ADDVANTAGE TECHNOLOGIES GROUP INC
Form 10-K
December 15, 2011

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

FORM 10-K

xANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended September 30, 2011

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

Commission file number 1-10799

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

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

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

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

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

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

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

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

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

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

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

The aggregate market value of the outstanding shares of common stock, par value $.01 per share, held by non-affiliates computed by reference to the closing price of the registrant’s common stock as of March 31, 2011 was $16,547,685.

The number of shares of the registrant’s outstanding common stock, $.01 par value per share, was 10,207,390 as of November 30, 2011.

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 2012 annual meeting of shareholders are incorporated by reference into Part III of this Form 10-K. The Proxy Statement will be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Form 10-K.

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PART I

Item 1. Business.

Forward-Looking Statements

Certain matters discussed in this report constitute forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, including statements which relate to, among other things, expectations of the business environment in which ADDvantage Technologies Group, Inc. (the "Company") 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 expr 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 our control or foresight, 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.

Background

We (through our subsidiaries) distribute and service a comprehensive line of electronics and hardware for the cable television ("CATV") industry. The products we sell and service are used to acquire, distribute, receive and protect the communications signals carried on fiber-optic, coaxial cable and wireless distribution systems. Our customers provide 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.

We conduct our operations through a network of regionally based subsidiaries that focus on servicing customers in different geographic markets. Our operating subsidiaries include Tulsat Corporation ("Tulsat"), Tulsat-Atlanta LLC, ADDvantage Technologies Group of Nebraska, Inc. (dba "Tulsat-Nebraska"), ADDvantage Technologies Group of Texas, Inc. (dba "Tulsat Texas"), ADDvantage Technologies Group of Missouri, Inc. (dba "ComTech Services"), NCS Industries, Inc. ("NCS"), and Broadband Remarketing International, LLC (dba "Adams Global Communications" or "AGC").

Several of our subsidiaries, through their long relationships with the original equipment manufacturers ("OEMs") and specialty repair facilities, have established themselves as value-added resellers ("VARs"). Tulsat, located in Broken Arrow, Oklahoma, is a distributor of Cisco video products. Tulsat is also a Cisco Premier Partner allowing it to sell Cisco's IT related products as well. Tulsat is also designated as an authorized third party Cisco repair center for select video products. NCS, located in Warminster, Pennsylvania, is one of only three distributors of Motorola broadband products and is also a Master Distributor for the United States distribution of Fujitsu Frontech North America encoders, decoders and media solutions products. AGC, located in Lenexa, Kansas, has a reseller agreement with Arris Solutions to sell cable television equipment in the United States. Our subsidiaries also sell products from other OEMs including Alpha, Blonder-Tongue, RL Drake, Corning-Gilbert, Promax, Quintech, Standard and Triveni Digital.

In addition to offering a broad range of new products, we also purchase and sell surplus-new and refurbished equipment that becomes available in the market as a result of cable operator system upgrades or an overstock in their warehouses. We maintain one of the industry's largest inventories of new and refurbished equipment, which allows us to deliver products to our customers within a short period of time. We continue to upgrade our new product offerings to stay in the forefront of the communications broadband technology revolution.

Most of our subsidiaries operate technical service centers specializing in Cisco video products, Motorola, Magnavox and power supply repairs.

Overview of the Industry

We participate in markets for equipment sold primarily to cable operators (called multiple system operators or “MSOs”) and other communication companies. 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 MSOs in the United States. Within the last few years, many MSOs now 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. To offer these expanded services, MSOs have invested significantly to convert their systems to digital networks, and they continue to upgrade their cable plants to increase the speed of their communication signals. As a result, many MSOs have well-equipped networks capable of delivering symmetrical high-bandwidth video, two-way high speed data service and telephony to most of their subscribers through their existing hybrid fiber coaxial infrastructure.

We believe that we have been able to provide many of the products and services sought by MSOs as they establish and expand their services and territories. Our relationships with our principal vendors, Cisco and Motorola, provide us with products that are important to cable operators as they maintain and expand their systems. These relationships and our inventory are key factors, we believe, in our prospects for revenue and profit growth.

In addition, we continue to expand our relationships with vendors and establish new vendors and product lines for our company. In 2011, we acquired the net operating assets of Adams Global Communications, LLC. With this acquisition, we became a reseller of Arris Solutions cable television products in the United States, and we now offer products from the top three vendors, Cisco, Motorola and Arris Solutions, in the cable television industry. In 2010, NCS became a Master Distributor for the United States distribution of Fujitsu Frontech North America encoders, decoders and media solutions products and a member of the Fujitsu global channel partner program servicing the United States. This relationship has started to expand our customer base into the broadcast market segment of the industry.

We are focused on the opportunities provided by technological changes resulting from the implementation of fiber-to-the-home by several large telephone companies, the continued expansion of bandwidth signals by MSOs, and sales to customers in Latin America. We continue to stock legacy CATV equipment as well as new digital and optical broadband telecommunications equipment from major suppliers so we can provide our customers with one-stop shopping, access to “hard-to-find” products and reduced customer downtime because we have the product in stock and can deliver to the customer’s location the next day. Our experienced sales support staff has the technical know-how to consult with our customers regarding solutions for various products and configurations. Also, through our six service centers that provide warranty and out-of-warranty repairs, we continue to reach new customers.

Recent Business Developments

Acquisition

On May 20, 2011, the Company acquired the net operating assets of Adams Global Communications, LLC. AGC purchases and sells cable television access and transport equipment, digital converter boxes and modems in the United States, Canada and Latin American markets. In addition, the Company hired all 12 of AGC’s employees.

The Company’s Broadband Remarketing International, LLC (“BRI”) subsidiary also sells digital converter boxes. We believe the acquisition of AGC was a strategic fit for the Company as BRI’s customer base was different than that of AGC, and BRI also sold product to AGC, effectively operating as a distributor to AGC. Effective with the closing of the acquisition, the Company began marketing BRI as Adams Global Communications or AGC.

AGC also has a reseller agreement with Arris Solutions ("Arris") to sell cable television equipment in the United States. The Company believes it can expand this relationship with Arris to stock certain product lines consistent with its On Hand – On Demand strategy.

On July 7, 2011, the Company purchased land and a 26,000 square foot building in Lenexa, Kansas for $1.475 million in cash. The Company received rental payments from the then-current tenants of $10,250 per month through

October 31, 2011 at which time AGC relocated its operations to this facility. AGC leased its former location on a month-to-month basis through November 30, 2011.

Cisco Distribution Agreement

As previously announced on December 27, 2010, Tulsat entered into a new system integrator/reseller agreement with Cisco, which enables Tulsat to sell both IT and video-related products in the United States. This agreement replaced Tulsat's prior distributor agreement with Cisco, which expired December 20, 2010.

Under the terms of this agreement, Tulsat will purchase the majority of its new Cisco product inventory through a primary stocking distributor as opposed to purchasing directly from Cisco as it did under the prior agreement. This is expected to result in slightly higher product costs, but it will lower the Company's storage, shipping and handling costs as Tulsat reduces its inventory of new Cisco products. Also, video products purchased through Cisco or the primary stocking distributor will only be able to be sold to domestic end users of these products. Therefore, Tulsat cannot sell current production Cisco products to other resellers or brokers nor can Tulsat sell these Cisco products outside of the United States as it did in the past.

As required by the agreement, Tulsat became a Cisco Premier Partner in January 2011 by, among other things, attaining the required Cisco certifications. As a Cisco Premier Partner, Tulsat can sell both IT-related products and video-related products.

In fiscal year 2011, Tulsat was negatively impacted by this agreement primarily in two areas. First, Tulsat is no longer able to sell current production Cisco products to Latin America, which contributed to our $2.3 million decrease in foreign sales for fiscal year 2011 as compared to fiscal year 2010. Second, Tulsat is no longer able to sell current production Cisco products to other resellers or brokers, which was a significant part of Tulsat's business, although Tulsat is able to utilize its existing inventory to sell to certain resellers and brokers. However, as this inventory is reduced, Tulsat will no longer be able to sell to these customers, which could negatively impact our sales.

Business Environment

The Company is still being impacted by the economic downturn and technology changes in the industry. The cable television industry is continuing to limit capital expenditures in order to conserve cash. The cable television industry made the transition from analog to digital in 2009 and 2010 and upgraded its headend equipment in connection with this transition. Therefore, they have not made and do not plan to make significant plant expansions or additional bandwidth upgrades until the internet television ("IPTV") technology is fully ready to be deployed. In the meantime, the cable television companies are focusing their capital expenditure efforts on telephone and data services. We cannot predict when our MSO customers will begin significant capital expenditures once again. Until this occurs, we do not anticipate revenue growth in our equipment sales business. We believe we have the inventory on-hand or available to us via our supply channels to meet our customers' demands once they increase their capital expenditures.

Despite the challenges in the current business environment and the impact of our Cisco agreement, we believe we are well-positioned in this marketplace. As discussed above, the Cisco contract does limit our ability to sell to certain customers as we have in the past. However, we have existing product lines and have added others, which help to mitigate the negative impact of the Cisco contract. We continue to be the leading broadband access network stocking distributor for Motorola. Due to the acquisition of AGC, we are now a reseller for Arris cable television equipment in the United States. Therefore, we now have supplier or reseller contracts with the top three cable equipment suppliers in the United States. We also are the master distributor for Fujitsu Frontech encoders, decoders and media solutions products in the United States, which gives us the opportunity to expand our customer base into the broadcast industry. We have added Triveni Digital test equipment to our product mix and still have our other existing OEM suppliers, including Alpha, Blonder-Tongue, RL Drake, Corning-Gilbert, Promax, Quintech and Standard. In addition, we also operate six technical service centers that service many of the products that we sell.

Business Closure

In the first quarter of 2011, we completed the process of moving the Tulsat-West operations from Oceanside, California to our Broken Arrow facility. The Tulsat-West operation was closed as a cost reduction measure.

Products and Services

We offer our customers a wide range of new, surplus-new and refurbished products across many brands, including Cisco, Motorola and Arris Solutions, that are used in connection with video, telephone and internet data signals.

Headend Products – Headend products are used by a system operator for signal acquisition, processing and manipulation for further transmission. Among the products we offer in this category are satellite receivers (digital and analog), integrated receiver/decoders, demodulators, modulators, antennas and antenna mounts, amplifiers, equalizers and processors. The headend of a television signal distribution system is the "brain" of the system; the central location where the multi-channel signal is initially received, converted and allocated to specific channels for distribution. In some cases, where the signal is transmitted in encrypted form or digitized and compressed, the receiver will also be required to decode the signal.

Fiber Products – Fiber products are used to transmit the output of cable system headend to multiple locations using fiber-optic cable. In this category, we currently offer products including optical transmitters, fiber-optic cable, receivers, couplers, splitters and compatible accessories. These products convert radio frequencies to light frequencies and launch them on optical fiber. At each receiver site, an optical receiver is used to convert the signals back to RF VHF frequencies for distribution to subscribers.

Access and Transport Products – Access and transport products are used to permit signals to travel from the headend to their ultimate destination in a home, apartment, hotel room, office or other terminal location along a distribution network of fiber optic or coaxial cable. Among the products we offer in this category are transmitters, receivers, line extenders, broadband amplifiers, directional taps and splitters.

Customer Premise Equipment – Digital converters and modems are boxes placed inside the home that receive, record and transmit video, data and telephony signals. Among the products we offer in this category are remanufactured Cisco and Motorola digital converter boxes and modems.

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

In addition, we also offer Fujitsu Frontech North America encoders, decoders and other media solutions products used primarily for the broadcast industry. These products encode and decode signals with an industry leading encode/decode latency for exceptional high definition satellite news gathering and sports broadcasting.

Revenues by Geographic Area

Our revenues by geographic areas were as follows:

	2011	2010	2009
United States	$33,599,080	$40,523,492	$37,694,831
Canada, Central America, Mexico, South America and Other	4,480,450	6,782,638	4,548,761
	$38,079,530	$47,306,130	$42,243,592

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

Sales and Marketing

In 2011, sales of new products represented 67% of our total revenues and refurbished product sales represented 20%. Repair and other services contributed the remaining 13% of revenues.

We market and sell our products to franchise and private MSOs, telephone companies, system contractors and other resellers. Our sales and marketing are predominantly performed by the internal sales and customer service staff of our subsidiaries. We also have outside sales representatives located in various geographic areas. The majority of our sales activity is generated through personal relationships developed by our sales personnel and executives, referrals from manufacturers we represent, advertising in trade journals, telemarketing and direct mail to our customer base in the United States. We have developed contacts with major MSOs in the United States, and we are constantly in touch with these operators regarding their plans for upgrading or expansion as well as their needs to either purchase or sell equipment.

We market ourselves as an "On Hand – On Demand" distributor. We maintain a wide breadth of inventory of new and used cable television products and many times can offer our customers same day shipments. Even though we have been decreasing the amount of inventory we carry, we still carry one of the most diverse inventories of any cable television product reseller in the country, and we have access to inventory via our various supply channels. We believe our investment in on-hand inventory, our product supply channels, our network of regional repair centers and our experienced sales and customer service team create a competitive advantage for us.

We continue to add products and services to maintain and expand our current customer base in North America, Central and South America, Asia and other international markets. We believe there is growth potential for sales of new and legacy products in the international market as some operators choose to upgrade to new larger bandwidth platforms, while other customers, specifically in developing markets, desire less expensive legacy new and refurbished products. Even though we are limited in the international market due to our Cisco agreement, we still can sell our other brands we carry and our refurbished equipment as well. We extend credit on a limited basis to international customers that purchase products on a regular basis and make timely payments. However, for most international sales we require prepayment of sales or letters of credit confirmed by United States banks prior to shipment of products.

Suppliers

In 2011, we purchased approximately 40% of our total inventory purchases either directly from Cisco or indirectly through its primary stocking distributor and approximately 15% of our total inventory purchases directly from Motorola. In addition to purchasing inventory from OEMs, we also purchase used or surplus-new inventory from MSOs who have upgraded or are in the process of upgrading their systems.

Seasonality

Many of the products that we sell are installed outdoors and can be damaged by storms and power surges. Consequently, we experience increased demand on certain product offerings during the months between late spring and early fall when severe weather tends to be more prominent than at other times during the year.

Competition and Working Capital Practices.

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 buying and selling new and refurbished CATV equipment similar to the products that we offer. However, most of these competitors do not maintain the breadth of inventory that we carry due to working capital limitations. We maintain the practice of carrying the wide breadth of inventory to meet both the customers' urgent needs and mitigate the extended lead times of our suppliers. In addition, even though we do not stock current production Cisco cable television equipment, we can still purchase directly from Cisco's stocking distributor. We also have a wide array of other equipment suppliers in the event we do not have the necessary inventory in stock. In terms of sales and inventory on hand or available via our supply channels, we believe we are still the largest reseller in this industry, providing both sales and service of new and refurbished CATV equipment.

We also compete with our OEM suppliers as they can sell directly to our customers. Our OEM suppliers have a competitive advantage over us as they can sell products at lower prices than we offer. As a result, we are often considered a secondary supplier by large MSOs and telephone companies when they are making large equipment purchases or upgrades. However, for smaller orders or items that are needed to be delivered quickly, we often hold an advantage over our OEM suppliers as we carry most inventory in stock and can have it delivered in a shorter timeframe than the OEM.

Working capital practices in the industry center on inventory and accounts receivable. We choose to carry a relatively large inventory due to our "On Hand – On Demand" business model for both new and used inventory. We have typically utilized excess cash flows to reinvest in new inventory to expand our product offerings. The greatest need for working capital occurs when we make bulk purchases of surplus-new and used inventory, or when our OEM suppliers offer additional discounts on large purchases. However, in fiscal year 2011, due to the continued economic downturn, we continued to reduce our overall inventory levels, which helped in generating excess cash flows of approximately $2 million. Our working capital requirements are generally met by cash flow from operations and a bank line of credit, which currently permits borrowings up to $7.0 million. We expect to have sufficient funds available from our cash on hand, future excess cash flows and the bank line of credit to meet our working capital needs for the foreseeable future.

Significant Customers

We are not dependent on one or a few customers to support our business. Our customer base consists of approximately 1,200 active accounts. Sales to our largest customer accounted for approximately 7% of our revenues in fiscal year 2011. Approximately 22% and 26% of our revenues for fiscal years 2011 and 2010, respectively, 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 alone, each of which is a potential customer.

Personnel

At September 30, 2011, we had 126 employees. Management considers its relationships with its employees to be excellent. Our employees are not unionized, and we are not subject to any collective bargaining agreements.

Item 2. Properties.

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

- Broken Arrow, Oklahoma – Tulsat owns a facility consisting of an office, warehouse and service center of approximately 100,000 square feet on ten acres, with an investment of $3.3 million, financed by a loan of $2.8 million, due in monthly payments through 2021 at an interest rate of LIBOR plus 1.4%. In 2007, Tulsat constructed a 62,500 square foot warehouse facility on the rear of its existing property in Broken Arrow, OK, with an investment of $1.6 million, financed with cash flow from operations.

Tulsat also continues to lease warehouse space of approximately 56,000 square feet from an entity that is controlled by David E. Chymiak, Chairman of the Company's Board of Directors, and Kenneth A. Chymiak, President and Chief Executive Officer of the Company. This warehouse space is leased on a month-to-month basis with a monthly payment of $7,500.

- Deshler, Nebraska – Tulsat-Nebraska owns a facility consisting of land and an office, warehouse and service center of approximately 8,000 square feet.

- Warminster, Pennsylvania – NCS owns its facility consisting of an office, warehouse and service center of approximately 12,000 square feet, with an investment of $0.6 million. NCS also leases property of approximately 2,000 square feet, with monthly rental payments of $1,337 through December 31, 2011. NCS also rents on a month-to-month basis another property of approximately 2,000 square feet, with monthly rental payments of $1,325.

- Sedalia, Missouri – ComTech Services owns land and an office, warehouse and service center of approximately 24,300 square feet. In 2007, ComTech Services also constructed an 18,000 square foot warehouse facility on the back of its existing property in Sedalia, MO with an investment of $0.4 million.

- New Boston, Texas – Tulsat-Texas owns land and an office, warehouse and service center of approximately 13,000 square feet.

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- Suwannee, Georgia – Tulsat-Atlanta rents on a month-to-month basis an office and service center of approximately 5,000 square feet, with monthly rental payments of $3,360.

- Lenexa, Kansas – ADDvantage Technologies Group purchased in July 2011 land, an office and a warehouse of approximately 26,400 square feet to be used by AGC, with an investment of $1.5 million. ADDvantage received monthly rental income of $10,250 through October 31, 2011 from the previous tenant. AGC relocated to this facility from its previous location in Overland Park, Kansas in November 2011. AGC rents the Overland Park, Kansas property of approximately 57,000 square feet, with monthly rental payments of $12,000 through December 31, 2011.

We believe that our current facilities are adequate to meet our needs.

Item 3. Legal Proceedings.

From time to time in the ordinary course of business, we have become a party to various types of legal proceedings. We do not believe that these proceedings, individually or in the aggregate, will have a material adverse effect on our financial position, results of operations or cash flows.

PART II

Item 5. Market for Registrants Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

The table sets forth the high and low sales prices on the NASDAQ Global Market under the symbol "AEY" for the quarterly periods indicated.

Year Ended September 30, 2011	High	Low
First Quarter	$3.90	$2.85
Second Quarter	$3.25	$2.61
Third Quarter	$3.19	$2.40
Fourth Quarter	$2.67	$2.02
Year Ended September 30, 2010	High	Low
First Quarter	$2.58	$1.91
Second Quarter	$2.50	$1.97
Third Quarter	$3.48	$2.20
Fourth Quarter	$3.41	$2.34

Holders

At November 30, 2011, we have approximately 70 shareholders of record and, based on information received from brokers, there are approximately 1,700 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. In addition, the Company's Amended and Restated Revolving Credit and Term Loan Agreement with its primary financial lender restricts the payment of dividends to no more than 50% of the Company's net income. The payment of cash dividends in the future will be dependent upon our earnings and financial requirements and other factors deemed relevant by our Board of Directors.

Securities authorized for issuance under equity compensation plans

The information in the following table is as of September 30, 2011:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)

Equity compensation plans approved by security holders	122,000	$3.57	588,925
Equity compensation plans not approved by security holders	0	0	0
Total	122,000	$3.57	588,925

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Item 6. Selected Financial Data.

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

	Fiscal Year Ended September 30,				
	2011	2010	2009	2008	2007
Net sales and service income	$38,080	$47,306	$42,244	$56,449	$65,646
Income from operations	$4,925	$7,554	$5,768	$8,452	$12,543
Net income applicable to common shareholders	$2,536	$4,186	$3,019	$4,534	$6,590
Earnings per share					
Basic	$0.25	$0.41	$0.30	$0.44	$0.64
Diluted	$0.25	$0.41	$0.30	$0.44	$0.64
Total assets	$52,888	$52,260	$49,433	$51,800	$49,009
Long-term obligations inclusive of current maturities	$12,058	$13,872	$15,857	$20,510	$9,009

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

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

General

We have established ourselves, through our subsidiaries' long relationships with OEMs, as distributors and/or value-added resellers of these OEM products. Tulsat is a Premier Partner for Cisco's products, which allows Tulsat to sell both video-related and IT-related products in the United States. NCS Industries is a leading distributor of Motorola broadband products. AGC is a reseller of Arris cable television equipment in the United States. We also distribute products from other OEMs including Alpha, Blonder-Tongue, RL Drake, Corning-Gilbert, Promax, Quintech, Standard and Triveni Digital. We also specialize in the sale of surplus-new and refurbished previously-owned CATV equipment to CATV operators and other broadband communication companies. It is through our development of these vendor relationships that we have focused much of our efforts to market our products and services to the cable MSOs and telecommunication companies. These customers provide an array of different communications services as well as compete in their ability to offer subscribers "triple play" transmission services including data, voice and video.

NCS Industries is a Master Distributor for the United States distribution of Fujitsu Frontech North America encoders, decoders and media solutions products. These products are primarily for the broadcast industry, which is expanding our customer base into this industry.

We also operate technical service centers specializing in Cisco video-related products, Motorola, Magnavox and power supply repairs.

Recent Business Developments

Acquisition

On May 20, 2011, the Company acquired the net operating assets of Adams Global Communications, LLC. AGC purchases and sells cable television access and transport equipment, digital converter boxes and modems in the United States, Canada and Latin American markets. In addition, the Company hired all 12 of AGC's employees.

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Cisco Distribution Agreement

As previously announced on December 27, 2010, Tulsat entered into a new system integrator/reseller agreement with Cisco, which enables Tulsat to sell both IT and video-related products in the United States. This agreement replaced Tulsat's prior distributor agreement with Cisco, which expired December 20, 2010.

Under the terms of this agreement, Tulsat will purchase the majority of its new Cisco product inventory through a primary stocking distributor as opposed to purchasing directly from Cisco as it did under the prior agreement. This is expected to result in slightly higher product costs, but it will lower the Company's storage, shipping and handling costs as Tulsat reduces its inventory of new Cisco products. Also, video products purchased through Cisco or the primary stocking distributor will only be able to be sold to domestic end users of these products. Therefore, Tulsat cannot sell current production Cisco products to other resellers or brokers nor can Tulsat sell these Cisco products outside of the United States as it did in the past.

As required by the agreement, Tulsat became a Cisco Premier Partner in January 2011 by, among other things, attaining the required Cisco certifications. As a Cisco Premier Partner, Tulsat can sell both IT-related products and video-related products.

In fiscal year 2011, Tulsat was negatively impacted by this agreement primarily in two areas. First, Tulsat is no longer able to sell current production Cisco products to Latin America, which contributed to our $2.3 million decrease in foreign sales for fiscal year 2011 as compared to fiscal year 2010. Second, Tulsat is no longer able to sell current production Cisco products to other resellers or brokers, which was a significant part of Tulsat's business, although Tulsat is able to utilize its existing inventory to sell to certain resellers and brokers. However, as this inventory is reduced, Tulsat will no longer be able to sell to these customers, which could negatively impact our sales.

Business Environment

The Company is still being impacted by the economic downturn and technology changes in the industry. The cable television industry is continuing to limit capital expenditures in order to conserve cash. The cable television industry made the transition from analog to digital in 2009 and 2010 and upgraded its headend equipment in connection with this transition. Therefore, they have not made and do not plan to make significant plant expansions or additional bandwidth upgrades until the internet television ("IPTV") technology is fully ready to be deployed. In the meantime, the cable television companies are focusing their capital expenditure efforts on telephone and data services. We cannot predict when our MSO customers will begin significant capital expenditures once again. Until this occurs, we do not anticipate revenue growth in our equipment sales business. We believe we have the inventory on-hand or available to us via our supply channels to meet our customers' demands once they increase their capital expenditures.

Despite the challenges in the current business environment and the impact of our Cisco agreement, we believe we are well-positioned in this marketplace. As discussed above, the Cisco contract does limit our ability to sell to certain customers as we have in the past. However, we have existing product lines and have added others, which help to mitigate the negative impact of the Cisco contract. We continue to be the leading broadband access network stocking distributor for Motorola. Due to the acquisition of AGC, we are now a reseller for Arris cable television equipment in the United States. Therefore, we now have supplier or reseller contracts with the top three cable equipment suppliers in the United States. We also are the master distributor for Fujitsu Frontech encoders, decoders and media solutions products in the United States, which gives us the opportunity to expand our customer base into the broadcast industry. We have added Triveni Digital test equipment to our product mix and still have our other existing OEM suppliers, including Alpha, Blonder-Tongue, RL Drake, Corning-Gilbert, Promax, Quintech and Standard. In addition, we also operate six technical service centers that service many of the products that we sell.

Business Closure

In the first quarter of 2011, we completed the process of moving the Tulsat-West operations from Oceanside, California to our Broken Arrow facility. The Tulsat-West operation was closed as a cost reduction measure.

Results of Operations

Year Ended September 30, 2011, compared to Year Ended September 30, 2010 (all references are to fiscal years)

Total Net Sales. Total net sales declined $9.2 million, or 20%, to $38.1 million for 2011 from $47.3 million for 2010. Equipment sales were negatively impacted by several factors including the continued economic downturn in the cable television industry as the MSO customers continue to conserve cash and limit capital expenditures and the negative impact of the Cisco agreement, both as discussed above, as well as severe weather conditions in the second fiscal quarter of 2011. New equipment sales decreased $6.6 million, or 21%, to $25.5 million for 2011 from $32.1 million for 2010. Net refurbished sales decreased $2.0 million, or 21%, to $7.4 million for 2011 from $9.4 million for the same period last year. The decrease in refurbished equipment sales was primarily due to a decrease in sales of digital converter boxes of $1.3 million and the factors discussed above. The decrease in sales of digital converter boxes is primarily due to lower demand in the market and market price erosion, partially offset by sales volume resulting from the acquisition of AGC. Net repair service revenues decreased $0.6 million, or 10%, to $5.2 million for 2011 from $5.8 million for 2010. The repair service revenue decline for 2011 was primarily attributable to the closure of our Tulsat-West facility in the fiscal first quarter of 2011.

Cost of Sales. Cost of sales includes (i) the costs of new and refurbished equipment, on a weighted average cost basis, sold during the period, (ii) the equipment costs used in repairs, (iii) the related transportation costs, and (iv) the labor and overhead directly related to these sales. Cost of sales decreased $6.3 million, or 19%, to $26.5 million for 2011 from $32.9 million for 2010. The decrease in cost of sales was primarily attributable to the overall decrease in equipment sales. Cost of sales was also impacted by a decrease in the provision for excess and obsolete inventory of $0.4 million to $0.4 million for 2011 from $0.8 million for 2010. Cost of sales as a percent of revenue was 70% for 2011 and 69% for 2010.

Gross Profit. Gross profit decreased $2.9 million, or 20%, to $11.6 million for 2011 from $14.5 million for 2010. The decrease in gross profit was primarily due to the overall decline in net sales, partially offset by the impact of the $0.4 million decrease in the provision for excess and obsolete inventory discussed above. Gross profit margins were 30% for 2011 as compared to 31% for 2010.

Operating, Selling, General and Administrative Expenses. Operating, selling, general and administrative expenses include all personnel costs, which include fringe benefits, insurance and business taxes, as well as occupancy, communication and professional services, among other less significant cost categories. Operating, selling, general and administrative expenses decreased $0.3 million, or 4%, to $6.6 million for 2011 compared to $6.9 million for 2010. The decrease was due primarily to reduced costs of $0.3 million resulting from the closure of the Tulsat-West facility in the first quarter of fiscal 2011, reduced bonus expenses of $0.1 million and reduced credit card and banking expenses of $0.1 million. These decreases were partially offset by increased operating costs of $0.4 million resulting from the acquisition of AGC in the third quarter of fiscal 2011.

Income from Operations. Income from operations decreased $2.6 million, or 35%, to $4.9 million for 2011 from $7.6 million for 2010 for the reasons described above.

Interest Expense. Interest expense decreased $0.1 million, or 13%, to $0.7 million for 2011 from $0.8 million for 2010.

Income Taxes. The provision for income taxes for 2011 and 2010 was $1.7 million and $2.6 million, respectively. The effective income tax rate was 40.0% and 38.0% for 2011 and 2010, respectively.

Year Ended September 30, 2010, compared to Year Ended September 30, 2009

Total Net Sales. Total net sales increased $5.1 million, or 12%, to $47.3 million for 2010 from $42.2 million for 2009. The overall increase in net sales was due primarily to sales of new equipment resulting from an increased demand for headend equipment needed to add channels to our customers' cable systems or upgrade their equipment in order to provide HD programming on their cable systems, an overall equipment supply shortage in the market, which we met utilizing our "On Hand – On Demand" business model, and an increase in sales to Latin American and Canadian customers either directly or indirectly through our various business partners. Sales of new equipment increased $5.1 million, or 19%, to $32.1 million in 2010 from $27.1 million in 2009. Refurbished sales decreased $0.3 million, or 3%, to $9.4 million in 2010 from $9.7 million in 2009 despite a $0.8 million increase in the sales of our digital converter boxes. The decrease in refurbished sales is primarily due to much of the equipment demand in fiscal year 2010 was for digital equipment products to convert our customers' cable systems from analog to digital or to add HD programming and there is not an established refurbished equipment market for this product line yet. Net repair service revenues increased $0.3 million, or 5%, to $5.8 million for 2010 from $5.5 million in 2009. The repair revenue increase for 2010 was primarily due to our efforts to promote and expand this line of business, largely offset by our customers conserving cash by limiting the authorization for equipment repairs due to the downturn in the economy.

Cost of Sales. Cost of sales includes (i) the costs of new and refurbished equipment, on a weighted average cost basis, sold during the period, (ii) the equipment costs used in repairs, (iii) the related transportation costs, and (iv) the labor and overhead directly related to these sales. Cost of sales increased $3.5 million, or 12%, to $32.9 million for 2010 from $29.3 million for 2009. The increase in cost of sales was primarily related to the increase in new equipment sales during 2010. Cost of sales was also impacted by a decrease in the provision for excess and obsolete inventory of $0.2 million to $0.8 million in 2010 from $1.0 million in 2009. Cost of sales as a percent of revenues was 69% for both 2010 and 2009.

Gross Profit. Gross profit increased $1.5 million to $14.5 million in 2010 from $12.9 million in 2009. The increased gross profit was primarily attributable to the increase in equipment sales. Gross profit margin was 31% for both 2010 and 2009.

Operating, Selling, General and Administrative Expenses. Operating, selling, general and administrative expenses include all personnel costs, which include fringe benefits, insurance and business taxes, as well as occupancy, communication, professional services and charges for bad debts, among other less significant cost categories. Operating, selling, general and administrative expenses decreased by $0.3 million, or 4%, to $6.9 million in 2010 from $7.2 million in 2009. The decrease was primarily due to a $0.1 million reduction in the provision for the allowance for doubtful accounts receivable with the remaining decrease due to reductions in rent expense, business insurance and advertising expense.

Income from Operations. Income from operations increased $1.8 million, or 31%, to $7.6 million for 2010 from $5.8 million in 2009, for the reasons stated above.

Interest Expense. Interest expense for 2010 was $0.8 million compared to $0.9 million in 2009. The decline in interest expense was due primarily to reduced borrowing levels under our $16.3 million term loan and Line of Credit for 2010 as compared to 2009 and lower interest rates for the $2.8 million term loan for 2010 as compared to 2009.

Income Taxes. The provision for income taxes for 2010 increased $0.8 million to $2.6 million, or an effective rate of 38.0%, for 2010 from $1.8 million, or an effective rate of 37.5%, for 2009.

Liquidity and Capital Resources

We finance our operations primarily through internally generated funds, and we also have available to us a bank line of credit of $7.0 million. During 2011, we generated approximately $6.0 million of cash flow from operations. Our cash from operations was favorably impacted by $1.9 million from a net decrease in inventory due primarily to management's efforts to continue to reduce overall inventory purchases. The cash flow from operations was also favorably impacted by $0.9 million resulting from a net decrease in our accounts receivable. Our accounts receivable decreased from 2010 due primarily to decreased revenues in the fourth quarter 2011 as compared to the fourth quarter 2010. Despite the overall economic conditions, we have not experienced a significant deterioration in collections on accounts receivable, so we have maintained our reserve for doubtful accounts at $0.3 million, which is the same as 2010. Additionally, the cash flow from operations was negatively impacted by $0.4 million resulting from a decrease in our accounts payable from 2010 resulting primarily from the timing of inventory purchases.

We expect that our cash and cash equivalents of $10.9 million at September 30, 2011 will be sufficient for our working capital needs and scheduled debt payments in the near-term. The Company also has a $7.0 million Revolving Line of Credit ("Line of Credit") under the Amended and Restated Revolving Credit and Term Loan Agreement with its primary financial lender, which can be used to finance our working capital requirements as necessary. At September 30, 2011, there was not a balance outstanding under the Line of Credit. The lesser of $7.0 million or the net balance of 80% of qualified accounts receivable plus 50% of qualified inventory less the outstanding balances under the term loans identified in the Line of Credit agreement and less the fair value of the interest rate swap agreement (discussed below) in excess of $900,000 is available to us under the Line of Credit ($6.6 million at September 30, 2011). The entire outstanding balance on the Line of Credit is due on maturity.

During 2011, we made principal payments totaling $1.8 million primarily on our two term loans under our Revolving Credit and Term Loan Agreement with our primary lender. The first term loan requires monthly payments of $15,334 plus accrued interest through November 2021. The second term loan is payable over a five year period through November 2012 with quarterly payments of $0.4 million plus accrued interest. In connection with this term loan, we entered into an interest rate swap to effectively fix the interest rate on this term loan at 5.92% in order to avoid the risks associated with fluctuating interest rates on this term loan and to eliminate the variability in the cash outflow for interest payments. The notional value of the interest rate swap amortizes quarterly with payments that mirror the second term loan.

Subsequent to September 30, 2011, the Company signed the First Amendment to the Amended and Restated Revolving Credit and Term Loan Agreement with its primary financial lender dated November 30, 2011. Among other things, this amendment extended the Line of Credit maturity to November 30, 2012. The Line of Credit remains at $7.0 million, and the interest rate remains at the prevailing 30-day LIBOR rate plus 2.75%. In addition, the second term loan was modified to extend the maturity date from November 30, 2012 to November 30, 2014, and the interest rate will change effective November 30, 2012 from the prevailing 30-day LIBOR rate plus 1.4% to the prevailing LIBOR rate plus 2.4%.

We believe that our cash flow from operations, current cash balances and our existing Line of Credit provide sufficient liquidity and capital resources to meet our working capital and debt payment needs.

Critical Accounting Policies and Estimates

Note 1 to the Consolidated Financial Statements in this Form 10-K for fiscal year 2011 includes a summary of the significant accounting policies or methods used in the preparation of our Consolidated Financial Statements. Some of those significant accounting policies or methods require us to make estimates and assumptions that affect the amounts reported by us. We believe the following items require the most significant judgments and often involve complex estimates.

General

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

Inventory Valuation

Our position in the industry requires us to carry large inventory quantities relative to annual sales, but it also allows us to realize high overall gross profit margins on our sales. We market our products primarily to MSOs 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 inventory quantities represents our largest risk.

Our inventory consists of new and used electronic components for the cable television industry. Inventory is stated at the lower of cost or market, with cost determined using the weighted-average method. At September 30, 2011, we had total inventory of $27.3 million, consisting of $20.0 million in new products and $7.3 million in used or refurbished products against which we have a reserve of $1.6 million for excess and obsolete inventory, leaving us a net inventory of $25.8 million.

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 2011, we increased our reserve for excess and obsolete inventory by approximately $0.4 million and wrote down the carrying value of certain inventory items by approximately $1.4 million to reflect deterioration in the market price of that 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 cost of sales. Purchasing and receiving costs, inspection costs, warehousing costs, internal transfer costs and other inventory expenditures are included in operating expenses, since the amounts involved are not considered material.

Accounts Receivable Valuation

Management judgments and estimates are made in connection with establishing the allowance for doubtful accounts. Specifically, we analyze the aging of accounts receivable balances, historical bad debts, customer concentrations, customer credit-worthiness, current economic trends and changes in our customer payment terms. Significant changes in customer concentration or payment terms, deterioration of customer credit-worthiness, or weakening in economic trends could have a significant impact on the collectability of receivables and our operating results. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, an additional provision to the allowance for doubtful accounts may be required. The reserve for bad debts was $0.3 million at September 30, 2011 and September 30, 2010. At September 30, 2011, accounts receivable, net of allowance for doubtful accounts, was $4.2 million.

Impact of recently issued accounting standards

In June 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2011-05, Presentation of Comprehensive Income. This Update amended the provisions of FASB Accounting Standards

Codification (“ASC”) 220-10 by eliminating the option of reporting other comprehensive income in the statement of changes in stockholders’ equity. Companies will have the option of presenting net income and other comprehensive income in a single, continuous statement of comprehensive income or presenting two separate but consecutive statements of net income and comprehensive income. The new presentation requirements are effective for interim and annual periods beginning after December 15, 2011. Therefore, this new presentation will first be reflected in the Company’s March 31, 2012 consolidated financial statements.

In September 2011, the FASB issued Accounting Standards Update 2011-08, Testing Goodwill for Impairment. This Update amended the provisions of FASB ASC 350-20-35 by allowing an entity the option to make a qualitative evaluation about the likelihood of goodwill impairment to determine whether it should calculate the fair value of a reporting unit. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity's financial statements for the most recent annual or interim period have not yet been issued. The adoption of this update to FASB ASC 350-20-35 is not anticipated to have a material impact on our financial statements.

Off-Balance Sheet Arrangements

None.

Item 8. Financial Statements and Supplementary Data.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM