

U.S. SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended September 30, 2005

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

Commission file number 1-10799

ADVANTAGE TECHNOLOGIES GROUP, INC.

(Exact name of registrant as specified in its charter)

Oklahoma

(State or other jurisdiction of  
incorporation or organization)

1605 East Iola  
Broken Arrow, Oklahoma

(Address of principal executive offices)

73-1351610

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

74012

(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

Name of each exchange on which registered: American Stock Exchange.

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 preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

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

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

Yes  No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act)

Yes  No

The aggregate market value of the shares of common stock, par value \$.01 per share, held by non-affiliates of the issuer was \$11,939,468 as of March 31, 2005.

The number of the registrant's common stock, \$.01 par value per share, outstanding was 10,096,747 as of December 20, 2005.

**Documents Incorporated by Reference**

The identified sections of definitive Proxy Statement to be filed as Schedule 14A pursuant to Regulation 14A in connection with the Registrant's 2006 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.

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## PART I

### ITEM 1. BUSINESS

#### FORWARD-LOOKING STATEMENTS

Certain matters discussed in this report constitute forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, including statements which relate to, among other things, expectations of the business environment in which ADDvantage Technologies Group, Inc. (the “Company”) operates, projections of future performance, perceived opportunities in the market and statements regarding our goals and objectives and other similar matters. The words “estimates,” “projects,” “intends,” “expects,” “anticipates,” “believes,” “plans” 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.

#### BACKGROUND

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 Corporation (“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 (“NCS”), is a leading distributor of Motorola broadband products. Other subsidiaries distribute Standard, Corning-Gilbert, Blonder-Tongue, RL Drake, Quintech, Terayon Communication Systems, and Videotek products. We continue to upgrade our products to stay in the forefront of the communications broadband technology revolution.

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We continue to expand our core product lines (headend 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 industry's 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.

We continue to add products and services to maintain and expand our current customer base in North America, Latin America, Europe and the Far East. Recently, Scientific-Atlanta has appointed one of our subsidiaries, Tulsat, as one of its non-exclusive distributors in Latin 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 renewed its contract 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:

| Geographic Area         | Year ended September 30, |                     |                     |
|-------------------------|--------------------------|---------------------|---------------------|
|                         | 2005                     | 2004                | 2003                |
| United States           | \$47,863,096             | \$46,163,254        | \$32,026,494        |
| Latin America and Other | 2,410,099                | 908,075             | 1,301,251           |
|                         | <u>\$50,273,195</u>      | <u>\$47,071,329</u> | <u>\$33,327,745</u> |

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 74% of our revenue and re-manufactured product sales represent 17% of our revenues. Repair services contribute the remaining 9% 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 location where the multi-channel signal is initially received, converted and allocated to specific channels for distribution. In some cases, where the signal is transmitted in encrypted form or digitized and compressed, the receiver will also be required to decode the signal.

Fiber products 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 2005, we purchased approximately 40% of our inventory from Scientific-Atlanta and approximately 10% 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 competitors 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. Our customer base consists of over 1,200 active accounts. Sales to Power and Telephone Supply Company accounted for approximately 11% of our revenues in fiscal 2005. Approximately 28% of our revenues for fiscal year 2005 and approximately 23% for 2004 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, 2005, we had 159 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.

## **RECENT DEVELOPMENTS IN THE BUSINESS**

On December 12, 2005, Tulsat, a subsidiary of ours, announced the signing of a three-year contract extension with Scientific-Atlantic to be a Master Distributor of their current and legacy equipment. Under the terms of the agreement, we will also continue to be the exclusive distributor for select Scientific-Atlantic headend and transmission products for U.S. customers through January 15, 2009.

On August 19, 2005, we purchased 100% of the outstanding stock of Jones Broadband International, Inc. ("JBI") consisting of approximately \$2.4 million in debt assumption, including accrued liabilities, and cash of approximately \$1.6 million. The total purchase price represented the approximate book value of JBI, consisting of \$2.6 million of inventory after an approximate \$480,000 write down to market, and \$1.3 million of other assets including receivables and fixed assets. JBI's main office is in Oceanside, California and it has a warehouse in Stockton, California. We maintain good working relationships with the existing JBI sales and marketing staff and believe their West Coast presence with access to our other subsidiaries' products will make this a good acquisition.

## 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, 2005, David Chymiak, Chairman of the Board, and Kenneth Chymiak, President and Chief Executive Officer, owned approximately 69% 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.

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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,



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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% of these shares are beneficially owned at December 1, 2005 by David Chymiak and Kenneth Chymiak. As a consequence, only about 31% 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, Panama, Mexico, Columbia 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.

## 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. Our experienced sales support staff has the technical know-how to consult with our customers regarding solutions for various products and configurations. Through our seven world-class service centers that provide warranty and out-of-warranty repairs, we continue to reach new customers.

## ITEM 2. PROPERTIES

Each subsidiary owns or leases property for office space and warehouse facilities.

- Broken Arrow, Oklahoma—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, 2005, total monthly rental payments of \$38,800 were required.
- Deshler, Nebraska—Tulsat-Nebraska, Inc. (“Tulsat-Nebraska”) owns approximately 8,000 square feet of property.
- Warminster, Pennsylvania—NCS owns approximately 12,000 square feet of property, with an

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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  $\frac{1}{4}$ %. NCS also rents property of approximately 2,000 square feet, with monthly rental payments of \$1,200 through November 2005.

- Sedalia, Missouri—ADDvantage Technologies Group of Missouri, Inc. (dba “ComTech Services”) owns approximately 25,000 square feet of property.
- New Boston, Texas—ADDvantage Technologies Group of Texas, Inc. (“Tulsat-Texas”) owns approximately 13,000 square feet of property.
- Suwanee, Georgia—Tulsat-Atlanta, LLC (“Tulsat-Atlanta”) leases property of approximately 5,000 square feet. The lease provides for 36 monthly lease payments of \$3,500 ending on March 31, 2008.
- Oceanside, California—Jones Broadband International, Inc. leases approximately 11,000 square feet of office, warehouse, and testing space for \$11,031 a month. The lease runs through November 30, 2006 and has four five-year renewal options.
- Stockton, California—Jones Broadband International, Inc. leases approximately 45,000 square feet of warehouse space for \$5,841 a month. The lease ends February 28, 2006 and has a one-year renewal option.

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 2005.

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

The table sets forth the high and low sales prices on the American Stock Exchange for the quarterly periods indicated.

| Year Ended September 30, 2005 | High   | Low    |
|-------------------------------|--------|--------|
| First Quarter                 | \$6.30 | \$3.85 |
| Second Quarter                | \$5.94 | \$3.95 |
| Third Quarter                 | \$4.25 | \$3.03 |
| Fourth Quarter                | \$4.05 | \$3.10 |
| 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, 2005, 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 \$1.0 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 2004 or 2005 fiscal years.

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(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)**

|   | Year ended September 30, |          |          |          |          |
|---|--------------------------|----------|----------|----------|----------|
|   | 2005                     | 2004     | 2003     | 2002     | 2001     |
| Net Sales and service income                          | \$50,273                 | \$47,071 | \$33,327 | \$25,409 | \$22,885 |
| Income from operations                                | 9,963                    | 9,484    | 6,197    | 3,550    | 4,855    |
| Net income  | 5,814                    | 5,814    | 4,493    | 2,201    | 2,851    |
| Earnings per share                                    |                          |          |          |          |          |
| Basic   | \$ .49                   | \$ .46   | \$ .33   | \$ .10   | \$ .16   |
| Diluted   | \$ .49                   | \$ .41   | \$ .30   | \$ .10   | \$ .16   |
| Total assets  | \$39,269                 | \$32,359 | \$31,748 | \$26,531 | \$25,335 |
| Long-term obligations inclusive of current maturities | \$ 9,382                 | \$11,610 | \$ 6,912 | \$ 6,276 | \$ 6,253 |

**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, Tulsat-Nebraska, NCS, ComTech Services, Tulsat – Texas, Tulsat – Atlanta and Jones Broadband International, Inc. 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 multi-system operators with excess equipment that have never been used. Remanufactured sales are defined as used inventory that is updated to meet customer needs and requirements.

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Overview

Fiscal 2005 continued to be a challenging business climate in our industry due to many of the large cable customers allocating a higher percentage of their capital expenditures to meeting challenges from regional telephone companies such as Verizon and SBC as they attempt to provide data, voice, and video services. Many of the smaller cable systems are limited to the amount of capital they can raise to meet these challenges coupled with competition from DBS and DirecTV.

Our subsidiaries continued to increase their revenues and market share with the larger cable customers based on relationships and being able to meet their needs by shipping directly from our inventory. Our increase in sales of new Motorola and Scientific-Atlanta products were the result of having the products on the shelf.

Our customers are primarily providers of broadband network delivered services. Our largest customers are the cable, multi-system operators although we serve telephone companies, television programmers and broadcasters, municipal utilities, distributors and other broadband service providers.

Our strategy is to identify features, products and systems which are needed by our customers in significant numbers. The markets we serve consist of several large multiple cable customers and many smaller cable companies. The pace of technology change is rapid and requires a comprehensive understanding of the nature of the services offered to customers as well as the equipment to deliver the services. Accordingly, maintaining direct relationships with our customers is important. We specialize in providing current products for replacement, rebuilds or adding channel capacity. Even though we sell leading edge products, the majority of our sales are for legacy products.

In the fourth quarter, we experienced significant revenue growth as a result of our agreement with Scientific-Atlanta to be the exclusive distributor of its System Amplifier III RF platform and other cable television equipment products to the U.S. and Latin America markets. Additionally, we recognized a total of approximately \$1 million of incremental revenue in the fourth quarter related to the active hurricane season as well as approximately \$600,000 of increased revenue attributable to Jones Broadband International, Inc., which we acquired in August 2005. Our ability to deliver inventory from stock on demand played a significant role in our fourth quarter and fiscal 2005 revenues and net income.

We anticipate that the continuation of our growth strategy in fiscal 2006 will produce another record year. We believe our strong relationships with leading product manufacturers, including Motorola and Scientific-Atlanta, and our positive reputation in the multi-billion dollar CATV industry positions us for long-term success. Our plan is to drive future performance through an expanded sales force, both domestic and overseas; enhanced strategic partnerships; and additional strategic acquisitions that complement our existing “one-stop-shop” capabilities and are accretive to earnings.

On August 19, 2005, we purchased 100% of the outstanding stock of Jones Broadband International, Inc. (“JBI”), for consideration consisting of approximately \$2.4 million in debt assumption, including

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accrued liabilities, and cash of approximately \$1.6 million. The total purchase price represented the approximate book value of JBI, consisting of \$2.6 million of inventory after an approximate \$480,000 write down to market, and \$1.3 million of other assets including receivables and fixed assets. JBI's main office is in Oceanside, California and it has a warehouse in Stockton, California. We maintain good working relationships with the existing JBI sales and marketing staff and believe their West Coast presence with access to our other subsidiaries' products will make this a good acquisition. We will be evaluating future investments as they present themselves.

Results of Operation

Year Ended September 30, 2005, Compared to Year Ended September 30, 2004 (all references to years are to fiscal years)

*Net Sales.* Net sales climbed \$3.2 million, or 6.8%, to \$50.3 million for 2005 from \$47.1 million for 2004. Sales of new and refurbished equipment increased 8.3% from \$42.3 million in 2004 to \$45.8 million for 2005, 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 decreased by 6.3% from \$4.8 million last year to \$4.5 million this year. The decrease in repair services was due to several recent changes in the market. Multi-system operators have been consolidating headends reducing the number required to do the job. This in turn has allowed operators to use the extra headends as replacements instead of repairing the ones not working. Finally, several years ago the manufacturers started giving five year warranties on their products. These warranties are set to run out in 2006 and 2007 and we expect the repair business will return to us.

*Costs of Sales.* Costs of sales include 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 66.4% of net sales compared to 66.1% last year. This increase is due to lower margins associated with the increased sales of new equipment.

*Gross Profit.* Gross profit climbed \$0.9 million, or 5.6%, to \$16.9 million for fiscal 2005 from \$16.0 million for fiscal 2004. The gross margin percentage was 33.6% for the current year, compared to 33.9% for last year. The small percentage decrease was primarily due to an increase in sales of new and surplus equipment, which have margins lower than those 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 \$426,000 for fiscal 2005 to \$6.6 million from \$6.2 million in 2004, an increase of 6.5%. The increase in operating, selling, general and administrative expenses was primarily due to increases in salary and wage related expenses.

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*Income from Operations.* Income from operations increased \$.5 million, or 5.3%, to \$10.0 million for 2005 from \$9.5 million for 2004. This increase was primarily due to increases in sales of new equipment to the larger multi-system operators, partially offset by the lower margins received and the increase in our operating, selling, general and administrative expenses.

*Interest Expense.* Interest expense for fiscal 2005 was \$558,000 compared to \$158,000 in fiscal 2004. The increase was primarily attributable to the \$8,000,000 new borrowings incurred to finance our redemption of the Series A Preferred Stock on September 30, 2004. This redemption resulted in our payment in 2005 of \$400,000 less dividends. Our interest expense is deductible for federal income tax purposes while the dividends we had been paying were not. The weighted average interest rate paid on the line of credit increased to 2.96% for 2005 from 2.85% for 2004. The weighted average interest rate for all borrowed funds for 2005 was 5.31% compared to 2.85% in 2004.

*Income Taxes.* The provision for income taxes for fiscal 2005 increased to \$3.6 million from \$3.5 million in fiscal 2004. The increase was primarily due to higher pre-tax earnings in fiscal 2005.

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 46.8% from \$28.8 million for 2003 to \$42.3 million for 2004 as we strengthened our role as a master distributor for several of Scientific-Atlanta's legacy products and increased sales of Motorola products. Repair revenue resulted in a 6.7% increase in revenues, from \$4.5 million for 2003 to \$4.8 million for 2004.

*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 2004 were 66.1% of net sales compared to 66.0% for 2003.

*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 \$1.3 million, or 27.5%, in 2004 over the previous year. Most of this increase was directly attributable to the expanding sales force and other added expenses incurred to meet the marketing initiatives described previously.

*Income from Operations.* Income from operations increased 53.1% to \$9.5 million for 2004 from \$6.2 million for 2003. This increase was primarily due to the increase in net sales 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 due to lower interest rates and need for less borrowing.



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*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. For a more complete discussion of income taxes, please see “Note 4 – Income Taxes” in the notes to the consolidated financial statements.

Inflation has had no noticeable impact on our revenues over the last three years. The increase in revenue has been primarily a result of increasing our market share and the increased demand for our products resulting from our increased availability of products for sale.

*Liquidity and Capital Resources*

We finance our operations primarily through internally generated funds and a bank line of credit. During 2005, we generated approximately \$6.2 million cash flow from operations. During the 2005 fiscal year we invested approximately \$3.5 million to acquire Jones Broadband International (see notes to the financials) and another almost \$450,000 in additional capital equipment. We also increased our net carrying value of inventory by \$1.4 million, while decreasing our bank borrowings by \$2.2 million, and meeting our preferred stock dividend obligations of \$0.8 million, resulting in a net decrease in cash of approximately \$0.9 million.

On September 30, 2004, the Company redeemed all of the outstanding shares of its Series A 5% Cumulative Convertible Preferred Stock (the “Series A 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. At September 30, 2005 the term loan balance was \$6,800,000.

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% (5.86% at September 30, 2005 and 2.96% average for fiscal year 2005). 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, 2005 of \$2.2 million, due September 30, 2006. The highest balance against this line in 2005 was approximately \$2.9 million.

Notes payable secured by real estate of \$347,270 are due in monthly payments through 2013 with interest at 5.5% through 2008, converting thereafter to prime minus .25%.

Cash used in financing activities in 2005 was primarily used to pay dividends on our Series B 7% Cumulative Preferred Stock (the “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.

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Related Parties

Cash used in financing activities in 2005 was primarily used to pay dividends on the Company's Series B Preferred Stock and for the note payments for the buy-out of Series A Preferred Stock on September 30, 2004. 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

| <u>Name of Beneficial Owner</u> | <u>Percent of Common Stock Beneficially Owned</u> | <u>Percent of Series B Preferred Stock Beneficially Owned (A)</u> |
|---------------------------------|---|---|
| David E. Chymiak                | 36.5%   | 50.0%   |
| Kenneth A. Chymiak              | 32.7%   | 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.

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:

|      |                    |
|------|--------------------|
| 2006 | \$ 377,640         |
| 2007 | \$ 360,000         |
| 2008 | \$ 324,000         |
|      | <u>\$1,061,640</u> |

Related party rental expense for the years ended September 30, 2005, 2004 and 2003 was \$465,840, \$466,000 and \$461,000, respectively.

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The following table presents our contractual obligations for aggregate maturities of long term debt and the minimum lease payments under our lease agreements.

| Contractual Obligations | Payments due by period |                     |                    |                    |                   |
|-------------------------|------------------------|---------------------|--------------------|--------------------|-------------------|
|                         | Total                  | Less than 1 year    | 1- 3 years         | 3-5 years          | More than 5 years |
| Long Term Debt          | \$ 9,381,950           | \$ 3,473,751        | \$2,485,033        | \$3,294,919        | \$ 128,247        |
| Capital Leases          | \$ —                   | \$ —                | \$ —               | \$ —               | \$ —              |
| Operating Leases        | \$ 1,357,655           | \$ 588,595          | \$ 769,060         | \$ —               | \$ —              |
| Purchase Obligations    | \$ —                   | \$ —                | \$ —               | \$ —               | \$ —              |
| <b>Total</b>            | <b>\$10,739,605</b>    | <b>\$ 4,062,346</b> | <b>\$3,254,093</b> | <b>\$3,294,919</b> | <b>\$ 128,247</b> |

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 2005 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

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. We market our products primarily to multi-system operators and other users of cable television equipment who are seeking products for which manufacturers have discontinued production, or cannot ship new equipment on a same-day basis. Carrying these large inventories represents our largest risk.

Our inventory consists of new and used electronic components for the cable television industry. Inventory cost is stated at the lower of cost or market and our cost is determined using the weighted

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average method. At September 30, 2005 we had total inventory of approximately \$26,900,000, consisting of approximately \$20,000,000 in new products and approximately \$6,800,000 in used or refurbished against which a reserve of \$1,600,000 for excess and obsolete inventory leaves us a net inventory of approximately \$25,300,000.

We are required to make judgments as to future demand requirements from our customers. We regularly review the value of our inventory in detail with consideration given to rapidly changing technology which can significantly affect future customer demand. For individual inventory items, we may carry inventory quantities that are excessive relative to market potential, or we may not be able to recover our acquisition costs for sales that we do make. In order to address the risks associated with our investment in inventory, we review inventory quantities on hand and reduce the carrying value when the loss of usefulness of an item or other factors, such as obsolete and excess inventories, indicate that cost will not be recovered when an item is sold. During the last two fiscal years ended September 30, 2005, we have increased our reserve for excess and obsolete inventory over \$1,000,000 to almost 6% of total inventory. If actual market conditions are less favorable than those projected by management, and our estimates prove to be inaccurate, we could be required to increase our inventory reserve and our gross margins could be adversely affected.

Inbound freight charges are included in 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 Adelpia 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 increased to \$92,000 at September 30, 2005 from \$68,063 at September 30, 2004. This increase represents less than 1/10 of a percent of total revenues and is due to the increasing level of sales revenue and its corresponding exposure. At September 30, 2005, accounts receivable, net of allowance for doubtful accounts, amounted to \$7.7 million.

**Impact of Recently Issued Accounting Standards**

In November 2005, the FASB issued FSP FAS 115-1 and FAS 124-1, "The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments" ("FSP 115-1"), which provides guidance on determining when investments in certain debt and equity securities are considered impaired, whether that impairment is other-than-temporary, and on measuring such impairment loss. FSP 115-1 also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been

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recognized as other-than-temporary impairments. FSP 115-1 is required to be applied to reporting periods beginning after December 15, 2005. We are currently evaluating the effect that the adoption of FSP 115-1 will have on our consolidated results of operation and financial condition but we do not expect it to have a material impact.

In March 2005, the SEC issued Staff Accounting Bulletin No. 107 (“SAB 107”) regarding the SEC’s interpretation of SFAS 123R and the valuation of share-based payments for public companies. We are evaluating the requirements of SFAS 123R and SAB 107 and expect that the adoption of SFAS 123R will not have a material impact on our consolidated results of operations and earnings per share beginning in the first quarter of fiscal 2006

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. 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 elected to adopt SFAS No.151 beginning with fiscal year 2005. The adoption of this standard had no impact on our financial position and results of operations.

In December 2004, the FASB issued SFAS 123R, which replaced SFAS 123 and superseded APB 25. SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their grant date fair market values and requires that such recognition begin in the first interim or annual period after June 15, 2005, with early adoption encouraged. In April 2005, the Securities and Exchange Commission (the SEC) postponed the effective date of SFAS 123R until the issuer’s first fiscal year beginning after June 15, 2005. We will adopt SFAS 123R in the first quarter of fiscal 2006.

Under SFAS 123R, the pro forma disclosures previously permitted no longer will be an alternative to financial statement recognition. We will apply the Black-Scholes valuation model in determining the fair value of share-based payments to employees, which will then be amortized on a straight line basis over the requisite service period. We will apply the modified prospective method, which requires that compensation expense be recorded for all unvested stock options and restricted stock upon adoption of SFAS 123R.

In May 2005 the FASB issued SFAS No. 154 “Accounting Changes and Error Corrections”(SFAS 154”), which replaces APB Opinion No. 20 “Accounting Changes” and SFAS 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes retrospective applications or the latest practicable date, as the required method for reporting a change in accounting principle and the reporting of a correction of an error. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 5, 2005 and is required to be adopted by ADDvantage in the first quarter of fiscal 2007. ADDvantage is currently evaluating the effect that the adoption of SFAS 154 will have on the consolidated results of operations and financial conditions but does not expect it to have a material effect.

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Off-Balance Sheet Arrangements

None

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Market risk represents the risk of loss that may impact our financial position, results of operations, or cash flow due to adverse changes in market prices, foreign currency exchange rates, and interest rates. Our greatest exposure would be a downturn in the demand for our products. At September 30, 2005, over 85% of our assets were in cash, trade receivables, and inventory, with inventory representing 76% of these assets.

Our exposure to market rate risk for changes in interest rates relates primarily to our revolving line of credit. The interest rates under the line of credit and the stockholder notes fluctuate with the LIBOR rate. At September 30, 2005, the outstanding balances subject to variable interest rate fluctuations totaled \$2.2 million. The high credit balance for 2005 was approximately \$2.9 million, leaving over \$4.0 million available for working capital requirements. Future changes in drawdown requirements and changes in interest rates could cause our borrowing costs to increase.

We maintain no cash equivalents. However, we 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 2.5%, 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.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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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.

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, 2005 and 2004, and the related consolidated statements of income and comprehensive income, changes in stockholders' equity and cash flows for each of the three years in the period ended September 30, 2005. Our audits also included the financial schedule of ADDvantage Technologies Group, Inc., listed in Item 15(a). These financial statements and financial statement schedule 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, 2005 and 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended September 30, 2005, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements, taken as a whole, presents fairly in all material respects the information set forth therein.

TULLIUS TAYLOR SARTAIN & SARTAIN LLP

Tulsa, Oklahoma  
December 22, 2005

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CONSOLIDATED BALANCE SHEETS

|   | September 30, |              |
|---|---------------|--------------|
|   | 2005          | 2004         |
| <b>Assets</b>   |               |              |
| Current assets:   |               |              |
| Cash  | 449,219       | \$ 1,316,239 |
| Accounts receivable, net of allowance of \$92,000 and \$68,063  | 7,671,549     | 4,787,749    |
| Inventories, net of allowance for excess and obsolete inventory \$1,575,395 and \$1,093,000, respectively | 25,321,149    | 20,978,714   |
| Deferred income taxes   | 968,000       | 651,000      |
| Total current assets  | 34,409,917    | 27,733,702   |
| Property and equipment, at cost:  |               |              |
| Machinery and equipment   | 2,357,182     | 2,138,798    |
| Land and buildings  | 1,591,413     | 1,302,527    |
| Leasehold improvements  | 565,945       | 521,972      |
|   | 4,514,540     | 3,963,297    |
| Less accumulated depreciation and amortization  | (1,811,784)   | (1,561,698)  |
| Net property and equipment  | 2,702,756     | 2,401,599    |
| Other assets:   |               |              |
| Deferred income taxes   | 786,000       | 1,042,000    |
| Goodwill  | 1,150,060     | 1,150,060    |
| Other assets  | 220,275       | 31,222       |
| Total other assets  | 2,156,335     | 2,223,282    |
| Total assets  | \$39,269,008  | 32,358,583   |

See notes to audited consolidated financial statements.

ADVANTAGE TECHNOLOGIES GROUP, INC.  
CONSOLIDATED BALANCE SHEETS

|   | September 30, |              |
|---|---------------|--------------|
|   | 2005          | 2004         |
| <b>Liabilities and Stockholders' Equity</b>   |               |              |
| Current liabilities:  |               |              |
| Accounts payable  | \$ 4,958,834  | \$ 1,758,695 |
| Accrued expenses  | 1,876,523     | 1,011,911    |
| Accrued income taxes  | 110,691       | 120,748      |
| Bank revolving line of credit   | 2,234,680     | 3,225,183    |
| Notes payable – current portion   | 1,239,071     | 1,237,047    |
| Dividends payable   | 210,000       | 210,000      |
| Total current liabilities   | 10,629,799    | 7,563,584    |
| Notes payable   | 5,908,199     | 7,147,334    |
| Stockholders' equity:   |               |              |
| Preferred stock, 5,000,000 shares authorized, \$1.00 par value, at stated value; Series B, 7% cumulative; 300,000 shares issued and outstanding with a stated value of \$40 per share | 12,000,000    | 12,000,000   |
| Common stock, \$.01 par value; 30,000,000 shares authorized; 10,093,147 and 10,081,789 shares issued and outstanding, respectively  | 100,931       | 100,818      |
| Paid-in capital   | (7,265,930)   | (7,285,564)  |
| Retained earnings   | 17,860,967    | 12,886,575   |
| Accumulated other comprehensive income:   |               |              |
| Unrealized gain on interest rate swap, net of tax   | 89,206        | —            |
|   | 22,785,174    | 17,701,829   |
| Less: Treasury stock, 21,100 shares at cost   | (54,164)      | (54,164)     |
| Total stockholders' equity  | 22,731,010    | 17,647,665   |
| Total liabilities and stockholders' equity  | \$39,269,008  | \$32,358,583 |

See notes to audited consolidated financial statements.

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

|  | Year ended September 30, |               |               |
|--|--------------------------|---------------|---------------|
|  | 2005                     | 2004          | 2003          |
| Net sales income   | \$ 45,755,198            | \$ 42,293,046 | \$ 28,809,947 |
| Net service income   | 4,517,997                | 4,778,283     | 4,517,798     |
|  | 50,273,195               | 47,071,329    | 33,327,745    |
| Costs of sales   | 33,401,167               | 31,092,890    | 21,996,312    |
| Gross profit   | 16,872,028               | 15,978,439    | 11,331,433    |
| Operating, selling, general and administrative expenses          | 6,642,641                | 6,216,728     | 4,876,961     |
| Depreciation and amortization                                    | 256,435                  | 277,352       | 257,821       |
| Income from operations   | 9,972,952                | 9,484,359     | 6,196,651     |
| Interest expense   | 557,560                  | 157,606       | 217,063       |
| Income before income taxes                                       | 9,415,392                | 9,326,753     | 5,979,588     |
| Provision for income taxes                                       | 3,601,000                | 3,513,000     | 1,487,000     |
| Net income   | 5,814,392                | 5,813,753     | 4,492,588     |
| Other comprehensive income:                                      |                          |               |               |
| Unrealized gain on interest rate swap (Net of \$56,000 in taxes) | 89,206                   | —             | —             |
| Comprehensive Income   | \$ 5,903,598             | \$ 5,813,753  | \$ —          |
| Net income   | 5,814,392                | 5,813,753     | 4,492,588     |
| Preferred stock dividends  | 840,000                  | 1,240,000     | 1,240,000     |
| Net income attributable to common stockholders                   | 4,974,392                | 4,573,753     | \$ 3,252,588  |
| Earnings per share:  |                          |               |               |
| Basic  | \$ 0.49                  | \$ 0.46       | \$ 0.33       |
| Diluted  | \$ 0.49                  | \$ 0.41       | \$ 0.30       |
| Shares used in per share calculation                             |                          |               |               |
| Basic  | 10,067,277               | 10,041,197    | 10,007,756    |
| Diluted  | 10,109,854               | 12,104,541    | 12,021,235    |

See notes to audited consolidated financial statements.

ADVANTAGE TECHNOLOGIES GROUP, INC.  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
Years ended September 30, 2005, 2004 and 2003

|  | Common Stock |            | Series A<br>Preferred<br>Stock | Series B<br>Preferred<br>Stock | Paid-in<br>Capital | Retained<br>Earnings<br>(Deficit) | Accumulated<br>Other<br>Comprehensive<br>Income | Treasury<br>Stock | Total         |
|--|--------------|------------|--------------------------------|--------------------------------|--------------------|-----------------------------------|---|-------------------|---------------|
|  | Shares       | Amount     |                                |                                |                    |                                   |   |                   |               |
| 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<br>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<br>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 |
| Net income                                   | —            | —          | —                              | —                              | —                  | 5,814,392                         | —   | —                 | 5,814,392     |
| Preferred stock dividends                    | —            | —          | —                              | —                              | —                  | (840,000)                         | —   | —                 | (840,000)     |
| Stock Options exercised                      | 11,358       | 113        | —                              | —                              | 19,634             | —                                 | —   | —                 | 19,747        |
| Unrealized gain on interest<br>swap          | —            | —          | —                              | —                              | —                  | —                                 | 89,206  | —                 | 89,206        |
| Balance September 30, 2005                   | 10,093,147   | \$ 100,931 | —                              | \$ 12,000,000                  | (\$ 7,265,930)     | \$ 17,860,967                     | \$ 89,206                                       | (\$ 54,164)       | \$ 22,731,010 |

See notes to audited consolidated financial statements.

ADVANTAGE TECHNOLOGIES GROUP, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS

|   | Year ended September 30, |                     |                   |
|---|--------------------------|---------------------|-------------------|
|   | 2005                     | 2004                | 2003              |
| <b>Cash Flows from Operating Activities</b>                                       |                          |                     |                   |
| Net income  | \$ 5,814,392             | \$ 5,813,753        | \$ 4,492,588      |
| Adjustments to reconcile net income to net cash provided by operating activities: |                          |                     |                   |
| Depreciation and amortization   | 256,435                  | 277,352             | 257,821           |
| Loss on disposal of property and equipment  | —                        | 24,412              | —                 |
| Deferred income tax benefit   | (116,000)                | (172,000)           | (414,000)         |
| Change in:  |                          |                     |                   |
| Receivables   | (2,134,418)              | (1,004,069)         | (278,382)         |
| Inventories   | (1,445,190)              | 1,152,382           | (4,456,859)       |
| Other assets  | (40,577)                 | 8,406               | (12,770)          |
| Accounts payable  | 3,027,827                | (872,526)           | 1,159,549         |
| Accrued liabilities   | 687,191                  | 208,086             | 337,975           |
| Net cash provided by operating activities   | <u>6,151,660</u>         | <u>5,435,796</u>    | <u>995,922</u>    |
| <b>Cash Flows from Investing Activities</b>                                       |                          |                     |                   |
| Investment in Jones Broadband International, net of cash acquired of \$100,322    | (3,510,935)              | —                   | —                 |
| Additions to property and equipment   | (446,534)                | (77,201)            | (671,412)         |
| Net cash used in investing activities   | <u>(3,957,469)</u>       | <u>(77,201)</u>     | <u>(671,412)</u>  |
| <b>Cash Flows from Financing Activities</b>                                       |                          |                     |                   |
| Net change under bank revolving line of credit                                    | (990,503)                | (1,960,719)         | 712,221           |
| Payments on stockholder notes   | —                        | (1,223,644)         | (335,705)         |
| Proceeds on notes payable   | —                        | 8,000,000           | 440,000           |
| Payments on notes payable   | (1,250,455)              | (118,423)           | (180,483)         |
| Proceeds from stock options exercised   | 19,747                   | 104,147             | —                 |
| Payments of preferred dividends   | (840,000)                | (1,340,000)         | (1,240,000)       |
| Redemption of preferred stock   | —                        | (8,000,000)         | —                 |
| Net cash used in financing activities   | <u>(3,061,211)</u>       | <u>(4,538,639)</u>  | <u>(603,967)</u>  |
| Net increase (decrease) in cash   | (867,020)                | 819,956             | (279,457)         |
| Cash, beginning of year   | 1,316,239                | 496,283             | 775,740           |
| Cash, end of year   | <u>\$ 449,219</u>        | <u>\$ 1,316,239</u> | <u>\$ 496,283</u> |
| <b>Supplemental Cash Flow Information</b>   |                          |                     |                   |
| Cash paid for interest  | \$ 557,560               | \$ 172,426          | \$ 205,626        |
| Cash paid for income taxes  | \$ 3,582,616             | \$ 3,669,170        | \$ 1,699,785      |

See notes to audited consolidated financial statements.

ADVANTAGE TECHNOLOGIES GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years ended September 30, 2005, 2004 and 2003

**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, NCS, Tulsat-Atlanta LLC, ADDvantage Technologies Group of Missouri, Inc. (dba “ComTech Services”), Tulsat-Nebraska, Inc., ADDvantage Technologies Group of Texas, Inc. (dba “Tulsat Texas”) and Jones Broadband International, Inc. All significant inter-company 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. The Company generally does not charge interest on past due accounts.

*Inventory valuation*

Inventory consists of new and used electronic components for the cable television industry. Inventory is stated at the lower of cost or market. 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 \$256,435, \$277,352 and \$257,821 for the years ended

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September 30, 2005, 2004 and 2003, 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 cash flow hedge for the underlying note payable. As there are no differences between the critical terms of the interest rate swap and the hedged debt obligations the Company assumes no ineffectiveness in the hedging relationship. 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.



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*Advertising costs*

Advertising costs are expensed as incurred. Advertising expense was \$335,487, \$265,112 and \$229,534 for the years ended September 30, 2005, 2004 and 2003, 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*

The Company holds cash with several major financial institutions which often exceed FDIC insured limits. Historically the Company has not experienced any loss due to such concentration of credit risk.

Other financial instruments that potentially subject the Company to concentration of credit risk consist principally of trade receivables. Concentrations of credit risk with respect to trade receivables are limited because a large number of geographically diverse customers make up 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. Sales to one customer accounted for approximately 11% of net revenues for 2005. Sales to foreign (non-US based customers) total approximately \$2.4 million, \$0.9 million, and \$1.3 million in the three fiscal years ended September 30, 2005. In 2005, we purchased approximately 40% of our inventory from Scientific-Atlanta and approximately 10% of our inventory from Motorola. The concentration of suppliers of our inventory subjects us to risk.

*Goodwill*

Annual impairment testing indicates that goodwill is not impaired as of September 30, 2005 or 2004.

*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.”

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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. 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 November 2005, the FASB issued FSP FAS 115-1 and FAS 124-1, "The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments" ("FSP 115-1"), which provides guidance on determining when investments in certain debt and equity securities are considered impaired, whether that impairment is other-than-temporary, and on measuring such impairment loss. FSP 115-1 also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. FSP 115-1 is required to be applied to reporting periods beginning after December 15, 2005. The Company is currently evaluating the effect that the adoption of FSP 115-1 will have on its consolidated results of operation and financial condition but does not expect it to have a material impact.

In March 2005, the SEC issued Staff Accounting Bulletin No. 107 ("SAB 107") regarding the SEC's interpretation of SFAS 123R and the valuation of share-based payments for public companies. The Company is evaluating the requirements of SFAS 123R and SAB 107 and expects that the adoption of SFAS 123R will not have a material impact on its consolidated results of operations and earnings per share beginning in the first quarter of fiscal 2006.

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 criteria 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. The Company elected to follow SFAS 151 beginning with fiscal year end September 30, 2004. The adoption of this standard had no material impact on our financial position and results of operations for 2005.

In December 2004, the FASB issued SFAS 123R, which replaced SFAS 123 and superseded APB 25. SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their grant date fair market values and requires that such recognition begin in the first interim or annual period after June 15, 2005, with early adoption encouraged. In April 2005, the Securities and Exchange Commission (the SEC) postponed the effective date of SFAS 123R until the issuer's first fiscal year beginning after June 15, 2005. We will adopt SFAS 123R in the first quarter of fiscal 2006.

Under SFAS 123R, the pro forma disclosures previously permitted no longer will be an alternative to financial statement recognition. The Company will apply the Black-Scholes valuation model in determining the fair value of share-based payments to employees, which will then be amortized on a straight line basis over the requisite service period. The Company will apply the modified prospective method, which requires that compensation expense be recorded for all unvested stock options and restricted stock upon adoption of SFAS 123R.

In May 2005 the FASB issued SFAS No. 154 "Accounting Changes and Error Corrections" (SFAS 154"), which replaces APB Opinion No. 20 "Accounting Changes" and SFAS 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes retrospective applications or the latest practicable date, as the required method for reporting a change in accounting principle and the reporting of a correction of an error. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 5, 2005 and is required to be adopted by the Company in the first quarter of fiscal 2007. The Company is currently evaluating the effect that the adoption of SFAS 15 will have on the consolidated results of operations and financial conditions but does not expect it to have a material effect.

#### *Reclassifications*

Certain reclassifications have been made to the 2003 and 2004 financial statements to conform to the 2005 presentation.

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**Note 2 – Inventories**

Inventories are summarized as follows:

|   | 2005                | 2004                |
|---|---------------------|---------------------|
| New   | \$20,066,957        | \$16,410,694        |
| Used  | 6,829,587           | 5,661,020           |
| Allowance for excess and obsolete inventory | (1,575,395)         | (1,093,000)         |
|   | <u>\$25,321,149</u> | <u>\$20,978,714</u> |

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.

The Company regularly reviews 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. 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.

On August 19, 2005, the Company purchased 100% of the outstanding stock of Jones Broadband International, Inc. (“JBI”) for consideration consisting of approximately \$2.4 million in debt assumption, including accrued liabilities, and cash of approximately \$1.6 million. The total purchase price represented the approximate book value of JBI, consisting of \$2.6 million of inventory after an approximate \$480,000 write down to market, and \$1.3 million of other assets including receivables and fixed assets. JBI’s main office is in Oceanside, California and it has a warehouse in Stockton, California. Results of JBI’s operations are included in the Company’s consolidated statement of income from the acquisition date.

**Note 3 – Line of Credit, Stockholder Notes, Notes Payable, and Interest Rate Swap**

At September 30, 2005, a \$2,234,680 balance is outstanding under a \$7.0 million line of credit due September 30, 2006, with interest payable monthly based on the prevailing 30-day LIBOR rate plus 2.0%. (5.86% at September 30, 2005 with a 2.96% combined weighted average during fiscal year 2005). 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 \$101,273 at September 30, 2005,

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and is included in the bank revolving line of credit.

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. At September 30, 2005 the term loan balance was \$6,800,000.

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 three 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.

An \$8 million amortizing term note with Bank of Oklahoma was obtained to finance the redemption of the outstanding shares of the Series A Preferred Stock at September 30, 2004. The September 30, 2005 balance of this note is \$6,800,000 and 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% (6.36% at September 30, 2005). An interest rate swap was entered into simultaneously with the note on September 30, 2004, which fixed the interest rate at 6.13%. The Company receives monthly the variable interest rate of LIBOR based on a one month interval, plus 2.5% on the interest rate swap. Upon entering into this interest rate swap (which expires September 30, 2009), 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, 2005, the notional value of the swap was \$6,800,000 and the fair market value of the interest rate swap is an asset of approximately \$144,000, which is included in other non-current assets on the Company's consolidated balance sheet. This amount is subsequently reclassified into interest expense as a yield adjustment in the same period in which the related interest on the floating-rate debt obligation affects earnings. Notes payable secured by real estate of \$347,270 are due in monthly payments through 2013 with interest at 5.5% through 2008, converting thereafter to prime minus .25%.

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The aggregate maturities of notes payable and the line of credit for the five years ending September 30, 2010 are as follows:

|            |                     |
|------------|---------------------|
| 2006       | \$ 3,473,751        |
| 2007       | 1,241,348           |
| 2008       | 1,243,685           |
| 2009       | 3,246,155           |
| 2010       | 48,764              |
| Thereafter | 128,247             |
| Total      | <u>\$ 9,381,950</u> |

**Note 4 – Income Taxes**

The provisions for income taxes consist of:

|          | 2005               | 2004               | 2003               |
|----------|--------------------|--------------------|--------------------|
| Current  | \$3,604,000        | \$3,685,000        | \$1,901,000        |
| Deferred | (3,000)            | (172,000)          | (414,000)          |
|          | <u>\$3,601,000</u> | <u>\$3,513,000</u> | <u>\$1,487,000</u> |

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:

|  | 2005         | 2004         | 2003         |
|--|--------------|--------------|--------------|
| Statutory tax rate                                   | 34.0%        | 34.0%        | 34.0%        |
| State income taxes, net of U.S. federal tax benefit  | 4.7          | 4.7          | 5.0          |
| Tax credits and exclusions                           | (.5)         | (0.6)        | (2.8)        |
| Adjustment of deferred tax asset valuation allowance | —            | —            | (7.4)        |
| Other  | —            | (0.4)        | (3.9)        |
|  | <u>38.2%</u> | <u>37.7%</u> | <u>24.9%</u> |

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Deferred tax assets consist of the following at September 30:

|  | 2005               | 2004               |
|--|--------------------|--------------------|
| Net operating loss carryforwards                         | \$1,239,000        | \$1,316,000        |
| Financial basis in excess of tax basis of certain assets | (397,000)          | (155,000)          |
| Financial liability accruals                             | 912,000            | 532,000            |
| Net deferred tax asset                                   | <u>\$1,754,000</u> | <u>\$1,693,000</u> |
| Deferred tax assets are classified as:                   |                    |                    |
| Current  | \$ 968,000         | \$ 651,000         |
| Non-Current  | 786,000            | 1,042,000          |
|  | <u>\$1,754,000</u> | <u>\$1,693,000</u> |

Utilization of ADDvantage's net operating loss carryforward of approximately \$3,202,000 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, 2005, 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, 786,041 shares were available for future grants at September 30, 2005.

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A summary of the status of the Company's stock options at September 30, 2005, 2004 and 2003 and changes during the years then ended is presented below.

|  | 2005     |                     | 2004     |                     | 2003    |                   |
|--|----------|---------------------|----------|---------------------|---------|-------------------|
|  | Shares   | Wtd. Avg. Ex. Price | Shares   | Wtd. Avg. Ex. Price | Shares  | Wtd. Av Ex. Price |
| Outstanding, beginning of year                 | 131,125  | \$ 2.83             | 179,000  | \$ 1.97             | 114,500 | \$ 2.07           |
| Granted  | 25,000   | \$ 4.62             | 4,000    | \$ 4.40             | 71,500  | \$ 1.81           |
| Exercised                                      | (11,358) | \$ 1.74             | (51,375) | \$ 2.03             | —       | —                 |
| Canceled                                       | —        | —                   | (500)    | \$ 1.50             | (7,000) | \$ 1.50           |
| Outstanding, end of year                       | 144,767  | \$ 3.23             | 131,125  | \$ 2.83             | 179,000 | \$ 1.97           |
| Exercisable, end of year                       | 144,767  | \$ 3.23             | 108,500  | \$ 3.08             | 129,875 | \$ 2.79           |
| Weighted average fair value of Options granted |          | \$ 2.61             |          | \$ 4.04             |         | \$ 1.55           |

The following table summarizes information about fixed stock options outstanding at September 30, 2005:

| Exercise Price | Options Exercisable           |                            |
|----------------|-------------------------------|----------------------------|
|                | Number Outstanding At 9/30/05 | Remaining Contractual Life |
| \$4.620        | 25,000                        | 9.5 years                  |
| \$4.400        | 4,000                         | 8.5 years                  |
| \$1.900        | 10,000                        | 7.5 years                  |
| \$1.650        | 4,000                         | 7.5 years                  |
| \$0.810        | 4,000                         | 6.5 years                  |
| \$1.500        | 27,267                        | 5.5 years                  |
| \$3.125        | 20,500                        | 4.5 years                  |
| \$4.000        | 50,000                        | 4.0 years                  |
|                | 144,767                       |                            |

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 2005: risk-free interest rates of 4.3%; expected dividend yield of 0.0%; expected lives of six years and estimated volatility of 55%.

The Series B 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 Series B 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 Series B Preferred Stock unless Series B 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 Series B 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 2005 was primarily used to pay dividends on the Company's Series B Preferred Stock and for the note payments for the buy-out of Series A Preferred Stock on September 30, 2004. 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.

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 and 2003 was \$4,898 and \$9,869, 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 and 2003 was \$11,694 and \$23,371 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



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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 and \$30,323 in 2003. The 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:

|      |             |
|------|-------------|
| 2006 | \$ 377,640  |
| 2007 | 360,000     |
| 2008 | 324,000     |
|      | <hr/>       |
|      | \$1,061,640 |

Related party rental expense for the years ended September 30, 2005, 2004 and 2003 was \$465,840, \$466,000 and \$461,000, 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 \$186,304 during the year ended September 30, 2005, \$161,644 during the year ended September 30, 2004, and \$140,673 during the year ended September 30, 2003.

**Note 8 – Earnings per Share**

|  | Year ended<br>September 30,<br>2005 | Year ended<br>September 30,<br>2004 | Year Ended<br>September 30,<br>2003 |
|--|-------------------------------------|-------------------------------------|-------------------------------------|
| Net income   | \$ 5,814,392                        | \$ 5,813,753                        | \$ 4,492,588                        |
| Dividends on preferred stock                             | 840,000                             | 1,240,000                           | 1,240,000                           |
| Net income attributable to common shareholders – basic   | 4,974,392                           | 4,573,753                           | 3,252,588                           |
| Dividends on Series A Preferred Stock                    | —                                   | 400,000                             | 400,000                             |
| Net income attributable to common shareholders – diluted | \$ 4,974,392                        | \$ 4,973,753                        | \$ 3,652,588                        |
| Weighted average shares outstanding                      | 10,067,277                          | 10,041,197                          | 10,007,756                          |

[Table of Contents](#)[Index to Financial Statements](#)**Potentially dilutive securities**

|  |            |            |            |
|--|------------|------------|------------|
| Assumed conversion of 200,000 shares of Series A Preferred Stock | —          | 2,000,000  | 2,000,000  |
| Effect of dilutive stock options                                 | 42,577     | 63,344     | 13,479     |
| Weighted average shares outstanding – assuming dilution          | 10,109,854 | 12,104,541 | 12,021,235 |
| Earnings per common share:                                       |            |            |            |
| Basic  | \$ 0.49    | \$ 0.46    | \$ 0.33    |
| Diluted  | \$ 0.49    | \$ 0.41    | \$ 0.30    |

**Note 9 – Quarterly Results of Operations (Unaudited)**

The following is a summary of the quarterly results of operations for the years ended September 30, 2005 and 2004.

|                                   | Three months ended |               |               |               |
|-----------------------------------|--------------------|---------------|---------------|---------------|
|                                   | December 31        | March 31      | June 30       | September 30  |
| <b>Fiscal year ended 2005</b>     |                    |               |               |               |
| Net sales and service income      | \$ 12,261,125      | \$ 9,894,886  | \$ 12,093,891 | \$ 16,023,293 |
| Gross profit                      | 4,056,414          | 3,519,716     | 4,258,587     | 5,037,311     |
| Net income                        | 1,514,687          | 1,088,238     | 1,446,426     | 1,765,041     |
| Basic earnings per common share   | 0.13               | 0.09          | 0.12          | 0.15          |
| Diluted earnings per common share | 0.13               | 0.09          | 0.12          | 0.15          |
| <b>Fiscal year ended 2004</b>     |                    |               |               |               |
| 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          |

**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

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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, compliance with Section 16(a) of the Securities Exchange Act of 1934, as amended, and our Code of Business Conduct and Ethics is incorporated by reference to the information in the sections entitled "Identity of Officers," "Election of Directors," "Compliance with Section 16(a) of the Exchange Act," and "Code of Ethics," respectively, of our Proxy Statement for the 2006 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, 2005.

**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 AND RELATED STOCKHOLDER MATTERS**

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 and Related Stockholder Matters" 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 filed as part of this report in Part II, Item 8.
- Report of Independent Registered Public Accounting Firm
  - Consolidated Balance Sheets as of September 30, 2005 and 2004
  - Consolidated Statements of Income for the years ended September 30, 2005, 2004 and 2003
  - Consolidated Statements of Changes in Stockholders' Equity for the years ended September 30, 2005, 2004 and 2003
  - Consolidated Statements of Cash Flows for the years ended September 30, 2005, 2004 and 2003
  - Notes to Consolidated Financial Statements
2. The following financial statement Schedule II – Valuation and Qualifying Accounts for the years ended September 30, 2005, 2004 and 2003 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.

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## Schedule II – Valuation and Qualifying Accounts

|   | Balance at<br>Beginning<br>of Period | Charged<br>to Costs<br>and<br>Expenses | Write-<br>offs | Recoveries | Balance at<br>End of<br>Period |
|---|--------------------------------------|--|----------------|------------|--------------------------------|
| <b>Period Ended September 30, 2005</b>      |                                      |  |                |            |                                |
| Allowance for Doubtful Accounts             | \$ 68,063                            | \$ 40,080                              | \$(16,143)     | \$ —       | \$ 92,000                      |
| Allowance for Excess and Obsolete Inventory | 1,093,000                            | 482,395                                | —              | —          | 1,575,395                      |
| Valuation Allowance of Deferred Tax Asset   | —                                    | —                                      | —              | —          | —                              |
| <b>Period Ended September 30, 2004</b>      |                                      |  |                |            |                                |
| 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   | —                                    | —                                      | —              | —          | —                              |
| <b>Period Ended September 30, 2003</b>      |                                      |  |                |            |                                |
| 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    | —                              |

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

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   |

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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 (“Revolving Credit and Term Loan Agreement”), incorporated by reference to Exhibit 10.5 to the Company’s Form 10-K filed December 22, 2004.
- 10.6 Amendment to Revolving Credit and Term Loan Agreement dated September 30, 2005.
- 10.7 The ADDvantage Media Group, Inc. 1998 Incentive Stock Plan, incorporated by reference to Appendix A to the Company’s Proxy Statement relating to the Company’s 1998 Annual Meeting, filed April 28, 1998.
- 10.8 First Amendment to ADDvantage Media Group, Inc. 1998 Incentive Stock Plan, incorporated by reference to Exhibit 4.4 to the Company’s Registration Statement on Form S-8 filed November 20, 2003.
- 21.1 Listing of the Company’s subsidiaries, filed herewith.
- 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 27, 2005

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 27, 2005

/s/ David E. Chymiak  
David E. Chymiak, Chairman of the Board of Directors

Date: December 27, 2005

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

Date: December 27, 2005

/s/ James W. Brown  
James W. Brown, Vice President of Operations, Secretary (Principal Accounting Officer)

Date: December 27, 2005

/s/ Stephen J. Tyde  
Stephen J. Tyde, Director

Date: December 27, 2005

/s/ Freddie H. Gibson  
Freddie H. Gibson, Director

Date: December 27, 2005

/s/ Henry F. McCabe  
Henry F. McCabe, Director

INDEX TO EXHIBITS

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

| <u>Exhibit</u> | <u>Description</u>   |
|----------------|--|
| 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 (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.  |
| 10.5           | Revolving Credit and Term Loan Agreement dated September 30, 2004, incorporated by reference to Exhibit 10.5 to the Company's Form 10-K filed December 22, 2004.   |
| 10.6           | Amendment to Revolving Credit and Term Loan Agreement dated September 30, 2005.  |



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- 10.7 The ADDvantage Media Group, Inc. 1998 Incentive Stock Plan, incorporated by reference to Appendix A to the Company's Proxy Statement relating to the Company's 1998 Annual Meeting, filed April 28, 1998.
- 10.8 First Amendment to ADDvantage Media Group, Inc. 1998 Incentive Stock Plan incorporated by reference to Exhibit 4.4 to the Company's Registration Statement on Form S-8 filed November 20, 2003.
- 21.1 Listing of the Company's subsidiaries, filed herewith.
- 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.

**FIRST AMENDMENT TO REVOLVING CREDIT  
AND TERM LOAN AGREEMENT**

THIS FIRST AMENDMENT TO REVOLVING CREDIT AND TERM LOAN AGREEMENT (Amendment") is made effective this 30<sup>th</sup> day of September, 2005, by and between **ADVANTAGE TECHNOLOGIES GROUP, INC.**, an Oklahoma corporation ("Borrower") and **BANK OF OKLAHOMA, N.A.** ("Lender").

**RECITALS**

A. Reference is made to the Revolving Credit and Term Loan Agreement between Borrower and Lender dated September 30, 2004 ("Credit Agreement"), pursuant to which exists a \$7,000,000 Revolving Line and an \$8,000,000 Term Loan. Terms used herein shall have the meanings ascribed to them in the Credit Agreement unless otherwise defined herein.

B. Borrower has requested Lender to renew the \$7,000,000 Revolving Line and Lender is willing to accommodate such request pursuant to the terms and conditions set forth in this Amendment.

**AGREEMENT**

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

**1. AMENDMENT TO THE CREDIT AGREEMENT.**

1.1 Section 1.31 (LIBOR Rate) is hereby amended to evidence the phrase "the first Business Day of each subsequent calendar month" shall now mean and read "the first day of each subsequent calendar month."

**2. CONDITIONS PRECEDENT**

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

2.1.1 This Amendment;

2.2 The \$7,000,000 Line Note set forth as Schedule "2.1.2" hereto;

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

3. **Representations.** As inducement for Lender to agree to this Amendment, the Borrower represents and warrants to Lender as follows: (i) all representations and warranties set forth in the Credit Agreement and other Loan Documents remain true and correct as of the date hereof, and all schedules remain true and correct; (ii) no Initial Default or Matured Default exists under the Credit Agreement or any other Loan Documents, and none shall arise as a result of the execution and performance under this Agreement and/or any documents executed and/or delivered by Borrower in connection herewith.

4. Ratification of and Amendment to Documents. Borrower hereby ratifies and confirms the Credit Agreement, together with all security agreements, financing statements, instruments, documents and/or agreements executed and/or delivered by Borrowers to Lender in connection therewith (“Loan Documents”), and Borrower acknowledges, agrees, represents and warrants that the Loan Documents are in full force and effect, binding and enforceable in accordance with their terms.

5. Ratification of Guaranty. Each Guarantor, by execution of the ratification following the signature page hereof, hereby agrees to the renewal of the \$7,000,000 Revolving Line, and hereby ratifies and confirms its guaranty Agreement; and further confirms that, after giving effect to the amendments provided for herein, the Guaranty Agreement shall continue in full force and effect, and that each representation and warranty set forth therein remains true and correct as of the date hereof.

6. Governing Law and Binding Effect. This Amendment shall be governed by and construed in accordance with the laws of the State of Oklahoma, and it, together with all documents executed and delivered in connection herewith, shall be binding upon the parties hereto, their respective successors and assigns.

7. USA Patriot Act Notification. IMPORTANT INFORMATION ABOUT PROCEDURES FOR OPENING A NEW ACCOUNT. To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify, and record information that identifies each person or entity that opens an account, including any deposit account, treasury management account, loan, other extension of credit, or other financial services product. What this means for Borrower: When Borrower opens an account, if Borrower is an individual, Lender will ask for Borrower’s name, taxpayer identification number, residential address, date of birth, and other information that will allow Lender to identify Borrower, and, if borrower is not an individual, Lender will ask for borrower’s name, taxpayer identification number, business address, and other information that will allow Lender to identify Borrower. Lender may also ask, if Borrower is an individual, to see Borrower’s driver’s license or other identifying documents, and, if Borrower is not an individual, to see Borrower’s legal organizational documents or other identifying documents.

8. Costs, Expenses and Fees. Borrowers agree to pay all costs, expenses and fees (including reasonable attorney fees) incurred by Bank in connection with the preparation of this Amendment or the administration hereof.

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

“Borrower”

**ADVANTAGE 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

**RATIFICATION OF GUARANTY**

As inducement for the Lender to enter into the First Amendment to Revolving Credit and Term Loan Agreement (“Amendment”) dated effective September 30, 2005, to which this Ratification is affixed, the undersigned Guarantors each hereby agree to Section 5 of the Amendment and further hereby ratifies and confirms its Guaranty Agreement.

**Tulsat Corporation**, an Oklahoma corporation

By /s/ David Chymiak  
David Chymiak, President

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

By /s/ David Chymiak  
David Chymiak, Vice President

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

By /s/ Ken Chymiak  
Ken Chymiak, Vice President

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

By /s/ Ken Chymiak  
Ken Chymiak, Vice President

**NCS Industries, Inc.**, a Pennsylvania corporation

By /s/ David Chymiak  
David Chymiak, President

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

By: ADDvantage Technologies Group, Inc.  
Its sole member and Manager

By /s/ David Chymiak  
David Chymiak, Chairman of the Board

Schedule "2.1.2"

(\$7,000,000 Line Note)

PROMISSORY NOTE

\$7,000,000

September 30, 2005  
Tulsa, Oklahoma

FOR VALUE RECEIVED, the undersigned, **ADVANTAGE TECHNOLOGIES GROUP, INC.**, AN Oklahoma corporation (“Maker”), promises to pay to the order of **BANK OF OKLAHOMA, N.A.** (“Lender”), at its offices in Tulsa, Oklahoma, the principal sum of SEVEN MILLION AND NO/100 DOLLARS (\$7,000,000.00) or, if less, the aggregate sum of advances made by Lender to Maker under the Revolving Credit and Term Loan Agreement between Maker and Lender dated September 30, 2004 (as amended, the “Credit Agreement”), payable as follows:

- a. Principal. Principal shall be payable on September 30, 2006.
- b. Interest. Interest shall be payable monthly on the last day of each month, commencing October 31, 2005, and at maturity. Interest shall accrue on the principal balance outstanding hereunder and on any past due interest hereunder at a rate at all times equal to the Note Rate (defined in the Credit Agreement).

If any payment shall be due on Saturday or Sunday or upon any other day on which state or national banks in the State of Oklahoma are closed for business by virtue of a legal holiday for such banks, such payment shall be due and payable on the next succeeding banking day and interest shall accrue to such day. All interest due hereon shall be computed on the actual number of days elapsed (365 or 366) based upon a 360-day year.

Such installment payments are to be applied first to the payment of interest on the principal balance from time to time remaining unpaid at the aforesaid rate, and any balance shall be used to reduce the principal balance; except that if any advances made by the holder hereof under the terms of any instrument, document or agreement executed by Maker in connection herewith have not been repaid, any monies received may, at the option of holder, be applied to any installment then due. Any prepayments shall be applied to installments in the inverse order of occurrence.

All payments under this Note shall be made in legal tender of the United States of America or in other immediately available funds at Lender’s office described above, and no credit shall be given for any payment received by check, draft or other instrument or item until such time as the holder hereof shall have received credit therefor from the holder’s collecting agent or, in the event no collecting agent is used, from the bank or other financial institution upon which said check, draft or other instrument or item is drawn.

From time to time the maturity date of this Note may be extended or this Note may be renewed, in whole or in part, or a new note of different form may be substituted for this Note and/or the rate of interest may be changed, or changes may be made in consideration of loan extensions, and the holder, from time to time, may waive or surrender, either in whole or in part, any rights, guarantees, security interests or liens given of the benefit of the holder in connection herewith; but no such occurrences shall in any manner affect, limit, modify or otherwise impair any rights, guarantees or security of the holder not specifically waived, released or surrendered in writing, nor shall any maker, guarantor, endorser or any person who is or might be liable hereon, either primarily or contingently, be released from such liability by reason of the occurrence of any such event. The holder hereof, from time to time, shall have the unlimited right to release any person who might be liable hereon; and such release shall not affect or discharge the liability of any other person who is or might be liable hereon.

If any payment required by this Note to be made is not made within five (5) days of when due, or if any default occurs under any loan agreement or under the provisions of any mortgage, security agreement, assignment, pledge or other document or agreement which provides security for the indebtedness evidenced by this Note, the holder hereof may, at its option, without notice or demand, declare this Note in default and all indebtedness due and owing hereunder immediately due and payable. Interest from the date of default of such principal balance and on any past due interest hereunder shall accrue at the rate of five percent (5%) per annum above the nondefault interest rate accruing hereunder. The Maker and any endorsers, guarantors and sureties hereby severally waive protest, presentment, demand, and notice of protest and nonpayment in case this Note or any payment due hereunder is not paid when due; and they agree to any renewal, extension, acceleration, postponement of the time of payment, substitution, exchange or release of collateral and to the release of any party or person primarily or contingently liable without prejudice to the holder and without notice to the Maker or any endorser, guarantor or surety. Maker and any guarantor, endorser, surety or any other person who is or may become liable hereon will, on demand, pay all costs of collection, including reasonable attorney fees of the holder hereof in attempting to enforce payment of this Note and reasonable attorney fees for defending the validity of any document securing this Note as a valid first and prior lien.

Upon the occurrence of any default hereunder, Lender shall have the right, immediately and without further action by it, to set off against this Note all money owed by Lender in any capacity to the Maker or any guarantor, endorser or other person who is or might be liable for payment hereof, whether or not due, and also to set off against all other liabilities of Maker to Lender all money owned by Lender in any capacity to Maker; and Lender shall be deemed to have exercised such right of setoff and to have made a charge against such money immediately upon the occurrence of such default even though such charge is made or entered into the books of Lender subsequently thereto.

The holder of this Note may collect a late charge not to exceed an amount equal to five percent (5%) of the amount of any payment which is not paid within ten (10) days from the due date thereof, for the purposes of covering the extra expenses involved in handling delinquent payments. This late charge provision shall not be applicable in the event the holder hereof, at its option, elects to receive interest at the increased rate as provided hereunder in the event of default.

This Note is given for any actual loan of money for business purposes and not for personal, agricultural or residential purposes, and is executed and delivered in the State of Oklahoma and shall be governed by and construed in accordance with the laws of the State of Oklahoma.

This Note constitutes an extension of the \$7,000,000 Promissory Note from Maker to Lender dated September 30, 2004.

[Signature Page to Follow]



**ADVANTAGE TECHNOLOGIES GROUP,  
INC.**, an Oklahoma corporation

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

**EXHIBIT 21.1**

**ADVANTAGE TECHNOLOGIES GROUP, INC.**

**Subsidiaries**

Tulsat, an Oklahoma corporation

Tulsat-Nebraska, Inc., a Nebraska corporation.

NCS Industries, Inc., a Pennsylvania corporation

ADDvantage Technologies Group of Missouri, Inc., "dba ComTech Services", a Missouri corporation

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

Tulsat-Atlanta, LLC, a subsidiary of Tulsat, an Oklahoma corporation

Jones Broadband International, Inc, a California corporation

**Exhibit 23.1**

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation of our report dated December 22, 2005, on the financial statements of ADDvantage Technologies Group, Inc. (“the Company”) as of September 30, 2005 and 2004, and for each of the three years in the period ended September 30, 2005, included in this Form 10-K Annual Report of ADDvantage Technologies Group, Inc., into the Company’s previously filed Registration Statement on Form S-8 (File number 333-110645).

/s/ TULLIUS TAYLOR SARTAIN & SARTAIN LLP

Tulsa, Oklahoma  
December 27, 2005

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER  
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.;
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 registrant 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 registrant 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 registrant, 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 registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the period covered by this report based on such evaluation; and
  - c. Disclosed in this report any change in the registrant's internal control over financial reporting during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant'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 registrant's auditors and the audit committee of the registrant'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 registrant'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 registrant's internal control over financial reporting.

Date: December 27, 2005

/s/ Kenneth A. Chymiak

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Kenneth A. Chymiak

Chief Executive Officer and Chief Financial Officer

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER 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, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report") I, Kenneth A. Chymiak, the Chief Executive Officer and Chief Financial Officer 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

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Name: Kenneth A. Chymiak  
Title: Chief Executive Officer and  
Chief Financial Officer  
Date: December 27, 2005