals, telemarketing and direct mail to our customer base in the United States. We have developed contacts with the major CATV operators in the United States and we are constantly in touch with these operators regarding their plans for upgrading or expansion and their needs to either purchase or sell equipment. In 2004, we purchased approximately 39% of our inventory from Scientific-Atlanta and approximately 14% of our inventory from Motorola. The concentration of suppliers of our inventory subjects us to risk. We also purchase a large amount of our inventory from cable operators who have upgraded or are in the process of upgrading, their systems.

### Competition

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

We also face competition from manufacturers and other vendors supplying new products. Due to our large inventory, we generally have the ability to ship and supply products to our customers from our large inventory without having to wait for the manufacturers to supply the items.

### Significant Customers

We are not dependent on one or a few customers to support our business. The customer base consists of over 1,200 active accounts. Sales to Power and Telephone Supply Company accounted for approximately 11.9% of our revenues in fiscal 2004. Approximately 23% of our revenues for fiscal year 2004 and approximately 33% for 2003 were derived from sales of products and services to our five largest customers. There are approximately 6,000 cable television systems within the United States, each of which is a potential customer.

### Personnel

At September 30, 2004, we had 141 employees. Management considers its relationships with its employees to be excellent. Our employees are not unionized and we are not subject to any collective bargaining agreements.

## ITEM 2. PROPERTIES

Each subsidiary owns or leases property for office space and warehouse facilities. Tulsat Corporation ("Tulsat") leases a total of approximately 133,050 square feet of facilities in seven buildings from entities which are controlled by David E. Chymiak, Chairman of the Board, and Kenneth A. Chymiak, President and Chief Executive Officer. Each lease has a renewable five-year term, expiring at different times through 2008. At September 30, 2004, total monthly rental payments of $38,800 were required. ADDvantage Technologies Group of Nebraska, Inc. (dba "Lee Enterprise") owns property of approximately 8,000 square feet, with an investment of $267,000. NCS Industries, Inc. ("NCS") owns property of approximately 12,000 square feet, with an investment of $567,000, financed by loans of $419,000, due in monthly payments through 2013 at an interest rate of 5.5% through 2008, converting thereafter to prime minus 1/4%. NCS also rents property of approximately 2,000 square feet, with monthly rental payments of $1,200 through November 2005. ADDvantage Technologies Group of Missouri, Inc. (dba "ComTech Services") owns property of approximately 11,000 square feet, with an investment of $343,000. ADDvantage Technologies Group of Texas, Inc. ("Tulsat-Texas") owns property of approximately 13,000 square feet, with an investment of $150,000. Tulsat-Atlanta, LLC ("Tulsat-Atlanta") rents property of approximately 4,300 square feet. The term is month-to-month, with monthly rental payments of approximately $2,400. 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 defendant in 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.

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

There were no matters submitted to a vote of our stockholders in the fourth quarter of fiscal 2004.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Prior to November 24, 2003, our common stock was traded on the OTC Bulletin Board under the symbol ADDM. On November 24, 2003, our common stock began trading on the American Stock Exchange under the symbol AEY.

The following table sets forth, for the quarterly periods indicated of fiscal 2003 and the first quarter (through November 23, 2003) of fiscal 2004, the high and low bid quotations per share for our common stock as quoted on the OTC bulletin board. These quotations represent inter-dealer prices without an adjustment for retail mark-ups, mark-downs or commissions and may not represent actual transactions. From November 24, 2003 through the end of fiscal 2004, the table sets forth the high and low sales prices on the American Stock Exchange for the quarterly periods indicated.

| Year Ended September 30, 2003 | High | Low |
|---|---|---|
| First Quarter | $0.90 | $0.52 |
| Second Quarter | $2.10 | $0.60 |
| Third Quarter | $2.50 | $1.40 |
| Fourth Quarter | $4.50 | $1.60 |

| Year Ended September 30, 2004 | High | Low |
|---|---|---|
| First Quarter | $6.05 | $3.00 |
| Second Quarter | $5.90 | $4.00 |
| Third Quarter | $6.90 | $4.66 |
| Fourth Quarter | $5.30 | $3.35 |

Substantially all of the holders of our common stock maintain ownership of their shares in "street name" accounts and are not, individually, shareholders of record. As of December 1, 2004, there were approximately 80 holders of record of our common stock. However, we believe there are in excess of 500 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. Under the terms of our outstanding preferred stock, no dividends may be paid on our common stock unless all cumulative cash dividends due on the preferred stock have been paid or provided for.

Repurchase Program

In 2000, our Board of Directors authorized the repurchase of up to $l.0 million of our outstanding common stock from time to time in the open market at prevailing market prices or in privately negotiated transactions. The repurchased shares will be held in treasury and used for general corporate purposes including possible use in our employees' stock plans or for acquisitions. We did not repurchase any shares during the 2003 or 2004 fiscal years.

ITEM 6. SELECTED FINANCIAL DATA

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

| | Year ended September 30, | | | | |
|---|---|---|---|---|---|
| | 2004 | 2003 | 2002 | 2001 | 2000 |
| Net Sales and service income | $47,071 | $ 33,327 | $ 25,409 | $ 22,885 | $ 22,003 |
| Income from operations | 9,484 | 6,197 | 3,550 | 4,855 | 6,134 |
| Net income | 5,814 | 4,493 | 2,201 | 2,851 | 3,708 |
| Earnings per share | | | | | |
| Basic | $ .46 | $ .33 | $ .10 | $ .16 | $ .25 |
| Diluted | $ .41 | $ .30 | $ .10 | $ .16 | $ .24 |
| Total assets | $ 32,359 | $ 31,748 | $ 26,531 | $ 25,335 | $21,951 |
| Long-term obligations inclusive of current maturities | $ 11,610 | $6,912 | $6,276 | $6,253 | $ 5,039 |

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The following discussion and analysis of financial condition and results of operations should be read in conjunction with our consolidated historical financial statements and the notes to those statements that appear elsewhere in this report. Certain statements in the discussion contain forward-looking statements based upon current expectations that involve risks and uncertainties, such as plans, objectives, expectations and intentions. Actual results and the timing of events could differ materially from those anticipated in these forward-looking statements as a result of a number of factors, including those set forth under "Business - Risk Factors" and elsewhere in this report.

General

We and our subsidiaries, Tulsat, Lee Enterprise, NCS, ComTech Services, Tulsat - Texas and Tulsat - Atlanta comprise an organization involved in the re-manufacture, repair and sale of previously owned cable television ("CATV") equipment and the distribution of new and surplus equipment to CATV operators. New sales are defined as products that are purchased from the manufacturer, and includes new surplus, which is defined as inventory items purchased from other distributors or MSOs with excess equipment that have never been used. Remanufactured sales are defined as used inventory that is updated to meet customer needs and requirements.

Overview

It is difficult to time the placing of orders in our business due to cyclical conditions that exist in the broadband and cable industry and present economic conditions that affect it. Fiscal 2004 continued to be a challenging business environment in the industry due to a significant reduction in capital spending that began in fiscal 2001. We believe we are in a unique position to service those MSOs, which are looking to minimize costs. We have a large inventory of new and used equipment, $16.4 million and $5.7 million, respectively, at September 30, 2004. We also offer repair services, which are available to our customers who include some of the largest cable operators in the industry. The industry conditions have affected all equipment suppliers, and we have worked to minimize the negative impact of these conditions on our financial results and operations. We have aggressively sought to stimulate sales by marketing our products and services to the larger MSOs, and we have managed our receivables to minimize any bad debt write-offs. Our efforts have resulted in increasing sales in a slowly expanding economy (41.2% over last year), while minimizing the overall impact of bad debts written-off in total compared to net income. However, our largest risk is our investment in inventory. After consideration of continued analysis, review, and evaluation of our inventory, we recorded an allowance for excess and obsolete inventory of $1,093,000, representing 5% of inventory at September 30, 2004. At September 30, 2003, this allowance amounted to $447,100. We expect fiscal 2005 to continue the trend of increasing sales based on preliminary results from increased sales in the first quarter of 2005 compared to first quarter 2004. However, there is no assurance that revenues in fiscal 2005 will continue to exceed those for comparable periods in fiscal 2004 due to the factors discussed elsewhere in this report.

## Results of Operation

Year Ended September 30, 2004, Compared to Year Ended September 30, 2003 (all references to years are to fiscal years)

Net Sales. Net sales climbed $13.7 million or 41.2% to $47.1 million for 2004 from $33.3 million for 2003. Sales of new and refurbished equipment increased 47.3% from $28.8 million in 2003 to $42.4 million for 2004, primarily due to the positive results of our marketing initiatives and the strengthening of our distributor relationships. Sales of new Scientific-Atlanta and Motorola equipment increased substantially as we strengthened our strategic alliances with these manufacturers. Repair service revenues increased by 2.7% from $4.5 million last year to $4.6 million this year. The increase in repair services was due to the continued focus of being a leading repair service provider for both warranty and non-warranty repairs.

Costs of Sales. Costs of sales includes the costs of new and refurbished equipment, on a weighted average cost basis, sold during the period, the equipment costs used in repairs, and the related transportation costs. Costs of sales this year were 61.2% of net sales compared to 57.2% last year. Costs of sales for new and refurbished equipment increased to 65.2% of net sales for 2004 from 63.3% of net sales for 2003. This was primarily due to the higher proportion in 2004 of sales of new equipment, which has margins lower than that of refurbished equipment. Costs of sales for repair services increased to 24.6% of net sales for 2004 from 19.9% of net sales for 2003. This increase was due primarily to the high-end hybrid and fiber optic equipment being repaired, which involves a higher relative cost of material.

Gross Profit. Gross profit climbed $4.0 million, or 28.1%, to $18.3 million for fiscal 2004 from $14.3 million for fiscal 2003. The gross margin percentage was 38.8% for the current year, compared to 42.8% for last year. The percentage decrease was primarily due to an increase in sales of new and surplus equipment, which is accompanied by margins lower than that of re-manufactured equipment or repairs.

Operating, Selling, General and Administrative Expenses. Operating, selling, general and administrative expenses include all personnel costs, including fringe benefits, insurance and taxes, occupancy, transportation, communication and professional services, among other less significant accounts. Operating, selling, general and administrative expenses increased by $693,000 for fiscal 2004 to $8.5 million from $7.8 million in 2003, an increase of 8.9%. The increase in operating, selling, general and administrative expenses was primarily due to increases in salaries and wages and the incurrence of fees for the Company's commencement of trading on the American Stock Exchange.

Income from Operations. Income from operations increased $3.3 million, or 53.1%, to $9.5 million for 2004 from $6.2 million for 2003. This increase was primarily due to increases in sales of new equipment to the larger MSOs, partially offset by the lower margins received and the increase in our operating, selling, general and administrative expenses.

Interest Expense. Interest expense for fiscal 2004 was $158,000 compared to $217,000 in fiscal 2003. The decrease was primarily attributable to a lower average interest rate on our line of credit and the lower average balances outstanding on this line during 2004. The weighted average interest rate paid on the line of credit decreased to 2.85% for 2004 from 2.98% for 2003.

Income Taxes. The provision for income taxes for fiscal 2004 increased to $3.5 million from $1.5 million in fiscal 2003. The increase was primarily due to higher pre-tax earnings in fiscal 2004 and a reduction in fiscal 2003 of the Company's allowance against deferred tax assets due to favorable tax developments during that period. For a more complete discussion of income taxes, please see "Note 4 - Income Taxes" in the notes to the consolidated financial statements.

Year Ended September 30, 2003, Compared to Year Ended September 30, 2002 (all references to years are to fiscal years)

Net Sales. Net sales climbed $7.9 million or 31.2% to $33.3 million for 2003 from $25.4 million for 2002. Sales of new and refurbished equipment increased 33.9% from $21.5 million for 2002 to $28.8 million for 2003 as we strengthened our role as a Master Distributor for several of Scientific-Atlanta's legacy products and increased sales of Motorola products. Our focus on increasing repair revenue resulted in a 15.8% increase in those revenues, from $3.9 million for 2002 to $4.5 million for 2003. The increase in repair services was due to the continued focus of being a leading repair service provider and the expansion of our repairs sales to our Atlanta operations which began in June of 2002.

Costs of Sales. Costs of sales includes the costs of new and refurbished equipment, on a weighted average cost basis, sold during the period, the equipment costs used in repairs, and the related transportation costs. Costs of sales for 2003 were 57.2% of net sales compared to 56.6% for 2002. Costs of sales for new and refurbished equipment decreased slightly to 63.3% of net sales for 2003 from 63.8% of net sales for 2002. This was primarily due to the write-down of inventory in 2002 of $1.4 million, partially offset by the allowance for obsolete inventory recorded in 2003 of $447,000. Costs of sales for repair services increased to 19.9% of net sales for 2003 from 16.9% of net sales for 2002. This increase was due primarily to the increase in our repairs on more high-end hybrid and fiber optic equipment, which involve a higher relative cost of material.

Operating, Selling, General and Administrative Expenses. Operating, selling, general and administrative expenses includes all personnel costs, including fringe benefits, insurance and taxes, occupancy, transportation (other than freight-in), communication and professional services, among other less significant accounts. Operating, selling, general and administrative expenses increased $629,000 or 8.8% in 2003 over the previous year. Most of this increase was directly attributable to the commencement of operations of Tulsat - Atlanta in June 2002, coupled with an expanding sales force and other added expenses incurred to meet the marketing initiatives described previously.

Income from Operations. Income from operations increased 74.6% to $6.2 million for 2003 from $3.5 million for 2002. This increase was primarily due to the increase in net sales and the inventory write-down in 2002, partially offset by the charge in 2003 to reduce inventory for obsolete equipment and the increase in our operating, selling, general and administrative expenses.

Interest Expense. Interest expense for fiscal 2003 was $217,000 compared to $245,000 in fiscal 2002. The decrease was primarily attributable to a lower average interest rate on our line of credit, partially offset by higher average balances outstanding on this line during 2003. The weighted average interest rate paid on the line of credit decreased to 2.98% for 2003 from 3.67% for 2002.

Income Taxes. The provision for income taxes for fiscal 2003 increased to $1.5 million from $1.1 million in fiscal 2002. The increase was primarily due to higher pre-tax earnings, partially offset by a favorable impact from changes in the deferred tax valuation allowance. For a more complete discussion of income taxes, please see "Note 4 - Income Taxes" in the notes to the consolidated financial statements.

Liquidity and Capital Resources

We finance our operations primarily through internally generated funds and a bank line of credit.

During 2004, we generated approximately $5.4 million cash flow from operations after decreasing the net carrying value of inventory by $1.2 million, and increased our bank borrowings by $6.0 million, which we used to invest in property ($77,000), repurchase the outstanding Series A Preferred Stock ($8.0 million), repay stockholder notes ($1.2 million), and meet our preferred stock dividend obligations of $1.34 million.

We lease various properties primarily from a company owned by our principal shareholders. Future minimum lease payments under these leases are as follows:

| | |
|---|---|
| 2005 | $ 480,240 |
| 2006 | 380,040 |
| 2007 | 360,000 |
| 2008 | 324,000 |
| | $ 1,544,280 |

Cash used in financing activities in 2004 was primarily used to pay dividends on our Series A and Series B Preferred Stock. With the redemption of the Series A Preferred Stock on September 30, 2004, dividends on the remaining Series B preferred stock total $840,000 annually. The outstanding common and preferred stock is beneficially owned by our principal shareholders as reflected in the following table.

Stock Ownership

| Name of Beneficial Owner | Percent of Common Stock Beneficially Owned | Percent of Series B Preferred Stock Beneficially Owned (A) |
|---|---|---|
| David E. Chymiak | 39.0% | 50.0% |
| Kenneth A. Chymiak | 35.2% | 50.0% |

(A) The outstanding preferred stock has an aggregate preference upon liquidation of $12,000,000.

On September 29, 2004, David Chymiak and Ken Chymiak entered into a stock purchase agreement in which they sold 500,000 shares of their common stock to Barron Partners, LP, a private investment partnership, for $3.25 per share. Under this agreement, Barron also received options to purchase up to 3 million additional shares of the common stock owned by these majority shareholders. Option 1 grants Barron the option to purchase an additional one million shares over a period of 15 months at a price of $4.25 per share. Option 2 grants Barron the option to purchase an additional one million shares over a period of 18 months at a price of $5.25 per share. Option 3 grants Barron the option to purchase an additional one million shares over a period of 24 months at a price of $6.25 per share. The Company did not receive any of the proceeds from the sale of the shares and will not receive any of the proceeds from the exercise of any of the options, but paid the cost of registering the sales for resale by the selling shareholders. The Company filed a registration statement covering the resale of the shares of common stock sold as well as the shares of common stock issuable upon exercise of the options.

We have a line of credit with the Bank of Oklahoma under which we are authorized to borrow up to $7.0 million at a borrowing rate based on the prevailing 30-day LIBOR rate plus 2.0% (3.84% at September 30, 2004.) This line of credit will provide the lesser of $7.0 million or the sum of 80% of qualified accounts receivable and 50% of qualified inventory in a revolving line of credit for working capital purposes. The line of credit is collateralized by inventory, accounts receivable, equipment and fixtures, and general intangibles and had an outstanding balance at September 30, 2004, of $3.2 million, due September 30, 2005.

An $8 million amortizing term note with Bank of Oklahoma was obtained to finance the redemption of the outstanding share of the Series A convertible preferred stock at September 30, 2004. The note is due on September 30, 2009 with monthly principal payments of $100,000 plus accrued interest, and the note bears interest at the prevailing 30-day LIBOR rate plus 2.50%. An interest rate swap was entered into simultaneously with the note on September 30, 2004, which fixed the interest rate at 6.13%. Notes payable secured by real estate of $384,381 are due in monthly payments through 2013 with interest at 5.5% through 2008, converting thereafter to prime minus .25%.

The aggregate maturities of notes payable and the line of credit for the five years ending September 30, 2009 are as follows:

| | |
|---|---|
| 2005 | $ 4,462,230 |
| 2006 | 1,237,047 |
| 2007 | 1,237,047 |
| 2008 | 1,237,047 |
| 2009 | 3,237,047 |
| Thereafter | 199,146 |
| Total | $ 11,609,564 |

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.

Critical Accounting Policies and Estimates

Note 1 to the Consolidated Financial Statements in this Form 10-K for fiscal year 2004 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 of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. We base our estimates and judgments on historical experience, current market conditions, and various other factors we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The most significant estimates and assumptions relate to the carrying value of our inventory and, to a lesser extent, the adequacy of our allowance for doubtful accounts.

Inventory Valuation

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

We market our products primarily to MSOs and other users of cable television equipment who are seeking products for which manufacturers have discontinued production, or are seeking shipment on a same-day basis. Our position in the industry requires us to carry large inventory quantities relative to annual sales, but also allows us to realize high overall gross profit margins on our sales. Carrying these large inventories represents our largest risk. For individual inventory items, we may carry inventory quantities that are excessive relative to market potential, or we may not be able to recover our acquisition costs for sales that we do make.

In order to address the risks associated with our investment in inventory, we regularly review inventory quantities on hand and reduce the carrying value when the loss of usefulness of an item or other factors, such as obsolete and excess inventories, indicate that cost will not be recovered when an item is sold. Demand for some of the items in our inventory has been impacted by recent economic conditions present in the cable industry. We recorded an allowance of 2%, or $447,000, of the inventory balance at September 30, 2003 as a reserve for excess and obsolete equipment. We increased this allowance to a total of 5%, or $1,093,000, of the inventory balance at September 30, 2004. Any significant, unanticipated changes in product demand, technological developments or continued economic trends affecting the cable industry could have a significant impact on the value of our inventory and operating results.

Inbound freight charges are included in costs 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, as in the case of the bankruptcy of Adelphia and its affiliates, or weakening in economic trends could have a significant impact on the collectibility of receivables and our operating results. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. The reserve for bad debts decreased to $68,063 at September 30, 2004 from $78,359 at September 30, 2003. This decrease is primarily due to the increasingly optimistic outlook for economic conditions in the coming year. At September 30, 2004, accounts receivable, net of allowance for doubtful accounts, amounted to $4.8 million.

Impact of Recently Issued Accounting Standards

In November 2002, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 requires certain guarantees to be recorded at fair value regardless of the probability of the loss. The adoption did not have a material impact on our consolidated financial statements.

In January 2003, the FASB issued FASB Interpretation No. 46 (FIN 46), "Consolidation of Variable Interest Entities.", and a revised interpretation of FIN 46 (FIN 46R) in December 2003. FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The provisions FIN 46 are effective immediately for all arrangements entered into after January 31, 2003. We have not invested in any entities that we believe are variable interest entities for which we are the primary beneficiary. The adoption of FIN 46R had no impact on our financial position, results of operations or cash flows.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs", which revised ARB No. 43, relating to inventory costs. This revision is to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage). This Statement requires that these items be recognized as a current period charge regardless of whether they meet the criterion specified in ARB 43. In addition, this Statement requires the allocation of fixed production overheads to the costs of conversion be based on normal capacity of the production facilities. SFAS 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. We believe that the adoption of this standard will have no material impact on our financial position and results of operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's exposure to market rate risk for changes in interest rates relates primarily to its revolving line of credit. The interest rates under the line of credit and the stockholder notes fluctuate with the LIBOR rate. At September 30, 2004, the outstanding balances subject to variable interest rate fluctuations totaled $3.2 million. Future changes in interest rates could cause our borrowing costs to increase or decrease.

The Company maintains no cash equivalents. However, the Company entered into an interest rate swap on September 30, 2004, in an amount equivalent to the $8 million notes payable in order to minimize interest rate risk. Although the note bears interest at the prevailing 30-day LIBOR rate plus 2.50%, the swap effectively fixed the interest rate at 6.13%. The fair value of this derivative will increase or decrease opposite any future changes in interest rates. All sales and purchases are denominated in U.S. dollars.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

# MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of ADDvantage Technologies Group, Inc. is responsible for the accuracy and consistency of all the information contained in the annual report, including the accompanying consolidated financial statements. These statements have been prepared to conform with U.S. generally accepted accounting principles appropriate to the circumstances. The statements include amounts based on estimates and judgments as required.

ADDvantage Technologies Group, Inc. maintains internal accounting controls designed to provide reasonable assurance that the financial records are accurate, that the assets of the Company are safeguarded, and that the financial statements present fairly the consolidated financial position, results of operations and cash flows of the Company.

The Audit Committee of the Board of Directors reviews the scope of the audits and the findings of the independent certified public accountants. The auditors meet regularly with the Audit Committee to discuss audit and financial reporting issues, with and without management present.

Tullius Taylor Sartain & Sartain LLP, our independent registered public accounting firm, has audited the financial statements prepared by management. Their opinion on the statements is presented below.

/s/ Kenneth A. Chymiak
Kenneth A. Chymiak,
President, Chief Executive Officer
and Chief Financial Officer

# REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Stockholders of
ADDvantage Technologies Group, Inc.

We have audited the accompanying consolidated balance sheets of ADDvantage Technologies Group, Inc. and subsidiaries (the "Company") as of September 30, 2004 and 2003, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended September 30, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ADDvantage Technologies Group, Inc. and subsidiaries as of September 30, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended September 30, 2004, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States) and were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidated supplemental schedule II is presented for purposes of complying with the Securities and Exchange Commission's rules and are not a part of the basic consolidated financial statements. This schedule has been subjected to the auditing procedures applied in our audits of the basic consolidated financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

As discussed in Note 1 to the consolidated financial statements, in 2003, the Company changed its method of accounting for goodwill as a result of adopting the provisions of Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets."

/s/ TULLIUS TAYLOR SARTAIN & SARTAIN LLP

Tulsa, Oklahoma
December 3, 2004

ADDVANTAGE TECHNOLOGIES GROUP, INC.
CONSOLIDATED BALANCE SHEETS

| Assets | September 30, 2004 | 2003 |
|---|---|---|
| Current assets: | | |
| Cash | $ 1,316,239 | $ 496,283 |
| Accounts receivable, net of allowance of $68,063 and $78,359 | 4,787,749 | 3,783,680 |
| Inventories, net of allowance for excess and obsolete inventory $1,093,000 and $447,100, respectively | 20,978,714 | 22,131,096 |
| Deferred income taxes | 651,000 | 367,000 |
| Total current assets | 27,733,702 | 26,778,059 |
| Property and equipment, at cost: | | |
| Machinery and equipment | 2,138,798 | 2,061,598 |
| Land and buildings | 1,302,527 | 1,326,939 |
| Leasehold improvements | 521,972 | 527,972 |
| | 3,963,297 | 3,910,509 |
| Less accumulated depreciation and amortization | (1,561,698) | (1,284,347) |
| Net property and equipment | 2,401,599 | 2,626,162 |
| Other assets: | | |
| Deferred income taxes | 1,042,000 | 1,154,000 |
| Goodwill | 1,150,060 | 1,150,060 |
| Other assets | 31,222 | 39,628 |
| Total other assets | 2,223,282 | 2,343,688 |
| Total assets | $ 32,358,583 | 31,747,909 |

See notes to audited consolidated financial statements.

ADDVANTAGE TECHNOLOGIES GROUP, INC.
CONSOLIDATED BALANCE SHEETS

| Liabilities and Stockholders' Equity | September 30, 2004 | 2003 |
|---|---|---|
| Current liabilities: | | |
| Accounts payable | $ 1,758,695 | $ 2,631,221 |
| Accrued expenses | 1,011,911 | 829,459 |
| Accrued income taxes | 120,748 | 95,114 |
| Bank revolving line of credit | 3,225,183 | 5,185,902 |
| Notes payable - current portion | 1,237,047 | 118,393 |
| Dividends payable | 210,000 | 310,000 |
| Stockholder notes | - | 838,473 |
| Total current liabilities | 7,563,584 | 10,008,562 |
| Notes payable | 7,147,334 | 384,411 |
| Stockholder notes | - | 385,171 |
| Stockholders' equity: | | |
| Preferred stock, 5,000,000 shares authorized, $1.00 par value, at stated value: | | |
| Series A, 5% cumulative convertible; 200,000 shares issued and outstanding at September 30, 2003 with a stated value of $40 per share | - | 8,000,000 |
| Series B, 7% cumulative; 300,000 shares issued and outstanding with a stated value of $40 per share | 12,000,000 | 12,000,000 |
| Common stock, $.01 par value; 30,000,000 shares authorized; 10,081,789 and 10,030,414 shares issued and outstanding, respectively | 100,818 | 100,304 |
| Paid-in capital | (7,285,564) | (7,389,197) |
| Retained earnings | 12,886,575 | 8,312,822 |
| | 17,701,829 | 21,023,929 |
| Less: Treasury stock, 21,100 shares at cost | (54,164) | (54,164) |
| Total stockholders' equity | 17,647,665 | 20,969,765 |
| Total liabilities and stockholders' equity | $ 32,358,583 | $31,747,909 |

See notes to audited consolidated financial statements.

ADDVANTAGE TECHNOLOGIES GROUP, INC.
CONSOLIDATED STATEMENTS OF INCOME

| | Year ended September 30, 2004 | 2003 | 2002 |
|---|---|---|---|
| Net sales income | $42,430,052 | $28,809,947 | $21,508,380 |
| Net service income | 4,641,277 | 4,517,798 | 3,900,551 |
| | 47,071,329 | 33,327,745 | 25,408,931 |
| Costs of sales | 28,815,132 | 19,072,042 | 14,370,776 |
| Gross profit | 18,256,197 | 14,255,703 | 11,038,155 |
| Operating, selling, general and administrative expenses | 8,494,486 | 7,801,231 | 7,172,510 |
| Depreciation and amortization | 277,352 | 257,821 | 315,691 |
| Income from operations | 9,484,359 | 6,196,651 | 3,549,954 |
| Interest expense | 157,606 | 217,063 | 244,746 |
| Income before income taxes | 9,326,753 | 5,979,588 | 3,305,208 |
| Provision for income taxes | 3,513,000 | 1,487,000 | 1,104,000 |
| Net income | 5,813,753 | 4,492,588 | 2,201,208 |
| Preferred stock dividends | 1,240,000 | 1,240,000 | 1,240,000 |
| Net income attributable to common stockholders | 4,573,753 | $ 3,252,588 | $ 961,208 |
| Earnings per share: | | | |
| Basic | $ 0.46 | $ 0.33 | $ 0.10 |
| Diluted | $ 0.41 | $ 0.30 | $ 0.10 |
| Shares used in per share calculation | | | |
| Basic | 10,041,197 | 10,007,756 | 9,991,716 |
| Diluted | 12,104,541 | 12,021,235 | 11,991,716 |

See notes to audited consolidated financial statements.

ADDVANTAGE TECHNOLOGIES GROUP, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years ended September 30, 2004, 2003 and 2002

| | Common Stock | | Series A Preferred Stock | Series B Preferred Stock | Paid-in Capital | Retained Earnings (Deficit) | Treasury Stock | Total |
|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | | | | | | |
| Balance, September 30, 2001 | 10,011,716 | $100,117 | $8,000,000 | $12,000,000 | ($7,389,010) | $ 4,099,026 | ($54,164) | $16,755,969 |
| Net income | - | - | - | - | - | 2,201,208 | - | 2,201,208 |
| Preferred stock dividends | - | - | - | - | - | (1,240,000) | - | (1,240,000) |
| Balance, September 30, 2002 | 10,011,716 | 100,117 | 8,000,000 | 12,000,000 | (7,389,010) | (5,060,234) | (54,164) | 17,717,177 |
| Net income | - | - | - | - | - | 4,492,588 | - | 4,492,588 |
| Preferred stock dividends | - | - | - | - | - | (1,240,000) | - | (1,240,000) |
| Issue common shares for business purchase | 18,698 | 187 | - | - | (187) | - | - | - |
| Balance, September 30, 2003 | 10,030,414 | 100,304 | 8,000,000 | 12,000,000 | (7,389,197) | 8,312,822 | (54,164) | 20,969,765 |
| Net income | - | - | - | - | - | 5,813,753 | - | 5,813,753 |
| Preferred stock dividends | - | - | - | - | - | (1,240,000) | - | (1,240,000) |
| Stock options exercised | 51,375 | 514 | - | - | 103,633 | - | - | 104,147 |
| Redemption of Series A Preferred Stock | - | - | (8,000,000) | - | - | - | - | (8,000,000) |
| Balance, September 30, 2004 | 10,081,789 | $100,818 | - | $12,000,000 | ($7,285,564) | $12,886,575 | ($54,164) | $17,647,665 |

See notes to audited consolidated financial statements.

ADDVANTAGE TECHNOLOGIES GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Year ended September 30, 2004 | 2003 | 2002 |
|---|---|---|---|
| **Cash Flows from Operating Activities** | | | |
| Net income | $ 5,813,753 | $4,492,588 | $2,201,208 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 277,352 | 257,821 | 315,691 |
| Loss on disposal of property and equipment | 24,412 | - | - |
| Deferred income tax benefit | (172,000) | (414,000) | (81,000) |
| Change in: | | | |
| Receivables | (1,004,069) | (278,382) | (509,811) |
| Inventories | 1,152,382 | (4,456,859) | 144,883 |
| Other assets | 8,406 | (12,770) | 79,634 |
| Accounts payable | (872,526) | 1,159,549 | 619,248 |
| Accrued liabilities | 208,086 | 337,975 | (397,385) |
| Net cash provided by operating activities | 5,435,796 | 995,922 | 2,372,468 |
| **Cash Flows from Investing Activities** | | | |
| Additions to property and equipment | (77,201) | (671,412) | (610,630) |
| Net cash used in investing activities | (77,201) | (671,412) | (610,630) |
| **Cash Flows from Financing Activities** | | | |
| Net change under bank revolving line of credit | (1,960,719) | 712,221 | 222,548 |
| Payments on stockholder notes | (1,223,644) | (335,705) | (150,000) |
| Proceeds on notes payable | 8,000,000 | 440,000 | - |
| Payments on notes payable | (118,423) | (180,483) | (49,204) |
| Proceeds from stock options exercised | 104,147 | - | - |
| Payments of preferred dividends | (1,340,000) | (1,240,000) | (1,240,000) |
| Redemption of preferred stock | (8,000,000) | - | - |
| Net cash used in financing activities | (4,538,639) | (603,967) | (1,216,656) |
| Net (increase) decrease in cash | 819,956 | (279,457) | 545,182 |
| Cash, beginning of year | 496,283 | 775,740 | 230,558 |
| Cash, end of year | $ 1,316,239 | $496,283 | $775,740 |
| **Supplemental Cash Flow Information** | | | |
| Cash paid for interest | $ 172,426 | $205,626 | $244,253 |
| Cash paid for income taxes | $ 3,669,170 | $1,699,785 | $1,832,342 |

See notes to audited consolidated financial statements.

## Note 1 - Summary of Significant Accounting Policies

### Description of business

ADDvantage Technologies Group, Inc. and its subsidiaries (the "Company") sell new, surplus, and re-manufactured cable television equipment throughout North America, Latin America and South America in addition to being a repair center for various cable companies. The Company operates in one business segment.

### Principles of consolidation

The consolidated financial statements include the accounts of ADDvantage Technologies Group, Inc. and its subsidiaries: Tulsat Corporation, NCS Industries, Inc., Tulsat Atlanta LLC, ADDvantage Technologies Group of Missouri, Inc. (dba "ComTech Services"), ADDvantage Technologies Group of Nebraska, Inc. (dba "Lee Enterprise") and ADDvantage Technologies Group of Texas, Inc. (dba "Tulsat Texas"). All significant intercompany balances and transactions have been eliminated in consolidation.

### Accounts receivable

Trade receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history, and current economic conditions. Trade receivables are written-off when deemed uncollectible. Recoveries of trade receivables previously written-off are recorded when received.

### Inventory valuation

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

### Property and equipment

Property and equipment consists of office equipment, other equipment, and buildings, with estimated useful lives of 5 years, 10 years, and 40 years, respectively. Depreciation is provided using straight line and accelerated methods over the estimated useful lives of the related assets. Leasehold improvements are amortized over the remainder of the lease agreement. Repairs and maintenance are expensed as incurred, whereas major improvements are capitalized. Depreciation and amortization expense was $277,352, $257,821 and $157,267 for the years ended September 30, 2004, 2003 and 2002, respectively.

Income taxes

The Company provides for income taxes in accordance with the liability method of accounting pursuant to Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes." Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and tax carryforward amounts. Management provides a valuation allowance against deferred tax assets for amounts which are not considered "more likely than not" to be realized.

Revenue recognition

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

Derivatives

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended, requires that all derivatives, whether designated in hedging relationships or not, be recorded on the balance sheet at fair value. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. If the derivative is designated as a cash flow hedge, the effective portions of the changes in the fair value of the derivative are recorded in Other Comprehensive Income and are recognized in the income statement when the hedged item affects earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized in other income (expense).

Our objective of holding derivatives is to minimize the risks of interest rate fluctuation by using the most effective methods to eliminate or reduce the impact of this exposure. The Company has designated its interest rate swap as a hedge for the underlying note payable. Interest expense on the note is adjusted to include the payment made or received under the interest rate swap agreement.

Freight

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

Advertising costs

Advertising costs are expensed as incurred. Advertising expense was $265,112, $229,534 and $224,468 for the years ended September 30, 2004, 2003 and 2002 respectively.

Management estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Any significant, unanticipated changes in product demand, technological developments or continued economic trends affecting the cable industry could have a significant impact on the value of our inventory and operating results.

Concentrations of credit risk

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of trade receivables. Concentrations of credit risk with respect to trade receivables are limited because a large number of geographically diverse customers make up our customer base, thus spreading the trade credit risk. The Company controls credit risk through credit approvals, credit limits, and monitoring procedures. The Company performs in-depth credit evaluations for all new customers but does not require collateral to support customer receivables. In 2004, we purchased approximately 39% of our inventory from Scientific-Atlanta and approximately 14% of our inventory from Motorola. The concentration of suppliers of our inventory subjects us to risk.

Goodwill

In July, 2001, the Financial Accounting Standards Board ("FASB") issued Statements of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). SFAS 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets. SFAS 142 requires, among other things, that companies no longer amortize goodwill, but instead test goodwill for impairment at least annually. SFAS 142 was adopted by the Company on October 1, 2002, the date of the annual impairment review. The Company completed its transitional impairment testing of goodwill, which indicated that goodwill was not impaired as of October 1, 2002. Therefore, the adoption of this pronouncement had no impact on the Company's carrying value of its goodwill. Annual impairment testing indicates that goodwill is not impaired as of September 30, 2004. If SFAS 142 had been adopted in 2002, the Company's earnings would have been improved because of reduced amortization, as described below:

Goodwill - Adoption of Statement 142

Year ended September 30,

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Reported Net Income | $ 5,813,753 | $ 4,492,588 | $ 2,201,208 |
| Add back: Goodwill amortization | - | - | 158,424 |
| Adjusted Net Income | $ 5,813,753 | $ 4,492,588 | $ 2,359,632 |
| Basic Earnings per Share | | | |
| Reported Net Income | $0.46 | $0.33 | $0.10 |
| Add back: Goodwill amortization | - | - | 0.01 |
| Adjusted Net Income | $0.46 | $0.33 | $0.11 |
| Diluted Earnings per Share | | | |
| Reported Net Income | $0.41 | $0.30 | $0.10 |
| Add back: Goodwill amortization | - | - | 0.01 |
| Adjusted Net Income | $0.41 | $0.30 | $0.11 |

Employee stock-based awards

Employee stock-based awards are accounted for using the intrinsic value method prescribed in Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees" and related interpretations. Under APB No. 25, compensation expense is based on the difference, if any, on the date of grant between the fair value of the Company's stock and the exercise price. The Company accounts for stock issued to non-employees in accordance with the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation."

SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123") provides an alternative method of determining compensation cost for employee stock options, which alternative method may be adopted at the option of the Company. Had compensation cost been determined consistent with SFAS 123, the Company's net income would not have changed significantly.

Earnings per share

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

Fair value of financial instruments

The carrying amounts of accounts receivable and accounts payable approximate fair value due to their short maturities. The carrying value of the Company's line of credit approximates fair value since the interest rate fluctuates periodically based on the prime rate. Terms of the stockholder loans are similar to the bank loan. Management believes that the carrying value of the Company's borrowings approximate fair value based on credit terms currently available for similar debt.

Impact of recently issued accounting standards

In January 2003, the FASB issued FASB Interpretation No. 46 (FIN 46), "Consolidation of Variable Interest Entities," and a revised interpretation of FIN 46 (FIN 46R) in December 2003. FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The provisions of FIN 46 were effective immediately for all arrangements entered into after January 31, 2003. We have not invested in any entities that we believe are variable interest entities for which we are the primary beneficiary. The adoption of FIN 46 and 46R had no impact on our financial position, results of operations or cash flows.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs", which revised ARB No. 43, relating to inventory costs. This revision is to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage). This Statement requires that these items be recognized as a current period charge regardless of whether they meet the criterion specified in ARB 43. In addition, this Statement requires the allocation of fixed production overheads to the costs of conversion be based on normal capacity of the production facilities. SFAS 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. We believe that the adoption of this standard will have no material impact on our financial position and results of operations.

Reclassifications

Certain reclassifications have been made to the 2003 and 2002 financial statements to conform to the 2004 presentation.

Note 2 - Inventories

Inventories are summarized as follows:

| | 2004 | 2003 |
|---|---|---|
| New | $ 16,410,694 | $ 16,479,825 |
| Used | 5,661,020 | 6,098,371 |
| Allowance for excess and obsolete inventory | (1,093,000) | (447,100) |
| | $ 20,978,714 | $ 22,131,096 |

New inventory includes products purchased from the manufacturers plus "surplus-new" which is unused products purchased from other distributors or multiple system operators. Used inventory includes factory remanufactured, Company remanufactured and used products.

We regularly review inventory quantities on hand and a departure from cost is required when the loss of usefulness of an item or other factors, such as obsolete and excess inventories, indicate that cost will not be recovered when an item is sold. Demand for some of the items in our inventory has been impacted by recent economic conditions present in the cable industry. The Company recorded a charge to allow for obsolete inventory at September 30, 2004, increasing the cost of sales by $645,900. We recorded a charge to allow for obsolete inventory at September 30, 2003, increasing the cost of sales by $447,100. We wrote certain items in inventory down to their estimated market values at September 30, 2002, increasing the cost of sales by $1,442,938.

Note 3 - Line of Credit, Stockholder Notes, and Notes Payable

At September 30, 2004, a $3,225,183 balance is outstanding under a $7.0 million line of credit due September 30, 2005, with interest payable monthly based on the prevailing 30-day LIBOR rate plus 2.0% (3.84% at September 30, 2004). Borrowings under the line of credit are limited to the lesser of $7.0 million or the sum of 80% of qualified accounts receivable and 50% of qualified inventory for working capital purposes. Among other financial covenants, the line of credit agreement provides that the Company's net worth must be greater than $15.0 million plus 50% of annual net income (with no deduction for net losses), 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 $471,620 at September 30, 2004, and is included in the bank revolving line of credit.

An $8 million amortizing term note with Bank of Oklahoma was obtained to finance the redemption of the outstanding share of the Series A Convertible Preferred Stock at September 30, 2004. The note is due on September 30, 2009, with monthly principal payments of $100,000 plus accrued interest, and the note bears interest at the prevailing 30-day LIBOR rate plus 2.50%. An interest rate swap was entered into simultaneously with the note on September 30, 2004, which fixed the interest rate at 6.13%. Upon entering into this interest rate swap, the Company designated this derivative as a cash flow hedge by documenting our risk management objective and strategy for undertaking the hedge along with methods for assessing the swap's effectiveness. At September 30, 2004, the fair market value of the interest rate swap approximated its carrying value of $0. Notes payable secured by real estate of $384,381 are due in monthly payments through 2013 with interest at 5.5% through 2008, converting thereafter to prime minus .25%.

The aggregate maturities of notes payable and the line of credit for the five years ending September 30, 2009 are as follows:

| | |
|---|---|
| 2005 | $ 4,462,230 |
| 2006 | 1,237,047 |
| 2007 | 1,237,047 |
| 2008 | 1,237,047 |
| 2009 | 3,237,047 |
| Thereafter | 199,146 |
| Total | $ 11,609,564 |

Note 4 - Income Taxes

The provisions for income taxes consist of:

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Current | $ 3,685,000 | $ 1,901,000 | $1,185,000 |
| Deferred | (172,000) | (414,000) | (81,000) |
| | $ 3,513,000 | $ 1,487,000 | $1,104,000 |

The following table summarizes the differences between the U.S. federal statutory rate and the Company's effective tax rate for financial statement purposes for the year ended September 30,:

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Statutory tax rate | 34.0% | 34.0% | 34.0% |
| State income taxes, net of U.S. federal tax benefit | 4.7 | 5.0 | 2.4 |
| Non-deductible goodwill amortization and other non-deductible expenses | - | - | 1.4 |
| Tax credits and exclusions | (0.6) | (2.8) | - |
| Adjustment of deferred tax asset valuation allowance | - | (7.4) | (3.8) |
| Other | (0.4) | (3.9) | (0.6) |
| | 37.7% | 24.9% | 33.4% |

Deferred tax assets consist of the following at September 30:

| | 2004 | 2003 |
|---|---|---|
| Net operating loss carryforwards | $ 1,316,000 | $ 1,417,000 |
| Financial basis in excess of tax basis of certain assets | (155,000) | (131,000) |
| Financial liability accruals | 532,000 | 235,000 |
| Net deferred tax asset | $ 1,693,000 | $ 1,521,000 |
| Deferred tax assets are classified as: | | |
| Current | $ 651,000 | $ 367,000 |
| Non-Current | 1,042,000 | 1,154,000 |
| | $ 1,693,000 | $ 1,521,000 |

Utilization of ADDvantage's net operating loss carry forward of approximately $3,467,000 to reduce future taxable income is limited to an annual amount of $265,000. The NOL carryforward expires in varying amounts from 2014 to 2019.

Note 5 - Stockholders' Equity

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 September 30, 2004, 1,001,041 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, 811,041 shares were available for future grants at September 30, 2004.

A summary of the status of the Company's stock options at September 30, 2004, 2003 and 2002 and changes during the years then ended is presented below.

| | 2004 | | 2003 | | 2002 | |
|---|---|---|---|---|---|---|
| | Shares | Wtd. Avg. Ex. Price | Shares | Wtd. Avg. Ex. Price | Shares | Wtd. Avg. Ex. Price |
| Outstanding, beginning of year | 179,000 | $1.97 | 114,500 | $2.07 | 114,500 | $2.07 |
| Granted | 4,000 | 4.40 | 71,500 | 1.81 | - | - |
| Exercised | (51,375) | 2.03 | - | - | - | - |
| Canceled | (500) | 1.50 | (7,000) | 1.50 | - | - |
| Outstanding, end of year | 131,125 | $2.83 | 179,000 | $1.97 | 114,500 | $2.07 |
| Exercisable, end of year | 108,500 | $3.08 | 129,875 | $2.79 | 46,125 | $2.31 |
| Weighted average fair value of Options granted | $4.04 | | $1.55 | | N/A | |

The following table summarizes information about fixed stock options outstanding at September 30, 2004:

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Exercise Price | Number Outstanding At 9/30/04 | Remaining Contractual Life | Exercise Price | Number Exercisable At 9/30/04 | Exercise Price |
| $4.400 | 4,000 | 9.5 years | $4.400 | 2,500 | $1.900 |
| $1.650 | 5,000 | 7.5 years | $1.650 | 5,000 | $1.650 |
| $0.810 | 5,000 | 6.5 years | $0.810 | 5,000 | $0.810 |
| $1.500 | 5,000 | 5.5 years | $1.500 | 5,000 | $1.500 |
| $1.500 | 29,625 | 4.5 years | $1.500 | 14,500 | $1.500 |
| $3.125 | 22,500 | 3.5 years | $3.125 | 22,500 | $3.125 |
| $4.000 | 50,000 | 3.0 years | $4.000 | 50,000 | $4.000 |
| | 131,125 | | | 108,500 | |

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants in 2004: risk-free interest rates of 2.0%; expected dividend yield of 0.0%; expected lives of 6 years; and estimated volatility of 142%.

The Series B Preferred Stock (the "Preferred Stock") has priority over the Company's common stock with respect to the payment of dividends and the distribution of assets. Cash dividends on the Preferred Stock shall be payable quarterly when and as declared by the Board of Directors. Interest accrues on unpaid dividends at the rate of 7% per annum. No dividends may be paid on any class of stock ranking junior to the Preferred Stock unless Preferred Stock dividends have been paid. Liquidation preference is equal to the stated value per share. The Preferred Stock is redeemable at any time at the option of the Board of Directors at a redemption price equal to the stated value per share. Holders of the Preferred Stock do not have any voting rights unless the Company fails to pay dividends for four consecutive dividend payment dates.

Note 6 - Related Parties

Cash used in financing activities in 2004 was primarily used to pay dividends on the Company's Series A and Series B Preferred Stock. On September 30, 2004, the Company redeemed, at the $8 million stated value, all of the Series A Preferred Stock, which was beneficially owned by David E. Chymiak and Kenneth A. Chymiak. With the redemption of the Series A Preferred Stock on September 30, 2004, dividends on the remaining Series B Preferred Stock total $840,000 annually. The outstanding common and preferred stock is beneficially owned by our principal shareholders as reflected in the following table.

Stock Ownership

| Name of Beneficial Owner | Percent of Common Stock Beneficially Owned | Percent of Series B Preferred Stock Beneficially Owned (A) |
|---|---|---|
| David E. Chymiak | 39.0% | 50.0% |
| Kenneth A. Chymiak | 35.2% | 50.0% |

(A) The outstanding preferred stock has an aggregate preference upon liquidation of $12,000,000.

In fiscal 1999, Chymiak Investments, L.L.C., which is owned by David E. Chymiak and Kenneth A. Chymiak, purchased from TULSAT Corporation on September 30, 1999, the real estate and improvements comprising the headquarters and a substantial portion of the other office and warehouse space of TULSAT Corporation for a price of $1,286,000. The price represents the appraised value of the property less the sales commission and other sales expenses that would have been incurred by TULSAT Corporation if it had sold the property to a third party in an arm's-length transaction. TULSAT Corporation entered into a five-year lease commencing October 1, 1999 with Chymiak Investments, L.L.C. covering the property. This lease was renewed on October 1, 2004 and will expire on September 30, 2008.

In fiscal 2001, ADDvantage Technologies Group of Texas borrowed $150,000 on June 26, 2001 from Chymiak Investments, L.L.C for the purchase of a building consisting of office and warehouse space at the location in Texas. The note is payable at 7.5% over 10 years and total interest paid in 2004, 2003 and 2002 was $4,898, $9,869 and $10,694, respectively. The note was repaid in April 2004.

In fiscal 2002, ADDvantage Technologies Group of Missouri completed additions at its location in Missouri and financed $342,000 from Chymiak Investments, L.L.C for a building consisting of office and warehouse space. The note is payable at 7.5% over 10 years and total interest paid in 2004, 2003 and 2002 was $11,694, $23,371 and $21,657, respectively. The note was repaid in April 2004.

Chymiak Investments Inc., which is owned by Kenneth A. Chymiak and his wife, Susan C. Chymiak, owns three other properties leased to TULSAT Corporation for five-year terms (all ending in 2008).

The Company had outstanding, unsecured stockholder loans of $800,000 at September 30, 2003. Of this amount, $650,000 was payable to revocable trusts for the benefit of Kenneth A. Chymiak and his wife and $150,000 was payable to David E. Chymiak. The interest rate on the notes was 1.25% below the Chase Manhattan Bank Prime, which was the same rate as the Company's bank line of credit. The total interest paid on the notes was $19,134 in 2004, $30,323 in 2003 and $47,352 in 2002. These notes were repaid in August and September 2004.

The Company leases various properties primarily from two companies owned by David E. Chymiak and Kenneth A. Chymiak. Future minimum lease payments under these leases are as follows:

| | |
|---|---|
| 2005 | $ 480,240 |
| 2006 | 380,040 |
| 2007 | 360,000 |
| 2008 | 324,000 |
| | $ 1,544,280 |

Related party rental expense for the years ended September 30, 2004, 2003 and 2002 was $466,000, $461,000 and $438,000, respectively.

Note 7 - Retirement Plan

The Company sponsors a 401(k) plan that covers all employees who are at least 21 years of age and have completed one year of service as of the plan effective date. The Company's contributions to the plan consist of a matching contribution as determined by the plan document. Pension expense under the 401(k) plan was $161,644 during the year ended September 30, 2004, $140,673 during the year ended September 30, 2003, and $111,144 during the year ended September 30, 2002.

Note 8 - Earnings per Share

| | Year ended September 30, 2004 | Year ended September 30, 2003 | Year Ended September 30, 2002 |
|---|---|---|---|
| Net income | $ 5,813,753 | $ 4,492,588 | $ 2,201,208 |
| Dividends on preferred stock | 1,240,000 | 1,240,000 | 1,240,000 |
| Net income attributable to common shareholders - basic | 4,573,753 | 3,252,588 | 961,208 |
| Dividends on Series A convertible preferred stock | 400,000 | 400,000 | 400,000 |
| Net income attributable to common shareholders - diluted | $ 4,973,753 | $ 3,652,588 | $ 1,361,208 |
| Weighted average shares outstanding | 10,041,197 | 10,007,756 | 9,991,716 |
| Potentially dilutive securities | | | |
| Assumed conversion of 200,000 shares of Series A convertible preferred stock | 2,000,000 | 2,000,000 | 2,000,000 |
| Effect of dilutive stock options | 63,344 | 13,479 | - |
| Weighted average shares outstanding - assuming dilution | 12,104,541 | 12,021,235 | 11,991,716 |
| Earnings per common share: | | | |
| Basic | $ 0.46 | $ 0.33 | $ 0.10 |
| Diluted | $ 0.41 | $ 0.30 | $ 0.10 |

Earnings per common share-diluted for the year ended September 30, 2002 are the same as basic earnings per share as conversion of potentially dilutive securities are anti-dilutive.

Note 9 - Quarterly Results of Operations (Unaudited)

The following is a summary of the quarterly results of operations for the years ended September 30, 2004 and 2003.

| | Three months ended | | | |
|---|---|---|---|---|
| | December 31 | March 31 | June 30 | September 30 |
| Fiscal year ended 2004 | | | | |
| Net sales and service income | $ 11,292,500 | $ 11,654,041 | $ 12,682,449 | $ 11,442,339 |
| Gross profit | 4,447,890 | 4,427,620 | 4,830,899 | 4,549,788 |
| Net income | 1,393,170 | 1,523,626 | 1,715,232 | 1,181,725 |
| Basic earnings per common share | 0.11 | 0.12 | 0.14 | 0.09 |
| Diluted earnings per common share | 0.10 | 0.11 | 0.12 | 0.08 |
| Fiscal year ended 2003 | | | | |
| Net sales and service income | $7,696,978 | $8,570,726 | $8,249,732 | $8,810,309 |
| Gross profit | 3,624,056 | 3,696,875 | 3,631,845 | 3,302,927 |
| Net income | 1,014,175 | 1,049,409 | 1,308,592 | 1,120,412 |
| Basic earnings per common share | 0.07 | 0.07 | 0.10 | 0.09 |
| Diluted earnings per common share | 0.07 | 0.07 | 0.10 | 0.06 |

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Our management carried out an evaluation pursuant to Rule 13a-15 of the Securities Exchange Act of 1934, as amended, under the supervision and with the participation of our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Report. Based upon that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports that we file or furnish under the Exchange Act are recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

During the period covered by this report on Form 10-K, there has been no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this item concerning our officers, directors and compliance with Section 16(a) of the Securities Exchange Act of 1934, as amended, is incorporated by reference to the information in the sections entitled "Identity of Officers," "Election of Directors" and "Compliance with Section 16(a) of the Exchange Act," respectively, of our Proxy Statement for the 2005 Annual Meeting of Shareholders (the "Proxy Statement") to be filed with the Securities and Exchange Commission within 120 days after the end of our fiscal year ended September 30, 2004.

ITEM 11. EXECUTIVE COMPENSATION

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

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item regarding principal accounting fees and services is incorporated by reference to the information set forth in the section entitled "Appointment Of Independent Auditors" of our Proxy Statement.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) 1. The following financial statements are included in Part II, Item 8 of this Form 10-K.

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of September 30, 2004 and 2003

Consolidated Statements of Operations for the years ended September 30, 2004, 2003 and 2002

Consolidated Statements of Stockholders' Equity for the years ended September 30, 2004, 2003 and 2002

Consolidated Statements of Cash Flows for the years ended September 30, 2004, 2003 and 2002

Notes to Consolidated Financial Statements

2. The following financial statement Schedule II - Valuation and Qualifying Accounts for the years ended September 30, 2004, 2003 and 2002 is filed as part of this report. All other financial statement schedules have been omitted because they are not applicable or are not required or the information required to be set forth therein is included in the financial statements or notes thereto contained in Part II, Item 8 of this current report.

Schedule II - Valuation and Qualifying Accounts

| | Balance at Beginning of Period | Charged to Costs and Expenses | Write-offs | Recoveries | Balance at End of Period |
|---|---|---|---|---|---|
| Period Ended September 30, 2004 | | | | | |
| Allowance for Doubtful Accounts | $ 78,359 | $(58,413) | $(19,968) | $ 68,085 | $ 68,063 |
| Allowance for Excess and Obsolete Inventory | 447,100 | 645,900 | - | - | 1,093,000 |
| Valuation Allowance of Deferred Tax Asset | - | - | - | - | - |
| Period Ended September 30, 2003 | | | | | |
| Allowance for Doubtful Accounts | $ 85,212 | $ 83,740 | $(90,593) | $ - | $ 78,359 |
| Allowance for Excess and Obsolete Inventory | - | 447,100 | - | - | 447,100 |
| Valuation Allowance of Deferred Tax Asset | 443,000 | - | - | 443,000 | - |
| Period Ended September 30, 2002 | | | | | |
| Allowance for Doubtful Accounts | $ - | $ 229,975 | $(144,763) | $ - | $ 85,212 |
| Allowance for Excess and Obsolete Inventory | - | - | - | - | - |
| Valuation Allowance of Deferred Tax Asset | 567,000 | - | - | 124,000 | 443,000 |

3. The following documents are included as exhibits to this Form 10-K. Those exhibits below incorporated by reference herein are indicated as such by the information supplied in the parenthetical thereafter. If no parenthetical appears after an exhibit, such exhibit is filed herewith.

Exhibit
-------

3.1 Certificate of Incorporation of the Company and amendments thereto incorporated by reference to Exhibit 3.1 to the Annual Report on Form 10-KSB filed with the Securities Exchange Commission by the Company on January 10, 2003.

3.2 Bylaws of the Company, as amended, incorporated by reference to Exhibit 3.2 to the Annual Report on Form 10-KSB filed with the Securities Exchange Commission by the Company on January 10, 2003.

4.1 Certificate of Designation, Preferences, Rights and Limitations of ADDvantage Media Group, Inc. Series A 5% Cumulative Convertible Preferred Stock and Series B 7% Cumulative Preferred Stock as filed with the Oklahoma Secretary of State on September 30, 1999 incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed with the Securities Exchange Commission by the Company on October 14, 1999.

10.1 Lease Agreement dated September 15, 1999 by and between Chymiak Investments, L.L.C. and TULSAT Corporation (formerly named DRK Enterprises, Inc.) incorporated by reference to Exhibit 10.3 to the Annual Report on Form 10-KSB filed with the Securities Exchange Commission by the Company on December 30, 1999.

10.2 Schedule of documents substantially similar to Exhibit 10.1 incorporated by reference to Exhibit 10.3 to the Annual Report on Form 10-KSB filed with the Securities Exchange Commission by the Company on December 30, 1999.

10.4 Form of promissory notes issued by TULSAT to David Chymiak and to Ken Chymiak Revocable Trust and Susan C. Chymiak Revocable Trust dated as of February 7, 2000 incorporated by reference to Exhibit 10.7 to the Annual Report on Form 10-KSB filed with the Securities Exchange Commission on January 9, 2001.

10.5 Revolving Credit and Term Loan Agreement dated September 30, 2004, by and between Bank of Oklahoma, N.A. ("Lender") and Registrant ("Borrower").

21.1 Subsidiaries incorporated by reference to Exhibit 21.1 to the Annual Report on Form 10-KSB filed with the Securities Exchange Commission by the Company on January 10, 2003.

23.1 Consent of Tullius Taylor Sartain & Sartain LLP.

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

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

SIGNATURES

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

ADDvantage Technologies Group, Inc.

Date: December 22, 2004 By: /s/ Kenneth A. Chymiak

Kenneth A. Chymiak, President

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

| | |
|---|---|
| Date: December 22, 2004 | /s/ David E. Chymiak<br>David E. Chymiak, Chairman of the Board of Directors |
| Date: December 22, 2004 | /s/ Kenneth A. Chymiak<br>Kenneth A. Chymiak, President, Chief Executive Officer and Director (Principal Executive Officer and Principal Financial Officer) |
| Date: December 22, 2004 | /s/ Dee Cooper<br>Dee Cooper, Controller (Principal Accounting Officer) |
| Date: December 22, 2004 | /s/ Stephen J. Tyde<br>Stephen J. Tyde, Director |
| Date: December 22, 2004 | /s/ Freddie H. Gibson<br>Freddie H. Gibson, Director |
| Date: December 22, 2004 | /s/ Henry F. McCabe<br>Henry F. McCabe, Director |

INDEX TO EXHIBITS

The following documents are included as exhibits to this Form 10-K. Those exhibits below incorporated by reference herein are indicated as such by the information supplied in the parenthetical thereafter. If no parenthetical appears after an exhibit, such exhibit is filed herewith.

| Exhibit | Description |
|---|---|
| 3.1 | Certificate of Incorporation of the Company and amendments thereto incorporated by reference to Exhibit 3.1 to the Annual Report on Form 10-KSB filed with the Securities Exchange Commission by the Company on January 10, 2003. |
| 3.2 | Bylaws of the Company, as amended, incorporated by reference to Exhibit 3.2 to the Annual Report on Form 10-KSB filed with the Securities Exchange Commission by the Company on January 10, 2003. |
| 4.1 | Certificate of Designation, Preferences, Rights and Limitations of ADDvantage Media Group, Inc. Series A 5% Cumulative Convertible Preferred Stock and Series B 7% Cumulative Preferred Stock as filed with the Oklahoma Secretary of State on September 30, 1999 incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed with the Securities Exchange Commission by the Company on October 14, 1999. |
| 10.1 | Lease Agreement dated September 15, 1999 by and between Chymiak Investments, L.L.C. and TULSAT Corporation (formerly named DRK Enterprises, Inc.) incorporated by reference to Exhibit 10.3 to the Annual Report on Form 10-KSB filed with the Securities Exchange Commission by the Company on December 30, 1999. |
| 10.2 | Schedule of documents substantially similar to Exhibit 10.1 incorporated by reference to Exhibit 10.3 to the Annual Report on Form 10-KSB filed with the Securities Exchange Commission on December 30, 1999. |
| 10.4 | Form of promissory notes issued by TULSAT to David Chymiak and to Ken Chymiak Revocable Trust and Susan C. Chymiak Revocable Trust dated as of February 7, 2000 incorporated by reference to Exhibit 10.7 to the Annual Report on Form 10-KSB filed with the Securities Exchange Commission on January 9, 2001. |
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Exhibit 10.5

# REVOLVING CREDIT AND TERM LOAN AGREEMENT

THIS REVOLVING CREDIT AND TERM LOAN AGREEMENT ("Agreement") is made this 30th day of September, 2004, by and between ADDVANTAGE TECHNOLOGIES GROUP, INC., an Oklahoma corporation ("Borrower") and BANK OF OKLAHOMA, N.A. ("Lender").

## RECITALS

A. Borrower has requested that Lender extend to Borrower a $7,000,000 revolving line of credit and an $8,000,000 term loan.

B. Lender is willing to make such loan to Borrower upon the terms and conditions set forth in this Agreement.

NOW, THEREFORE, in consideration of the mutual covenants contained herein, Borrower and Lender do hereby agree as follows:

## 1. CONSTRUCTION AND DEFINITION OF TERMS

All terms used herein without definition which are defined by the Oklahoma Uniform Commercial Code shall have the meanings assigned to them by the Oklahoma Uniform Commercial Code, as in effect on the date hereof, unless and to the extent varied by this Agreement. All accounting terms used herein without definition shall have the meanings assigned to them as determined by generally accepted accounting principles. Whenever the phrase "satisfactory to Lender" is used in this Agreement, such phrase shall mean "satisfactory to Lender in its sole discretion." The use of any gender or the neuter herein shall also refer to the other gender or the neuter and the use of the plural shall also refer to the singular, and vice versa. In addition to the terms defined elsewhere in this Agreement, unless the context otherwise requires, when used herein, the following terms shall have the following meanings:

1.1. "Affiliate" means any Person: (i) which directly or indirectly controls, or is controlled by, or is under common control with, Borrower; (ii) which directly or indirectly beneficially owns or holds five percent (5%) or more of any class of voting stock of Borrower; or (iii) five percent (5%) or more of the voting stock of which is directly or indirectly beneficially owned or held by Borrower. The term "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract, or otherwise.

1.2. "Agreement" means this Revolving Credit and Term Loan Agreement, as amended, supplemented, or modified from time to time.

1.3. "Base Rate" means a fluctuating interest rate per annum as in effect from time to time, which interest rate per annum shall at all times be equal to the rate of interest announced publicly from time to time (whether or not charged in each instance), by JP Morgan Chase Bank, located at New York, NY ("Rate Lender"), as its base rate or general reference rate. Should the Rate Lender abolish or abandon the practice of announcing or publishing a Base Rate, then the Base Rate shall be that interest rate or other general reference rate then in effect at the Rate Lender which, from time to time, in the reasonable judgment of Lender, most effectively approximates the initial definition of the "Base Rate."



1.4. "Borrower's Authority Documents" shall mean the following: (i) a Certificate of Good Standing from Borrower's state of incorporation and such other states in which Borrower does business and is required to domesticate or otherwise register; (ii) a certified copy of Borrower's certificate of incorporation; (iii) a copy of Borrower's bylaws; and (iv) a certificate of the secretary of Borrower, in form and content set forth on Schedule "1.4" hereto, certifying resolutions authorizing Borrower to enter into the Loan.

1.5. "Borrowing Base" means, at any date of determination thereof, the sum of eighty percent (80%) of Qualified Receivables at such date, plus fifty percent (50%) of Qualified Inventory at such date less the outstanding balance of the Term Loan at such date, as determined by Lender based upon the most recent information relating thereto provided to Lender pursuant to Section 2.2.

1.6. "Borrowing Base Certificate" means each certificate from Borrower to Lender relating to the Borrowing Base, substantially in the form of Schedule "1.6" hereto.

1.7. "Business Day" means any day other than a Saturday, Sunday, or other day on which commercial banks in Oklahoma are authorized or required to close under the laws of the State of Oklahoma.

1.8. "Business Premises" means Borrower's principal place of business, located at 1605 E. Iola, Broken Arrow, Oklahoma 74012.

1.9. "Capital Lease" means all leases which have been or should be capitalized on the books of the lessee in accordance with GAAP.

1.10. "Closing" shall mean the date on which this Agreement is executed.

1.11. "Code" means the Internal Revenue Code of 1986, as amended from time to time, and the regulations and published interpretations thereof.

1.12. "Collateral" means all property in which Lender is intended to have a security interest, as described in Section 3.

1.13. "Commitment" means the Lender's obligation to make loans to the Borrower pursuant to this Agreement.

1.14. "Commonly Controlled Entity" means an entity, whether or not incorporated, which is under common control with the Borrower within the meaning of Section 414(b) or 414(c) of the Code.

1.15. "Compliance Certificate" means a quarterly compliance certificate from the Borrower with respect to the terms and conditions of this Agreement, in form and content as set forth on Schedule "1.15" hereto.

1.16. "Debt" means, including but not limited to: (i) indebtedness or liability for borrowed money; (ii) obligations evidenced by bonds, debentures, notes, or other similar instruments; (iii) obligations for the deferred purchase price of property or services (including trade obligations); (iv) obligations under letters of credit; (v) obligations under acceptance facilities; (vi) all guaranties, endorsements (other than for collection or deposit in the ordinary course of business), and other contingent obligations to purchase, to provide funds for payment, to supply funds to invest in any Person or entity, or otherwise to assure a creditor against loss; (vii) obligations secured by any Liens, whether or not the obligations have been assumed; and (viii) any other items which would properly be included in the liability section of a balance sheet or in a footnote to a financial statement in accordance with GAAP, and shall also include all contingent liabilities.

1.17. "EBITDA" shall mean, for the applicable reporting period, the sum of: (i) consolidated pre-tax earnings, (ii) interest expense, (iii) depreciation, depletion, obsolescence and amortization of property and (iv) other Lender approved non-cash expenses.

1.18. "Effective Net Worth" shall mean the sum of net worth, in accordance with GAAP, plus debt determined by Lender in its sole discretion to be subordinate to the Obligations.

1.19. "$8,000,000 Term Note" shall mean the $8,000,000 Promissory Note in form and content as set forth on Schedule "1.19" attached hereto.

1.20. "ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the regulations and published interpretations thereof.

1.21. "Event of Default" means any of the events described in Section 9 hereof . 1.22. "Funded Debt" shall mean the sum of total borrowings under this Agreement plus any additional funded debt determined by Lender in its sole discretion as pari passu with this Agreement and the Obligations, in accordance with GAAP.

1.23. "GAAP" means generally accepted accounting principles in the United States, applied on a consistent basis.

1.24. "Guarantor Authority Documents" shall mean the following: (i) a Certificate of Good Standing from Guarantor's state of [incorporation] [formation] [organization] and such other states in which Guarantor does business and is required to domesticate or otherwise register; (ii) a certified copy of Guarantor's [certificate of incorporation] [articles of organization]; (iii) a copy of Guarantor's [bylaws] [operating agreement] [partnership agreement] [limited partnership agreement]; and (iv) [a certificate of the secretary of Guarantor, in form and content set forth on Schedule "1.24" hereto, certifying resolutions authorizing Guarantor to enter into the Loan.] [a {limited liability company} {partnership} consent, executed by all {members} {partners} of Guarantor, in form and content as set forth on Schedule "1.24" hereto, authorizing Guarantor to enter into the Loan.]

1.25. "Guarantor" means, separately and collectively, any Subsidiary of Borrower, now existing or hereafter created.

1.26. "Guaranty Agreement" means, separately and collectively, the Guaranty Agreement to be executed by each Guarantor, in form and content as set forth on Schedule "1.26" hereto.

1.27. "Initial Default" means any Event of Default, whether or not any requirement for the giving of notice, the lapse of time, or both, or any other condition has been satisfied.

1.28. "Insurance Certificate" means a certificate or certificates evidencing that policies of insurance, with insurance companies satisfactory to Lender, in such amounts and against such risks as shall be required by Lender, as set forth herein, have been obtained by Borrower and are in full force and effect, and that Lender is listed as an additional insured or loss payee thereon.

1.29. "Letter of Credit" means any letter of credit issued pursuant to Section 2.2, for which, when issued, a Letter of Credit Fee should be paid.

1.30. "Letter of Credit Fee" means a fee of one and one-half percent (1.50%) per annum on the face amount of any Letter of Credit issued or renewed after the date hereof, payable quarterly for the immediately preceding quarter.

1.31. "LIBOR Rate" means a fluctuating interest rate per annum (rounded upward, if necessary, to the nearest 1/100 of 1%) as in effect from time to time, which interest rate per annum shall at all times be equal to the thirty (30) day London Interbank Offered Rate per annum published in the Wall Street Journal, which shall be initially determined as of September 1, 2004, and redetermined as of the first Business Day of each subsequent calendar month. If the information is unavailable from such service, the rate shall be determined by the Lender from information supplied to Lender by a nationally recognized reporting service for similar information acceptable to Lender. Lender shall promptly confirm to Borrower in writing the LIBOR Rate.

1.32. "Lien" means any mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or other), or preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever (including, without limitation, any conditional sale or other title retention agreement, any financing lease having substantially the same economic effect as any of the foregoing, and the filing of any financing statement under the Uniform Commercial Code or comparable law of any jurisdiction in respect of any of the foregoing.)

1.33. "Loan" means advances under the $7,000,000 Revolving Line or the $8,000,000 Term Loan.

1.34. "Loan Documents" shall mean any and all agreements, contracts, promissory notes, security agreements, assignments, subordination agreements, pledge or hypothecation agreements, guaranties, instruments, letters of credit, letter of credit agreements and documents now and hereafter existing between Lender and Borrower, executed and/or delivered pursuant to this Agreement or otherwise or guaranteeing, securing or in any other manner relating to any of the Obligations, including, without limitation, the instruments and documents referred to in Section 4 hereof together with any other instrument or document executed by Borrower, Lender or any other person in connection with the Loans.

1.35. "Matured Default" means any Event of Default, provided that any requirement for the giving of notice, the lapse of time, or both, or any other condition has been satisfied.

1.36. "Multiemployer Plan" means a Plan described in Section 4001(a) (3) of ERISA.

1.37. "Note" or "Notes" means, separately and collectively, the $8,000,000 Term Note and the $7,000,000 Line Note.

1.38. "Note Rate" shall mean the LIBOR Rate or Base Rate, as elected by Borrower in writing from time to time, plus the applicable margin set forth on the Pricing Grid set forth as Schedule "1.38" hereto.

1.39. "Obligations" shall include the full and punctual observance and performance of all present and future duties, covenants and responsibilities due to Lender by Borrower under this Agreement, the Note, the Loan Documents and otherwise, all present and future obligations and liabilities of Borrower to Lender for the payment of money under this Agreement, the Note, the Loan Documents and otherwise, Rate Management Obligations and Rate Management Transactions (extending to all principal amounts, interest, late charges, fees and all other charges and sums, as well as all costs and expenses payable by Borrower under this Agreement, the Note, the Loan Documents and otherwise), whether direct or indirect, contingent or noncontingent, matured or unmatured, accrued or not accrued, related or unrelated to this Agreement, whether or not now contemplated, whether or not any instrument or agreement relating thereto specifically refers to this Agreement and whether or not of the same character or class as Borrower's obligations under this Agreement or the Note, including, without limitation, overdrafts in any checking or other account of Borrower at Lender and claims against Borrower acquired by assignment to Lender, whether or not secured under any other document, or agreement or statutory or common law provision, as well as all renewals, refinancings, consolidations, re-castings and extensions of any of the foregoing, the parties acknowledging that the nature of the relationship created hereby contemplates the making of future advances by Lender to Borrower.

1.40. "Opinion of Borrower's Counsel" means a legal opinion from Borrower's legal counsel including, without limitation, the opinions relating to Borrower and this loan transaction as set forth on Schedule "1.40" attached hereto.

1.41. "Opinion of Guarantor's Counsel" means a legal opinion from Guarantor's legal counsel including, without limitation, the opinions relating to Guarantor and this loan transaction as set forth on Schedule "1.41" attached hereto.

1.42. "PBGC" means the Pension Benefit Guaranty Corporation or any entity succeeding to any or all of its functions under ERISA.

1.43. "Permitted Liens" means, as to Borrower and all Subsidiaries:

(1) Liens in favor of the Lender;

(2) Liens for taxes or assessments or other government charges or levies if not yet due and payable or, if due and payable or, if they are being contested in good faith by appropriate proceedings and for which appropriate reserves are maintained;

(3) Liens imposed by law, such as mechanics', materialmen's, landlords', warehousemen's, and carriers' liens, and other similar Liens, securing obligations incurred in the ordinary course of business which are not past due for more than thirty (30) days or which are being contested in good faith by appropriate proceedings and for which appropriate reserves have been established;

(4) Liens under workers' compensation, unemployment insurance, Social Security, or similar legislation;

(5) Liens, deposits, or pledges to secure the performance of bids, tenders, contracts (other than contracts for the payment of money), leases (permitted under the terms of this Agreement), public or statutory obligations, surety, stay, appeal, indemnity, performance or other similar bonds, or other similar obligations arising in the ordinary course of business;

(6) The liens described on Schedule "1.43(6)";

(7) Judgment and other similar liens arising in connection with court proceedings, provided the execution or other enforcement of such Liens is effectively bonded, stayed and the claims secured thereby are being actively contested in good faith and by appropriate proceedings;

(8) Easements, rights-of-way, restrictions, and other similar encumbrances which, in the aggregate, do not materially interfere with the occupation, use and enjoyment by the Borrower of the property or assets encumbered thereby in the normal course of its business or materially impair the value of the property subject thereto; and

(9) Purchase-money liens on any property hereafter acquired or the assumption of any lien on property existing at the time of such acquisition (and not created in contemplation of such acquisition), or a lien incurred in connection with any conditional sale or other title retention agreement or a Capital Lease; provided that:

(a) Any property subject to any of the foregoing is acquired by the Borrower or any subsidiary in the ordinary course of its business; and

(b) Each such lien shall attach only to the property so acquired and fixed improvements thereon.

1.44. "Person" shall include natural persons, corporations, associations, limited liability companies, partnerships, joint ventures, trusts, governments and agencies and departments thereof and every other entity of every kind.

1.45. "Plan" means any pension plan which is covered by Title IV of ERISA and in respect of which the Borrower or a Commonly Controlled Entity is an "employer" as defined in Section 3(5) of ERISA.

1.46. "Principal Office" means the Lender's main office located at Seven East Second Street, One Williams Center - BOk Tower, Tulsa, Oklahoma.

1.47. "Prohibited Transaction" means any transaction set forth in Section 406 of ERISA or Section 4975 of the Code.

1.48. "Qualified Inventory" means the amount of inventory of Borrower and each Subsidiary a party to a Security Agreement located in the United States of America or Canada that is not subject to any Lien or adverse claim and that conforms to the representations and warranties contained in this Agreement and that is acceptable to the Lender in its sole discretion, less any packaging materials and supplies, damaged or unsalvageable goods returned or rejected by its customers, goods to be returned to its suppliers, goods in transit to third parties (other than its agent or warehouses) and goods out at contractors, and less any reserves required by the Lender in its sole discretion for special order goods, market value declines and bill and hold (deferred shipment) sales.

1.49. "Qualified Receivables" means and includes only accounts receivable of Borrower and each Subsidiary party to a Security Agreement which meet the following specifications at the time they came into existence and continue to meet the same until collected in full.

1.49.1. The account is due and payable. No account shall be outstanding for more than ninety (90) days from the date of the applicable invoice.

1.49.2. The account arose from a bona fide outright sale of goods previously made or from the performance of services, but not from leasing, and the Borrower or Subsidiary has possession of or has delivered to Lender shipping and delivery receipts evidencing shipment of the goods or, if representing services, the services have been fully performed for the respective account debtor.

1.49.3. The account is not subject to any assignment, claim, lien or security interest of any character or subject to any attachment, levy, garnishment or other judicial process, except the security interest of Lender.

1.49.4. The account is not subject to any claim for credit, setoff, allowance, adjustment by the account debtor or counterclaim, and Borrower has not received any notice of any such claim for credit, setoff, allowance, adjustment or counterclaim from or on behalf of the account debtor.

1.49.5. The account arose in the ordinary course of Borrower's or Subsidiary's business and no notice of the bankruptcy, insolvency or adverse change in the financial condition of the account debtor has been received by Borrower or Lender.

1.49.6. Lender has not previously notified Borrower that the account or the account debtor is or has become unsatisfactory, based upon reasonable credit standards, or the account debtor has been adjudicated bankrupt or is subject to a similar proceeding.

1.49.7. The account is not evidenced by a judgment, an instrument or chattel paper.

1.49.8. The account debtor is not a governmental entity or a foreign (i.e., residing or incorporated in or organized under a jurisdiction outside the United States) person or company and is not a parent, subsidiary, officer, employee, director, agent or Affiliate of any Borrower, and the account debtor and Borrower do not have common shareholders, officers or directors; provided that Lender specifically excludes any Lender Approved Account Debtor (defined below) from this section.

1.49.9. All receivables of one account debtor shall become ineligible if more than 10% of such receivables are over ninety (90) days past due from the invoice.

1.49.10. The account debtor (excluding any Lender Approved Account Debtor) cannot exceed 10% of the total accounts receivable, and any amounts over 10% will be excluded from the Borrowing Base unless specifically waived in writing in each instance by Lender in its sole discretion.

1.49.11. With regard only to Sections 1.49.8 and 1.49.10, the term "Lender Approved Account Debtor" means an express written designation acceptable to Borrower and Lender as to an account debtor on a annual basis, effective October of each calendar year. Borrower shall submit a proposed list of account debtors to Lender at least ten (10) days prior to the annual designation date, which list must be accompanied by such information relating to the proposed account debtor as Lender may reasonably require. Lender shall advise Borrower on or before the applicable annual effective date whether any or all of the proposed account debtors has been designated as a Lender Approved Account Debtor. Any such designation shall be effective only for the ensuing twelve (12) month period, and any designation by Lender shall have no relevance with regard to subsequent designations. The initially approved Lender Approved Account Debtors are Power & Telephone, Time Warner and Cox Communications.

1.50. "Rate Management Obligations" of a Person means any and all obligations of such Person, whether absolute or contingent and howsoever and whensoever created, arising, evidenced or acquired (including all renewals, extensions and modifications thereof and substitutions therefor), under (i) any and all Rate Management Transactions, and (ii) any and all cancellations, buy backs, reversals, terminations or assignments of any Rate Management Transactions.

1.51. "Rate Management Transactions" means any transaction (including an agreement with respect thereto) now existing or hereafter entered by the Borrower which is a rate swap, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap, equity or equity index option, bond option, interest rate option, foreign exchange transaction, cap transaction, floor transaction, collar transaction, forward transaction, currency swap transaction, cross-currency rate swap transaction, currency option or any other similar transaction (including any option with respect to any of these transactions) or any combination thereof, whether linked to one or more interest rates, foreign currencies, commodity prices, equity prices or other financial measures.

1.52. "Reportable Event" means any of the events set forth in Section 4043 of ERISA.

1.53. "Security Agreement" means the Security Agreement and other Collateral documents described in Section 3.

1.54. "$7,000,000 Line Note" shall mean the $7,000,000 Promissory Note in form and content as set forth on Schedule "1.54" attached hereto.

1.55. "Shareholder Notes" means the promissory notes described on Schedule "1.55" hereto, together with extensions and renewals thereof.

1.56. "Subordinating Parties" means the Subordination Agreements from each of the Subordinating Parties, in form and content as set forth on Schedule "1.56" hereto.

1.57. "Subsidiaries" means any corporation of which shares of stock having ordinary voting power (other than stock having such power only by reason of the happening of a contingency) to elect a majority of the board of directors or other managers of such corporation are at the time owned, or the management of which is otherwise controlled, directly or indirectly through one or more intermediaries, or both, by the Borrower. Current Subsidiaries include the entities set forth on Schedule "1.57" hereto.

1.58. "Total Fixed Charges" means, on a consolidated basis, the sum of: (i) cash interest; (ii) cash taxes; (iii) scheduled principal payments; (iv) capital lease payments; (v) cash dividends and other distributions (including payments on Shareholder Notes); and (vi) capital expenditures.

1.59. "UCC" shall mean the Uniform Commercial Code of the State of Oklahoma.

1.60. "UCC Chattel Check" means a UCC records search from the appropriate filing office for the Collateral, and from any other office deemed necessary or advisable by Lender, which records search must evidence no conflicting security interests, except the Permitted Liens.

1.61. "UCC-1 Financing Statement" means a financing statement in form and content acceptable to Lender, which will be filed with the appropriate filing office and shall evidence perfection of a first and prior security interest in the Collateral in favor of Lender, except for the Permitted Liens.

2. AMOUNT AND TERMS OF THE LOANS.

2.1. $8,000,000 Term Loan. Subject to the terms and conditions of this Agreement, the Lender agrees to loan Borrower $8,000,000, to be further evidenced by the $8,000,000 Term Note. The purpose of the advance under the $8,000,000 Term Note is to enable Borrower to repurchase convertible preferred stock of Borrower.

2.2. $7,000,000 Revolving Line. Subject to the terms and conditions of this Agreement, and so long as no Event of Default has occurred, Lender agrees to loan to Borrower (by advancing funds or issuing Letters of Credit), such amounts up to $7,000,000 as Borrower may request from time to time on or before the maturity of the $7,000,000 Line Note, provided that the aggregate outstanding principal amount of advances at any time outstanding shall not exceed the lesser of (i) $7,000,000 or (ii) the Borrowing Base. Such Borrowing Base shall be computed on a monthly basis, and Borrower agrees to provide to Lender on the last day of each month with regard to the period commencing with the 16th day of the immediately preceding month through the 15th day of the current month, all information requested in connection therewith, including without limitation a Borrowing Base Certificate. In the event Lender shall make advances in excess of the formula set forth above, any such advance shall, nevertheless, be secured by all Collateral. In the event outstanding advances with respect to Qualified Receivables or Qualified Inventory fail to comply with such formula, by reason of any accounts receivable or inventory ceasing to be so qualified, for whatever reason, then Borrower shall immediately notify Lender of such situation and shall, within five (5) Business Days of the imbalance, either (i) reduce the amount of the outstanding balances to bring such amounts within the formulas prescribed, or (ii) provide additional Qualified Receivables or Qualified Inventory, without any additional advance being made by Lender with respect thereto, necessary to comply with the formulas required herein. Within the limits set forth in this Section 2.2, Borrower may borrow, repay and reborrow at any one time and from time to time.

2.3. Notice and Manner of Borrowing. Subject to any other arrangement (e.g. a swap) agreed to by Borrower and Bank, the Borrower shall give the Lender at least one (1) Business Day's notice of any Loans under this Agreement, specifying the date and amount thereof. Such notice shall be in writing or via telephone (with voice verification by the appropriate officer), no later than 10:00 a.m. (Tulsa time) prior to the date of such Loan and upon fulfillment of the applicable conditions, the Lender will make such Loan available to the Borrower in immediately available funds by crediting the amount thereof to the following account with the Lender: Account styled _________________________________________________________________________ No. _______________________________________________.

3. SECURITY. As security for the Obligations, Borrower and its Subsidiaries shall grant to Lender the following liens and security interests:

3.1. A first and prior security interest in all assets of Borrower and each Subsidiary, including without limitation all accounts; chattel paper; deposit accounts; documents; equipment; general intangibles; goods; instruments; inventory; letter-of-credit rights; commercial tort claims; and proceeds and products of all of the foregoing; whether now owned or hereafter acquired, howsoever arising or wheresoever located, all as evidenced by the Security Agreement in form and content as set forth on Schedule "3.1" attached hereto.

3.2. All proceeds and products of the foregoing.

Borrower also agrees to execute and deliver all financing statements or other instruments, documents or agreements required by Lender in order to effectuate the intent of the parties in connection herewith, including without limitation documents necessary for proper perfection as deemed necessary and/or advisable by Lender and legal counsel.

4. CONDITIONS PRECEDENT.

4.1. Closing. The Closing shall occur when all conditions described in this Section 4.1 have been satisfied.

4.1.1. Borrower shall execute and /or deliver to Lender the following:

A. This Agreement;

B. $7,000,000 Line Note;

C. $8,000,000 Term Note;

D. Guaranty Agreement;

E. Security Agreement;

F. Copies of Shareholders Notes;

G. Subordination Agreements;

H. UCC-1 Financing Statement;

I. Borrower's Authority Documents;

J. Guarantors' Authority Documents;

K. UCC Chattel Check;

L. Opinion of Borrower's Counsel;

M. Opinion of Guarantor's Counsel;

N. Insurance Certificates;

O. completion of all schedules to this Agreement; and

P. any other instruments, documents or agreements reasonably requested by Lender in connection herewith.

4.1.2. The following statements shall be true and correct.

A. The representations and warranties contained in this Agreement and the other Loan Documents shall be true and correct; and

B. No Event of Default has occurred and is continuing or will occur as a result of the execution, delivery and/or performance by Borrower under any of the Loan Documents.

4.1.3. The Lender shall have received such other approvals, opinions, instruments, documents and/or agreements which it may reasonably request.

5. REPRESENTATIONS AND WARRANTIES. To induce Lender to enter into this Agreement, Borrower represents and warrants to Lender that:

5.1. State of Incorporation and Legal Name. Borrower's state of incorporation or formation and exact legal name are set forth in the first paragraph of this Agreement.

5.2. Good Standing. Borrower is a corporation duly organized, legally existing and in good standing under the laws of the State of its incorporation, has the power to own its property and to carry on its business and is duly qualified to do business and is in good standing in each jurisdiction in which the character of the properties owned by it therein or in which the transaction of its business makes such qualification necessary.

5.3. Authority. Borrower has full power and authority to enter into this Agreement, to make the borrowings hereunder, to execute and deliver all documents and instruments required hereunder and to incur and perform the obligations provided for herein, all of which have been duly authorized by all necessary and proper corporate and other action, and no consent or approval of any person, including, without limitation, stockholders of Borrower and any public authority or regulatory body, which has not been obtained is required as a condition to the validity or enforceability hereof or thereof.

5.4. Binding Agreements. This Agreement has been duly and properly executed by Borrower, constitutes the valid and legally binding obligation of Borrower and is fully enforceable against Borrower in accordance with its terms, subject only to laws affecting the rights of creditors generally and application of general principles of equity.

5.5. No Conflicting Agreements. The execution, delivery and performance by Borrower of this Agreement and the borrowings hereunder will not (a) violate (i) any provision of law or any order, rule or regulation of any court or agency of government, (ii) any award of any arbitrator, (iii) the Charter or Bylaws of Borrower or (iv) any indenture, contract, agreement, mortgage, deed of trust or other instrument to which Borrower is a party or by which Borrower or any of its property is bound, or (b) be in conflict with, result in a breach of or constitute (with due notice and/or lapse of time) a material default under, any such award, indenture, contract, agreement, mortgage, deed of trust or other instrument, or result in the creation or imposition of any Lien upon any of the property or assets of Borrower except for Liens created in favor of Lender under or pursuant to this Agreement.

5.6. Litigation. Except as disclosed to Lender in Schedule "5.6" attached hereto, there are no judgments, injunctions or similar orders or decrees, claims, actions, suits or proceedings pending in excess of $250,000 or, to the knowledge of Borrower, threatened against or affecting Borrower or any property of Borrower, at law or in equity, by or before any court or any federal, State, county, municipal or other governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, which could result in any material adverse change in the business, operations, prospects, properties or in the condition, financial or otherwise, of Borrower, and Borrower is not, to Borrower's knowledge, in default with respect to any judgment, order, writ, injunction, decree, rule or regulation of any court or any federal, State, county, municipal or other governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, which could have a material adverse effect on Borrower.

5.7. Financial Condition. The financial statements of Borrower heretofore delivered to Lender are true and complete, fairly present the financial condition of Borrower as at such dates and the results of its operations for the period then ended and were prepared in accordance with GAAP applied on a consistent basis for prior periods. There is no Indebtedness of Borrower as of the date of such statements which is not reflected therein and no material adverse change in Borrower's financial condition has occurred since the date of such statements. No information, exhibit, or report furnished by the Borrower to the Lender in connection with the negotiation of this Agreement contains any material misstatement of fact or omits to state a material fact or any fact necessary to make the statement contained therein not materially misleading.

5.8. Taxes. Borrower has paid or caused to be paid all federal, State and local taxes to the extent that such taxes have become due and has filed or caused to be filed all federal, State and local tax returns which are required to be filed by Borrower.

5.9. Title to Properties. Borrower has good and marketable title to all of its properties and assets (including the Collateral) and all of the properties and assets of Borrower are free and clear of Liens, except for Permitted Liens.

5.10. Place of Business. Borrower's principal place of business and chief executive office is located at the Business Premises and Borrower has such other business locations as disclosed to Lender prior to the date hereof. Borrower will not change the location of the Business Premises or open additional business locations (other than those locations heretofore disclosed to Lender) without Lender's prior written consent, which shall not be unreasonably withheld.

5.11. Financial Information. All financial statements, schedules, reports and other information supplied to Lender by or on behalf of Borrower heretofore and hereafter are and will be true and complete.

5.12. Licenses and Permits. Borrower has duly obtained and now holds all licenses, permits, certifications, approvals and the like required by federal, State and local laws of the jurisdictions in which Borrower conducts its business, and each remains valid and in full force and effect.

5.13. Certain Indebtedness. There is no Indebtedness of Borrower owing to any employee, officer, stockholder or director of Borrower other than accrued salaries, commissions and the like.

5.14. Broker's or Finder's Commissions. No broker's or finder's fee or commission is or will be payable in connection with this Agreement or the transactions contemplated hereby, and Borrower agrees to save harmless and indemnify Lender from and against any claim, demand, action, suit, proceeding or liability for any such fee or commission, including any costs and expenses (including attorneys' fees) incurred by Lender in connection therewith. The provisions of this Section shall survive the termination of this Agreement and Lender's security interest hereunder and the payment of all other Obligations.

5.15. Outstanding Indebtedness. Borrower has no outstanding Indebtedness except as permitted by Section 1.43 hereof and there exists no default under the provisions of any instrument evidencing such Indebtedness or under the provisions of any agreement relating thereto.

5.16. Regulation U. Borrower does not own or presently intend to acquire any "margin stock" as defined in Regulation U (12 CFR Part 221) of the Board of Governors of the Federal Reserve System. None of the proceeds of any of the Loan hereunder will be used, directly or indirectly, for the purpose of purchasing or carrying any margin stock or for the purpose of reducing or retiring any indebtedness which was originally incurred to purchase or carry a margin stock or for any other purpose which might constitute this transaction a "purpose credit" within the meaning of Regulation U. Neither Borrower nor any agent acting on its behalf has taken or will take any action which might cause this Agreement to violate Regulation U or any other regulation of the Board of Governors of the Federal Reserve System or to violate the Securities Exchange Act of 1934, in each case as in effect now or as the same may hereafter be in effect.

5.17. Government Contracts. Borrower is not now, and has not been within the past 3 years, in receipt of any communication from any of officer or employee of the United States Government regarding Borrower's actual or possible disqualification, suspension or debarment from contracting with the United States Government. Further, Borrower has no information, in relation to the obtaining, formation, pricing, performance, billing or administration of any one of its contracts with the United States Government, of: (a) a violation of law, regulation or contract provision, or any such fact(s) or circumstance(s) reasonably indicating any such violation; (b) a pending or threatened investigation; (c) an existing or threatened adverse audit finding, whether draft or final; (d) an existing or threatened cost disallowance or finding of defective pricing; (e) a pending or threatened claim or action seeking a fine, penalty or damages; (f) a communication regarding, or actual initiation of, payment withholding or suspension, setoff, recoupment or debt collection; or (g) a contract termination or a communication reasonably indicating the potential for such a termination.

5.18. Presence of Hazardous Materials or Hazardous Materials Contamination. To the best of Borrower's knowledge and belief, and except as permitted by applicable Laws, no Hazardous Materials are located on any real property owned, operated or controlled by Borrower or for which Borrower is responsible and for which remedial or corrective action would, be required under applicable Laws. To the best of Borrower's knowledge and belief, and except as permitted by applicable Laws, no property owned, operated or controlled by Borrower has ever been used as a manufacturing, storage or dump site for Hazardous Materials.

5.19. Patents, Trademarks, etc. Borrower owns, possesses or has the right to use all necessary patents, patent rights, licenses, trademarks, trade names, trade name rights, copyrights and franchises to conduct its business as now conducted, without any known conflict with any patent, patent right, license, trademark, trademark rights, trade name right, trade name, copyright or franchise right of any other person.

5.20. Perfection and Priority of Collateral. Lender has or upon proper recording of any financing statement, execution of any control agreement or delivery of Collateral to Lender's possession, will have and will continue to have as security for the Obligations, a valid and perfected Lien on and security interest in all Collateral free of all other Liens, claims and rights of third parties whatsoever except Permitted Liens.

5.21. Commercial Purpose. The Loan is not a "consumer transaction" as defined in the Uniform Commercial Code and none of the Collateral was or will be purchased or held primarily for personal, family or household purposes.

5.22. Survival; Updates of Representations and Warranties. All representations and warranties contained in or made in connection with this Agreement and the other Loan Documents shall survive the Closing and any advance made hereunder. Lender acknowledges and agrees that any and all representations and warranties contained in or made under or in connection with this Agreement may be amended, changed or otherwise modified by Borrower, with the consent of Lender, at any time and from time to time after the Closing so as to accurately reflect the matters represented and warranted therein; provided, that such amendments, changes and/or modifications are disclosed in writing to and approved by Lender. Lender shall have no obligation to waive any Event of Default due to any present or future inaccuracy of such representation or warranty or to agree to any amendment, change or modification of such representation or warranty.

5.23. Labor Disputes and Acts of God. Neither the business nor the properties of Borrower is affected by any fire, explosion, accident, strike, lockout or other labor dispute, drought, storm, hail, earthquake, embargo, act of God or other casualty (whether or not covered by insurance), materially adversely affecting such business or the operation of Borrower.

6. AFFIRMATIVE COVENANTS. Borrower covenants and agrees with Lender that, until (a) all Obligations have been paid in full, (b) there exists no commitment by Lender which could give rise to any Obligations, and (c) all appropriate termination statements have been filed terminating the security interest granted Lender hereunder, Borrower will:

6.1. Financial Statements. Furnish to Lender in writing: (a) as soon as available, but in no event more than 45 days after the close of each fiscal quarter during each fiscal year, the consolidated balance sheet, profit and loss statement and statement of cash flow of Borrower as of the close of such period, all as prepared and certified by the chief financial officer, controller or other duly authorized officer and accompanied by a Compliance Certificate and statement of calculations of the chief financial of officer or other duly authorized officer evidencing that Borrower is in compliance with all covenants contained in Sections 8.1, 8.2 and 8.3 herein and, if not, stating the facts with respect thereto and certifying that no Event of Default exists or is believed to exist; (b) as soon as available, but in no event more than 120 days after the close of each fiscal year, a copy of the annual financial statement of Borrower, prepared in accordance with GAAP and audited by an independent certified public accountant satisfactory to Lender, which financial statement shall include, on a consolidated basis, a balance sheet of Borrower as of the end of such fiscal year and a statement of income and changes in shareholders' equity of Borrower for such fiscal year and a Compliance Certificate (including all calculations) that Borrower is in compliance with all of the covenants contained in Section 8.1, 8.2 and 8.3 herein and, if not, stating the facts with respect thereto and certifying that no Event of Default exists or is believed to exist; (c) as soon as available, but in no event more than 30 days after each fiscal quarter, an accounts receivable report and a summary aging of accounts payable; and (d) such additional information, reports or statements as Lender may from time to time reasonably request.

6.2. Taxes. Pay and discharge all taxes, assessments and governmental charges upon Borrower, its income and properties, prior to the date on which penalties attach thereto unless and to the extent only that the same are being diligently contested by Borrower in good faith in the normal course of business by appropriate proceedings, provided, however, that: (a) Lender shall have been given reasonable prior written notice of intention to contest; (b) nonpayment of the same will not, in Lender's sole discretion, materially impair any of the Collateral or Lender's rights or remedies with respect thereto or the prospect for full and punctual payment of all of the Obligations; (c) Borrower at all times effectively stays or prevents any official or judicial sale of or action or filing against any of the Collateral by reason of nonpayment of the same; and (d) Borrower establishes reasonable reserves for any liabilities being contested and for expenses arising out of such contest.

6.3. Corporate Existence, Continuation of Business and Compliance with Laws. Maintain its corporate existence in good standing; continue its business operations as now being conducted; and comply with all applicable federal, State and local laws, rules, ordinances, regulations and orders unless and to the extent only that the validity or applicability thereof is being diligently contested by Borrower in good faith by appropriate proceedings, provided, however, that: (a) Lender shall have been given reasonable prior written notice of intention to contest; (b) such noncompliance will not, in Lender's sole discretion, materially impair any of the Collateral or Lender's rights or remedies with respect thereto or the prospect for full and punctual payment of all of the Obligations; (c) Borrower at all times effectively stays or prevents any official or judicial sale of or action or filing against any of the Collateral by reason of such noncompliance; and (d) Borrower establishes reasonable reserves for any liabilities or expenses which may arise out of such noncompliance and contest.

6.4. Civil and Criminal Proceedings. Promptly notify Lender in writing of (a) the filing of any Criminal Referral Form or the threatened or actual commencement of a criminal proceeding or investigation or (b) any action, suit or proceeding at law or in equity by or before any court, governmental agency or instrumentality which could result in any material adverse change in the business, operations, prospects, properties or assets or in the condition, financial or otherwise, of Borrower.

6.5. Extraordinary Loss. Promptly notify Lender in writing of any event causing extraordinary loss or depreciation of the value of Borrower's assets (whether or not insured) and the facts with respect thereto.

6.6. Books and Records. Keep and maintain proper and current books and records in accordance with GAAP and permit access by Lender to, reproduction by Lender of and copying by Lender from, such books and records during normal business hours. All reasonable costs and expenses of such inspections and examinations shall be paid by Borrower.

6.7. Right of Inspection. At any reasonable time and from time to time, and following twenty-four (24) hours prior written notice, permit the Lender or any agent or representative thereof, to reasonably examine and make copies of and abstracts from the records and books of account of, and visit the properties of, Borrower, and to discuss the affairs, finances, and accounts of Borrower with any of its officers and directors and Borrower's independent accountants. Lender contemplates conducting at least semi-annual field audits of the Borrower's property.

6.8. Maintenance of Properties. Maintain all properties and improvements necessary to the conduct of its business in good working order and condition, ordinary wear and tear excepted, and cause replacements and repairs to be made when necessary for the proper conduct of its business.

6.9. Patents, Franchises, etc. Maintain, preserve and protect all licenses, patents, franchises, trademarks and trade names of Borrower or licensed by Borrower which are necessary to the conduct of the business of Borrower as now conducted, free of any conflict with the rights of any other person.

6.10. Maintenance of Insurance. Borrower will keep or cause to be kept adequately insured by financially sound and reputable insurers its plant, equipment, motor vehicles, and all other property of a character usually insured by businesses engaged in the same or similar businesses. Any insurance policies covering the Collateral shall be endorsed to provide for payment of losses to the Lender as its interest may appear, to provide that such policies may not be canceled, reduced or affected in any manner for any reason without thirty days prior notice to the Lender, and to provide for any other matters which the Lender may reasonably require; and such insurance shall be against fire, casualty and any other hazards normally insured against and shall be in the amount of the full value (less a reasonable deductible not to exceed amounts customary in the industry for similarly situated businesses and properties) of the property insured. The Borrower shall at all times maintain adequate insurance against damage to persons or property, which insurance shall be by financially sound and reputable insurers and shall, without limitation, provide the following coverages: comprehensive general liability (including, without limitation, coverage, where applicable, damage caused by explosion, broad form property damage coverage, broad form coverage for contractually independent contractors), worker's compensation, products liability and automobile liability.

6.11. Evidence of Insurance. Deliver to Lender from time to time, and periodically if Lender shall so require, evidence satisfactory to Lender that all insurance and endorsements required pursuant to this Agreement and the Loan Documents are in effect.

6.12. Further Assurances and Corrective Instruments. Promptly execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, to Lender from time to time such supplements hereto and such financing statements and other instruments and documents as may be requested by Lender to protect and preserve the Collateral, Lender's security interest therein, perfection of Lender's security interest and/or Lender's rights and remedies hereunder.

6.13. Financial Information. Deliver to Lender promptly upon Lender's request, and periodically if Lender shall so require, such written statements, schedules or reports (which shall be Certified if required by Lender) in such form, containing such information and accompanied by such documents as may be satisfactory to Lender from time to time concerning the Collateral, Borrower's financial condition or business operations or any other matter or matters, including, without limitation, copies of federal, State and local tax returns of Borrower, and permit Lender, its agents and designees, to discuss Borrower's financial condition and business operations with Borrower's officers and employees.

6.14. Notice of Event of Default. Immediately notify Lender in writing of the occurrence of any Event of Default or any event or existing condition which, with the giving of notice and/or the lapse of time, could constitute an Event of Default or which might materially and adversely affect the financial conditions or operations of Borrower and the facts with respect thereto.

6.15. ERISA. (a) At all times maintain each of its employee pension benefit plans, as that term is defined in Section 3(2) of the Employee Retirement Income Security Act of 1974, as amended from time to time ("ERISA"), in conformity with all applicable provisions of ERISA and other federal and State statutes relating to employee benefit plans; (b) at all times make prompt payments of contributions required to meet the minimum funding standards set forth in Sections 302 and 305 of ERISA with respect to each such plan; (c) if requested by Lender, promptly after the filing thereof, furnish to Lender copies of each annual report required to be filed pursuant to Section 103 of ERISA in connection with each such plan for each plan year, including any certified financial statements or actuarial statements required pursuant to said Section 103; (d) notify Lender immediately of any fact, including, without limitation, any "Reportable Event" (as that term is defined in Section 4043(b) of ERISA) arising in connection with any such plan which might constitute grounds for the termination thereof by the Pension Benefit Guaranty Corporation or for the appointment by the appropriate United States District Court of a trustee to administer the plan; and (e) furnish to Lender, promptly upon its request therefor such additional information concerning any such plan as Lender may request.

6.16. Continuance of Business. Continue to operate the business as set forth in Borrower's loan application to Lender and not to acquire or operate any other business enterprise without Lender's prior consent.

6.17. Proceeds. Use of the proceeds of advances hereunder only for the purposes set forth herein and to pay the costs, expenses and fees payable by Borrower under this Agreement and the other Loan Documents.

6.18. Hazardous Materials: Contamination. Borrower agrees to, (a) give notice to Lender immediately upon Borrower's acquiring knowledge of the presence of any Hazardous Materials (other than those stored in compliance with applicable Laws and are in Borrower's possession in the ordinary course of business) on any property owned or controlled by Borrower or for which Borrower is responsible or of any Hazardous Materials Contamination with a full description thereof for which remedial or corrective action is required; (b) promptly take action to comply with any Laws requiring the removal, treatment or disposal of Hazardous Materials or Hazardous Materials Contamination and provide Lender with satisfactory evidence of such action, which action must be in all respects sufficient to avoid any penalty, assessment or notice of non-compliance with any required remedial or corrective action on the part of any Governmental Authority; (c) provide Lender, within 30 days after a demand by Lender, with a bond, letter of credit or similar financial assurance evidencing to Lender's reasonable satisfaction that the necessary funds are available to pay the cost of removing, treating and disposing of Hazardous Materials described in item (b) or Hazardous Materials Contamination and discharging any Lien which may be established as a result thereof on any property owned or controlled by Borrower or for which Borrower is responsible; and (d) defend, indemnify and hold harmless Lender and its employees, trustees, successors and assigns from any and all claims which may now or in the future (whether before or after the termination of this Agreement) be asserted as a result of the presence of any Hazardous Materials on any property owned or controlled by Borrower for which Borrower is responsible for any Hazardous Materials Contamination.

6.19. Compliance with Laws. Comply in all material respects with all applicable laws, rules, regulations, and orders, such compliance to include, without limitation, paying before the same become delinquent all taxes, assessments, and governmental charges imposed upon it or upon its property.

6.20. Lender as Depository. Maintain Lender as its principal depository for its deposit and other commercial accounts.

7. NEGATIVE COVENANTS. Borrower covenants and agrees with Lender that, until (a) all Obligations have been paid in full and (b) there exists no commitment by Lender which could give rise to any Obligations, Borrower will not, directly or indirectly, without Lender's prior written consent:

7.1. Indebtedness. Create, incur, assume or permit to exist, directly or indirectly, any Indebtedness in excess of $250,000 in the aggregate outstanding at any time except: (a) Indebtedness to Lender; (b) trade Indebtedness (which shall not include any borrowing, trade acceptance or notes given in settlement of trade Indebtedness) incurred in the ordinary course of business and not in dispute or more than thirty days past due; (c) existing Indebtedness previously disclosed by Borrower to Lender in writing; and (d) Indebtedness which shall be consented to by Lender in writing in advance, in Lender's sole but reasonable discretion, and if required by Lender, subordinated to the Obligations by a written agreement satisfactory to Lender in form and substance.

7.2. Liens. Create, incur, assume or permit to exist, directly or indirectly, any Lien upon any of Borrower's properties or assets, now owned by Borrower, other than Permitted Liens and Liens to Lender.

7.3. Merger. Enter into or be a party to any merger, consolidation, reorganization or exchange of stock or assets.

7.4. Sale of Assets, etc. Sell, assign, transfer, convey or lease any interest in all or any substantial part of its property except in the ordinary course of Borrower's business as now being conducted; purchase or otherwise acquire all or substantially all of the assets of any other person or persons, or any shares of stock of, or similar interest in, any other person or persons.

7.5. Investments. Make any capital contribution to any other person or purchase or acquire a beneficial interest in any stock, securities or evidences of Indebtedness of, or make any investment or acquire any interest in, any other person in excess of $500,000 during any calendar year, except investments in federally insured certificates of deposit or in direct obligations of the United States of America maturing within one year from the date of acquisition or in investment grade or better rated investments.

7.6. Fiscal Year. Change Borrower's fiscal year.

7.7. Subsidiaries. Organize or cause to exist any Subsidiaries without Lender's prior written consent, which consent may be conditioned, without limitation, upon the granting by such Subsidiary of a guarantee of payment of the Note and all other indebtedness of Borrower to Lender. Lender shall have the right at any time and from time to time at its sole discretion to require any existing Subsidiaries to guarantee the Obligations.

7.8. Change of Name. Change the name of Borrower.

7.9. Trade Names. Use any trade name other than Borrower's true corporate name.

7.10. ERISA Compliance. Engage in any "prohibited transaction" (as defined in Section 406 or Section 2003(a) of ERISA and not otherwise exempted under Title I, Part 4 of ERISA), any "accumulated funding deficiency" (as defined in Section 302 of ERISA), whether or not waived, or terminate any pension plan in a manner which could result in the imposition of a Lien on the property of Borrower pursuant to Section 4068 of ERISA.

7.11. Dividends, Stock Redemptions. So long as any Initial Default or Matured Default exists, directly or indirectly declare or pay any dividend on, or make any other distribution with respect to (whether by reduction of capital or otherwise), any shares of its capital stock or make any advances or loans to stockholders.

7.12. Sale of Stock. Sell, convey, transfer, assign, pledge or otherwise encumber any of the stock of Guarantor to any person.

7.13. Loans and Guaranties. Loan or make advances to any other person or guarantee, indorse or otherwise be or become liable or contingently liable in connection with the obligations or Indebtedness of any other person, firm or corporation, directly or indirectly, except:

7.13.1. as an endorser of negotiable instruments for the payment of money deposited to Borrower's bank account for collection in the ordinary course of business;

7.13.2. trade credit extended in the ordinary course of Borrower's business; or

7.13.3. advances made in the usual course of business to officers and employees of Borrower for travel and other out-of-pocket expenses incurred by them on behalf of Borrower in connection with such business.

7.14. Sale Leaseback. Except for leases existing on the date hereof and previously disclosed to Lender in writing, and renewals or extension thereof, become or be liable as lessee with respect to any lease of any property (real, personal or mixed) which has been or is to be sold or transferred by Borrower to any person or which Borrower intends to use for substantially the same purpose as any other property which has been or is to be sold or transferred by Borrower to any person in connection with such lease.

7.15. Leases. Become liable as lessee with respect to any lease of any property, real, personal or mixed, except for leases in existence on the date hereof and previously disclosed to Lender in writing and renewals and extensions thereof and leases assumed or entered into by Borrower or newly acquired Subsidiaries in connection with acquisitions (stock, asset or otherwise) by Borrower.

7.16. Asset Investments. Make any investments in non-current assets (which shall include fixed assets and capitalized value of leased equipment and leased real property).

7.17. Funded Debt. Redeem, call for redemption, purchase or otherwise acquire or retire, directly or indirectly, or make any optional prepayment of principal on, any Funded Debt, or amend, alter or otherwise modify the provisions relating to any Funded Debt, if the affect of such amendment, alteration or modification would or might be to accelerate such Funded Debt. For the purposes of this Section, "Funded Debt" shall include any obligation of Borrower to any person other than Lender payable more than one year from the date of its creation which, under GAAP, is shown on the balance sheet as a liability (excluding reserves for deferred income taxes and other reserves to the extent that such reserves do not constitute an obligation).

7.18. Transactions with Affiliates. Enter into any transaction, including, without limitation, the purchase, sale, or exchange of property or the rendering of any service, with any Affiliate, except in the ordinary course of and pursuant to the reasonable requirements of each Borrower's business and upon fair and reasonable terms no less favorable to the Borrower than would obtain in a comparable arm's-length transaction with a Person not an Affiliate.

8. FINANCIAL COVENANTS. So long as any Notes shall remain unpaid or the Lender shall have any Commitment under this Agreement, Borrower shall comply with the following on a consolidated basis:

8.1. Leverage Ratio. Maintain at all times, a ratio of Funded Debt to EBITDA of not greater than 3.0 to 1.0, determined quarterly with EBITDA calculated on a rolling four-quarter basis.

8.2. Fixed Charge Coverage Ratio. Maintain a ratio of EBITDA to Total Fixed Charges of not less than 1.25 to 1.0, determined quarterly on a rolling four-quarter basis.

8.3. Effective Net Worth. Maintain at all times an Effective Net Worth greater than or equal to $15,000,000 plus fifty percent (50%) of annual net income (with no deduction for net losses), determined quarterly.

9. EVENTS OF DEFAULT. The occurrence of any one or more of the following events shall constitute an "Event of Default":

9.1. Failure to Pay. The failure of Borrower, any Guarantor or other Obligor to pay any of the Obligations within five (5) days as and when due and payable (whether by acceleration, declaration, extension or otherwise).

9.2. Covenants and Agreements. The failure of Borrower, any Guarantor or other Obligor to perform, observe or comply with any of the covenants of this Agreement or any of the Loan Documents, subject to a written notice and cure period of ten (10) days for monetary defaults other than Note payments and thirty (30) days for nonmonetary defaults.

9.3. Information, Representations and Warranties. If any representation or warranty made herein or if any information contained in any financial statement, application, schedule, report or any other document given by Borrower, any Guarantor or by any person in connection with the Obligations, with the Collateral, or with any of the Loan Documents is not in all respects true and accurate or if Borrower, any Guarantor or such other person omitted to state any material fact or any fact necessary to make such information not misleading.

9.4. Default under Loan Documents. The occurrence of an Event of Default under any of the Loan Documents.

9.5. Default on Other Obligations. The occurrence of any default under any other borrowing in excess of $100,000 if the result of such default would permit the acceleration of the maturity of any note, loan or other agreement between Borrower or any Guarantor and any person other than Lender.

9.6. Insolvency. Borrower, any Guarantor or other Obligor shall be or become insolvent (as defined in Section 101 of the United States Bankruptcy Code) or unable to pay their debts as they become due, or admit in writing to such insolvency or to such inability to pay their debts as they become due.

9.7. Involuntary Bankruptcy. There shall be filed against Borrower, any Guarantor, or other Obligor an involuntary petition or other pleading seeking the entry of a decree or order for relief under the United States Bankruptcy Code or any similar federal or state insolvency or similar laws ordering: (a) the liquidation of Borrower, any Guarantor or such Obligor or (b) a reorganization of Borrower, any Guarantor or such Obligor or the business and affairs of Borrower, the Guarantor or such Obligor, or (c) the appointment of a receiver, liquidator, assignee, custodian, trustee or similar official for Borrower, any Guarantor or other Obligor of the property of Borrower, the Guarantor or such Obligor and the failure to have such petition or other pleading denied or dismissed within 60 calendar days from the date of filing.

9.8. Voluntary Bankruptcy. The commencement by Borrower, any Guarantor or other Obligor of a voluntary case under the federal bankruptcy laws or any federal or state insolvency or similar laws or the consent by Borrower, any Guarantor or other Obligor to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian or similar official for Borrower, any Guarantor or other Obligor of any of the property of Borrower, any Guarantor or other Obligor or the making by Borrower, any Guarantor or other Obligor of an assignment for the benefit of creditors, or the failure by Borrower, any Guarantor or other Obligor generally to pay their debts as the debts become due.

9.9. Judgments, Awards. The entry of any judgment, order, award or decree against Borrower, any Guarantor or other Obligor for an amount in excess of $250,000 and a determination by Lender, in good faith but in its sole discretion, that the same, when aggregated with all other judgments, orders, awards and decrees outstanding against Borrower, any Guarantor or other Obligor, could have a material adverse effect on the prospect for Lender to fully and punctually realize the full benefits conferred on Lender by this Agreement.

9.10. Injunction. The injunction or restraint of Borrower, any Guarantor or other Obligor in any manner from conducting its business in whole or in part and a determination by Lender, in good faith but in its sole discretion, that the same could have a material adverse effect on the prospect for Lender to fully and punctually realize the full benefits conferred on Lender by this Agreement.

9.11. Attachment by Creditors. Any assets of Borrower, any Guarantor or other Obligor shall be attached, levied upon, seized or repossessed, or come into the possession of a trustee, receiver or other custodian and a determination by Lender, in good faith but in its sole discretion, that the same could have a material adverse effect on the prospect for Lender to fully and punctually realize the full benefits conferred on Lender by this Agreement.

9.12. Dissolution, Merger, Consolidation, Reorganization. The voluntary or involuntary dissolution, merger, consolidation, winding up or reorganization of Borrower, any Guarantor or other Obligor or the occurrence of any action preparatory thereto, excepting mergers of any Guarantor into the Borrower.

10. RIGHTS AND REMEDIES.

10.1. Rights and Remedies of Lender. Upon and after the occurrence of an Event of Default, Lender may, without notice or demand, exercise in any jurisdiction in which enforcement hereof is sought, the following rights and remedies, in addition to the rights and remedies available to Lender under the Loan Documents, the rights and remedies of a secured party under the Uniform Commercial Code and all other rights and remedies available to Lender under applicable law, all such rights and remedies being cumulative and enforceable alternatively, successively or concurrently:

10.1.1. Declare the Note, all interest accrued and unpaid thereon and all other Obligations to be immediately due and payable and the same shall thereupon become immediately due and payable without presentment, demand for payment, protest or notice of any kind, all of which are hereby expressly waived.

10.1.2. Institute any proceeding or proceedings to enforce the Obligations and any Liens of Lender.

10.1.3. Take possession of the Collateral, and for that purpose, so far as Borrower may give authority therefor, enter upon any premises on which the Collateral or any part thereof may be situated and remove the same therefrom without any liability for suit, action or other proceeding, and require Borrower, at Borrower's expense, to assemble and deliver the Collateral to such place or places as Lender may designate.

10.1.4. Operate, manage and control the Collateral (including use of the Collateral and any other property or assets of Borrower in order to continue or complete performance of Borrower's obligations under any contracts of Borrower), or permit the Collateral or any portion thereof to remain idle or store the same, and collect all rents and revenues therefrom and sell or otherwise dispose of any or all of the Collateral upon such terms and under such conditions as Lender, in its sole discretion, may determine, and purchase or acquire any of the Collateral at any such sale or other disposition, all to the extent permitted by applicable law.

10.1.5. Enforce Borrower's rights against any account debtors and other obligors.

10.1.6. Cease making advances hereunder and under any other commitments or credit accommodations of Lender to Borrower and stop and retract the making of any advance hereunder or thereunder which may have been requested by Borrower.

10.2. Power of Attorney. Effective upon the occurrence of an Event of Default, Borrower hereby designates and appoints Lender and its designees as attorney-in-fact of Borrower, irrevocably and with power of substitution, with authority to endorse Borrower's name on any notes, acceptances, checks, drafts, money orders, instruments or other evidences of payment or proceeds of the Collateral that may come into Lender's possession; to execute proofs of claim and loss; to adjust and compromise any claims under insurance policies; and to perform all other acts necessary and advisable, in Lender's sole discretion, to carry out and enforce this Agreement and the Loan Documents. All acts of said attorney or designee are hereby ratified and approved by Borrower and said attorney or designee shall not be liable for any acts of commission or omission nor for any error of judgment or mistake of fact or law. This power of attorney is coupled with an interest and is irrevocable so long as any of the Obligations remain unpaid or unperformed or there exists any commitment by Lender which could give rise to any Obligations.

10.3. Costs and Expenses. Borrower agrees to pay to Lender on demand the amount of all expenses paid or incurred by Lender in consulting with counsel concerning any of its rights hereunder, under the Loan Documents or under applicable law, all expenses, including reasonable attorneys' fees and court costs paid or incurred by Lender in exercising or enforcing any of its rights hereunder, under the Loan Documents or under applicable law together with interest on all such expenses paid by Lender at the default rate under the Notes and calculated in the manner provided in the Note. The provisions of this Section shall survive the termination of this Agreement and the payment of all other Obligations.

11. MISCELLANEOUS.

11.1. Performance for Borrower. Borrower agrees and hereby authorizes that Lender may, in Lender's sole discretion, but Lender shall not be obligated to, whether or not an Event of Default shall have occurred, advance funds on behalf of Borrower, without prior notice to Borrower, in order to insure Borrower's compliance with any covenant, warranty, representation or agreement of Borrower made in or pursuant to this Agreement or any of the Loan Documents, to continue or complete, or cause to be continued or completed, performance of Borrower's obligations under any contracts of Borrower, to cover overdrafts in any checking or other accounts of Borrower at Lender or to preserve or protect any right or interest of Lender in the Collateral or under or pursuant to this Agreement or any of the Loan Documents, including, without limitation, the payment of any insurance premiums or taxes and the satisfaction or discharge of any judgment or any Lien upon the Collateral or other property or assets of Borrower; provided, however, that the making of any such advance by Lender shall not constitute a waiver by Lender of any Event of Default with respect to which such advance is made nor relieve Borrower of any such Event of Default. Borrower shall pay to Lender upon demand all such advances made by Lender with interest thereon at the highest rate and calculated in the manner provided in the Note. All such advances shall be deemed to be included in the Obligations and secured by the security interest granted Lender hereunder; provided, however, that the provisions of this Section shall survive the termination of this Agreement and Lender's security interest hereunder and the payment of all other Obligations.

11.2. Expenses. Whether or not any of the transactions contemplated hereby shall be consummated, Borrower agrees to pay to Lender on demand the amount of all expenses paid or incurred by Lender (including the reasonable fees and expenses of its counsel) in connection with the preparation of all written commitments of Lender antedating this Agreement, this Agreement and the Loan Documents and all documents and instruments referred to herein and all expenses paid or incurred by Lender in connection with the filing or recordation of all financing statements and instruments as may be required by Lender at the time of, or subsequent to, the execution of this Agreement, including, without limitation, all documentary stamps, recordation and transfer taxes and other costs and taxes incident to recordation of any document or instrument in connection herewith. Borrower shall pay Lender $25.00 for each response to Borrower's request for an accounting or confirmation of a list of Collateral or statement of account exceeding one request per 6-month period. Borrower agrees to save harmless and indemnify Lender from and against any liability resulting from the failure to pay any required documentary stamps, recordation and transfer taxes, recording costs or any other expenses incurred by Lender in connection with this Agreement. The provisions of this Section shall survive the termination of this Agreement, Lender's security interest, and the payment of all other Obligations.

11.3. Applications of Payments and Collateral. Except as may be otherwise specifically provided in this Agreement, all Collateral and proceeds of Collateral coming into Lender's possession and all payments made by any Obligor may be applied by Lender to any of the Obligations, whether matured or unmatured, as Lender shall determine in its sole but reasonable discretion.

11.4. Waivers by Borrower. Borrower hereby waives, to the extent the same may be waived under applicable law: (a) notice of acceptance of this Agreement; (b) all claims, causes of action and rights of Borrower against Lender on account of actions taken or not taken by Lender in the exercise of Lender's rights or remedies hereunder, under the Loan Documents or under applicable law; (c) all claims of Borrower for failure of Lender to comply with any requirement of applicable law relating to enforcement of Lender's rights or remedies hereunder, under the Loan Documents or under applicable law; (d) all rights of redemption of Borrower with respect to the Collateral; (e) in the event Lender seeks to repossess any or all of the Collateral by judicial proceedings, any bond(s) or demand(s) for possession which otherwise may be necessary or required; (f) presentment, demand for payment, protest and notice of non-payment and all exemptions; (g) any and all other notices or demands which by applicable law must be given to or made upon Borrower by Lender; (h) settlement, compromise or release of the obligations of any person primarily or secondarily liable upon any of the Obligations; (i) trial by jury in any action or proceeding of any kind or nature in connection with any of the Obligations, this Agreement or any of the Loan Documents; and (j) substitution, impairment, exchange or release of any Collateral for any of the Obligations. Borrower agrees that Lender may exercise any or all of its rights and/or remedies hereunder, under the Loan Documents and under applicable law without resorting to and without regard to any Collateral or sources of liability with respect to any of the Obligations. Upon termination of this Agreement and Lender's security interest hereunder and payment of all Obligations, within 45 days following Borrower's request to Lender, Lender shall release control of any security interest in the Collateral perfected by control and Lender shall send Borrower a statement terminating any financing statement filed against the Collateral.

11.5. Waivers by Lender. Neither any failure nor any delay on the part of Lender in exercising any right, power or remedy hereunder, under any of the Loan Documents or under applicable law shall operate as a waiver thereof, nor shall a single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or remedy.

11.6. Lender's Setoff. Lender shall have the right, in addition to all other rights and remedies available to it, following an Event of Default, to set off against any Obligations due Lender, any debt owing to Borrower by Lender, including, without limitation, any funds in any checking or other account now or hereafter maintained by Borrower at Lender. Borrower hereby confirms Lender's right to banker's lien and setoff, and nothing in this Agreement or any of the Loan Documents shall be deemed a waiver or prohibition of Lender's right of banker's lien and setoff.

11.7. Modifications. No modifications or waiver of any provision of this Agreement or any of the Loan Documents, and no consent by Lender to any departure by Borrower therefrom, shall in any event be effective unless the same shall be in writing, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice to or demand upon Borrower in any case shall entitle Borrower to any other or further notice or demand in the same, similar or other circumstances.

11.8. Notices. Any notice or other communication in connection with this Agreement, if by registered or certified mail, shall be deemed to have been given when received by the party to whom directed, or, if by mail but not registered or certified, when deposited in the mail, postage prepaid, provided that any such notice or communication shall be addressed to a party hereto as provided below (or at such other address as such party shall specify in writing to the other parties hereto):

If to Borrower:

ADDVANTAGE TECHNOLOGIES GROUP, INC.
1605 E. Iola
Broken Arrow, Oklahoma 74012
Attention: Ken Chymiak, President and Chief Executive Officer

If to Lender:

BANK OF OKLAHOMA, N.A.
P.O. Box 2300
Tulsa, OK 74192
Attention: Mack Renner, Assistant Vice President

Notwithstanding anything to the contrary, all notices and demands for payment from Lender actually received in writing by Borrower shall be considered to be effective upon receipt thereof by Borrower regardless of the procedure or method utilized to accomplish such delivery thereof to Borrower.

11.9. Applicable Law and Consent to Jurisdiction. The performance and construction of this Agreement and the Loan Documents shall be governed by the internal laws of the State of Oklahoma. Borrower agrees that any suit, action or proceeding instituted against Borrower with respect to any of the Obligations, the Collateral, this Agreement or any of the Loan Documents may be brought in any court of competent jurisdiction located in the State of Oklahoma. By its execution hereof, Borrower hereby irrevocably waives any objection and any right of immunity on the ground of venue, the convenience of the forum or the jurisdiction of such courts or from the execution of judgments resulting therefrom. Borrower hereby irrevocably accepts and submits to the jurisdiction of the aforesaid courts in any such suit, action or proceeding.

11.10. Survival: Successors and Assigns. All covenants, agreements, representations and warranties made herein and in the Loan Documents shall survive the execution and delivery hereof and thereof, shall survive Closing and shall continue in full force and effect until all Obligations have been paid in full, there exists no commitment by Lender which could give rise to any Obligations and all appropriate termination statements have been filed terminating the security interest granted Lender hereunder. Whenever in this Agreement any of the parties hereto is referred to, such reference shall be deemed to include the successors and assigns of such party. In the event that Lender assigns the Note, this Agreement and/or its security interest in the Collateral, Lender shall give written notice to Borrower of any such assignment. All covenants, agreements, representations and warranties by or on behalf of Borrower which are contained in this Agreement and the Loan Documents shall inure to the benefit of Lender, its successors and assigns. Borrower may not assign this Agreement or any of its rights hereunder without the prior written consent of Lender.

11.11. Severability. If any term, provision or condition, or any part thereof, of this Agreement or any of the Loan Documents shall for any reason be found or held invalid or unenforceable by any court or governmental agency of competent jurisdiction, such invalidity or unenforceability shall not affect the remainder of such term, provision or condition nor any other term, provision or condition, and this Agreement and the Loan Documents shall survive and be construed as if such invalid or unenforceable term, provision or condition had not been contained therein.

11.12. Merger and Integration. This Agreement and the attached Schedules (if any) contain the entire agreement of the parties hereto with respect to the matters covered and the transactions contemplated hereby, and no other agreement, statement or promise made by any party hereto, or by any employee, officer, agent or attorney of any party hereto, which is not contained herein shall be valid or binding.

11.13. WAIVER OF JURY TRIAL. BORROWER HEREBY (a) COVENANTS AND AGREES NOT TO ELECT A TRIAL BY JURY OF ANY ISSUE TRIABLE OF RIGHT BY A JURY, AND (b) WAIVES TRIAL BY JURY IN ANY ACTION OR PROCEEDING TO WHICH LENDER AND BORROWER MAY BE PARTIES, ARISING OUT OF, IN CONNECTION WITH OR IN ANY WAY PERTAINING TO THIS AGREEMENT, ANY OF THE LOAN DOCUMENTS AND/OR ANY TRANSACTIONS, OCCURRENCES, COMMUNICATIONS OR UNDERSTANDINGS (OR THE LACK OF ANY OF THE FOREGOING) RELATING IN ANY WAY TO THE BORROWER-LENDER RELATIONSHIP BETWEEN THE PARTIES. IT IS UNDERSTOOD AND AGREED THAT THIS WAIVER CONSTITUTES A WAIVER OF TRIAL BY JURY OF ALL CLAIMS AGAINST ALL PARTIES TO SUCH ACTIONS OR PROCEEDINGS, INCLUDING CLAIMS AGAINST PARTIES WHO ARE NOT PARTIES TO THIS SECURITY AGREEMENT. THIS WAIVER OF JURY TRIAL IS SEPARATELY GIVEN, KNOWINGLY, WILLINGLY AND VOLUNTARILY MADE BY BORROWER AND BORROWER HEREBY AGREES THAT NO REPRESENTATIONS OF FACT OR OPINION HAVE BEEN MADE BY ANY INDIVIDUAL TO INDUCE THIS WAIVER OF TRIAL BY JURY OR TO IN ANY WAY MODIFY OR NULLIFY ITS EFFECT. LENDER IS HEREBY AUTHORIZED TO SUBMIT THIS AGREEMENT TO ANY COURT HAVING JURISDICTION OVER THE SUBJECT MATTER AND BORROWER AND LENDER, SO AS TO SERVE AS CONCLUSIVE EVIDENCE OF SUCH WAIVER OF RIGHT TO TRIAL BY JURY. BORROWER REPRESENTS AND WARRANTS THAT IT HAS BEEN REPRESENTED IN THE SIGNING OF THIS AGREEMENT AND IN THE MAKING OF THIS WAIVER BY INDEPENDENT LEGAL COUNSEL, SELECTED OF ITS OWN FREE WILL, AND/OR THAT IT HAS HAD THE OPPORTUNITY TO DISCUSS THIS WAIVER WITH COUNSEL.

11.14. Counterparts. This Agreement may be executed in any number of counterparts and by different parties hereto on separate counterparts, each of which, when so executed and delivered, shall be an original, but all such counterparts shall together constitute one and the same instrument.

11.15. Headings. The headings and sub-headings contained in the titling of this Agreement are intended to be used for convenience only and shall not be used or deemed to limit or diminish any of the provisions hereof.

11.16. Recitals. The Recitals hereto are hereby incorporated into and made a part of this Agreement.

11.17. Tax Credits. Upon closing and Borrower's satisfaction of its obligations under Section 4, Lender agrees to make available for purchase by Borrower tax credits that may be used to pay Oklahoma State income taxes. A maximum of $1,000,000 in tax credits will be available for a purchase price of ..90 on the dollar. The purchase must occur on or before December 15, 2004.

[Signature Page to Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

"Borrower"

ADDVANTAGE TECHNOLOGIES GROUP, INC., an Oklahoma corporation

By /s/ Ken Chymiak
-----------------------------------
Ken Chymiak, President and Chief Executive Officer

"Lender"

BANK OF OKLAHOMA, N.A.

By /s/ W. Mack Renner
---------------------------------------
W. Mack Renner, Assistant Vice President

Schedule "1.4"

(Borrower Authority Documents)

Schedule "1.6"

(Borrowing Base Certificate)

Schedule "1.15"

(Compliance Certificate)

Schedule "1.19"

($8,000,000 Term Note)

Schedule "1.24"

(Guarantor Authority Documents)

Schedule "1.26"

(Form of Guaranty Agreement)

Schedule "1.38"

(Note Rate Pricing Grid)

| Leverage Ratio (Funded Debt to EBITDA) | Prime Option Line Note | Prime Option Term Note | LIBOR Option Line Note | LIBOR Option Term Note |
|---|---|---|---|---|
| > 2.50x | -0.25% | 0.25% | 2.50% | 3.00% |
| >1.75x but = 2.50x | -0.50% | 0.00% | 2.25% | 2.75% |
| >1.00x but = 1.75x | -0.75% | -0.25% | 2.00% | 2.50% |
| < 1.00x | -1.00% | -0.50% | 1.75% | 2.25% |

The Note Rate shall be determined in accordance with the foregoing table based on the Leverage Ratio as reflected in the then most recent Financials. Adjustments, if any, to the Note Rate shall be effective five (5) Business Days after the Lender has received the applicable Financials. If the Borrower fails to deliver the Financials to the Lender at the time required pursuant to Section 6.1, then the Note Rate shall be the highest Margin set forth in the foregoing table until five (5) Business Days after such Financials are so delivered. For the quarterly period following the Closing Date, the Borrower's pricing shall be deemed the pricing based on Leverage Ratio greater than or equal to 1.00x but less than 1.75x.

The term "Financials" means the annual or quarterly consolidated financial statements of the Borrower required to be delivered pursuant to Section 6.1 of the Revolving Credit and Term Loan Agreement.

Schedule "1.40"

(Opinion of Borrower's Counsel)

Schedule "1.41"

(Opinion of Guarantor's Counsel)

Schedule "1.43(6)"

(Permitted Liens)

$440,000 mortgage lien from NCS Industries, Inc. to Wachovia Bank, National Association (current balance of $387,351.00)

Schedule "1.54"

($7,000,000 Line Note)

Schedule "1.55"

(Shareholder Notes)

None.

Schedule "1.56"

(Subordination Agreements)

Schedule "1.57"

(Subsidiaries)

Tulsat Corporation, an Oklahoma corporation

ADDvantage Technologies Group of Missouri, Inc., a Missouri corporation

ADDvantage Technologies Group of Nebraska, Inc., a Nebraska corporation

ADDvantage Technologies Group of Texas, Inc., a Texas corporation

NCS Industries, Inc., a Pennsylvania corporation

Tulsat Atlanta, LLC, an Oklahoma limited liability company
(a subsidiary of Tulsat Corporation)

Schedule "3.1"

(Security Agreement)

Schedule "5.6"

(Pending or Threatened Litigation)

None.

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation of our report dated December 3, 2004, on the financial statements of ADDvantage Technologies Group, Inc. (the "Company") as of September 30, 2004 and 2003, and for each of the three years in the period ended September 30, 2004, included in this Form 10-K Annual Report of ADDvantage Technologies Group, Inc., into the Company's previously filed Registration Statements on Form S-8 (File number 333-110645) and Form S-3 (File number 333-120035).

/s/ TULLIUS TAYLOR SARTAIN & SARTAIN LLP

Tulsa, Oklahoma
December 22, 2004

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CFO PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Kenneth A. Chymiak, certify that:

1. I have reviewed this annual report on Form 10-K of ADDvantage Technologies Group, Inc, (the "Company");

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;

4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15-(e)) for the Company and have;

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this report is being prepared;

   b. Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures based on such evaluation; and

   c. Disclosed in this report any change in the Company's internal control over financial reporting during the Company's most recent fiscal quarter (the Company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and

5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: December 22, 2004

/s/ Kenneth A. Chymiak

Kenneth A. Chymiak
Chief Executive Officer and Chief Financial Officer

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CFO PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of ADDvantage Technologies Group, Inc. (the "Company") for the year ended September 30, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report") I, Kenneth A. Chymiak, the Chief Executive Officer and CFO of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained on the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Kenneth A. Chymiak

Name: Kenneth A. Chymiak
Title: Chief Executive Officer and Chief Financial Officer
Date: December 22, 2004