Xstream Mobile Solutions Corp
Form 10-K
May 13, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended September 30, 2007

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

For the transition period from __________ to _______.

Commission file number: 000-18296

Xstream Mobile Solutions Corp.
(Exact name of registrant as specified in its charter)

Delaware	62-1265486
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

14422 Edison Drive, Unit D, New Lenox, Illinois 60441
(Address of principal executive offices) (Zip Code)

Registrant's telephone, including area code: (708) 205-2222
Securities registered under Section 12(b) of the Exchange Act: None.

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, $0.001 par value	Not Applicable
(Title of class)	(Name of each exchange on which registered)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No ý

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No ý

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 past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ¨ No ý

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (229.405 of this chapter) is not contained herein, and will 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. ý

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 ¨ Accelerated filer ¨

Non-accelerated filer ¨ (Do not check if a smaller reporting company) Smaller reporting company ý

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

As of April 30, 2009 the aggregate market value of the Company’s common equity held by non-affiliates computed by reference to the closing price ($0.15) was: $904,638

The number of shares of our common stock outstanding as of April 30, 2009 was: 15,030,917

Documents Incorporated by Reference: Are incorporated by reference into Part III of this Form 10-K.

FORM 10-K
XSTREAM MOBILE SOLUTIONS CORP.
SEPTEMBER 30, 2007

Table of Contents

		Page
PART I		
Item 1.	Business.	4
Item 1A.	Risk Factors.	
Item 1B.	Unresolved Staff Comments.	
Item 2.	Properties.	
Item 3.	Legal Proceedings.	
Item 4.	Submission of Matters to a Vote of Security Holders.	
PART II		
Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.	
Item 6.	Selected Financial Data.	
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations.	
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk.	
Item 8.	Financial Statements and Supplementary Data.	
Item 9.	Changes In and Disagreements With Accountants on Accounting and Financial Disclosure.	
Item 9A.	Controls and Procedures.	
Item 9B.	Other Information.	
PART II		
Item 10.	Directors, Executive Officers and Corporate Governance.	
Item 11.	Executive Compensation.	
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.	
Item 13.	Certain Relationships and Related Transactions, and Director Independence.	

Item 14. Principal Accounting Fees and Services.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

Signature Page

Exhibit Index

Table of Contents

Note Regarding Forward Looking Statements

This annual report contains forward-looking statements as that term is defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. In some cases, you can identify forward-looking statements by terminology such as "may," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "continue," "intends," and other variations of these words or comparable words. In addition, any statements that refer to expectations, projections or other characterizations of events, circumstances or trends and that do not relate to historical matters are forward-looking statements. These forward-looking statements are based largely on our expectations or forecasts of future events, can be affected by inaccurate assumptions, and are subject to various business risks and known and unknown uncertainties, a number of which are beyond our control. Therefore, actual results could differ materially from the forward-looking statements contained in this document, and readers are cautioned not to place undue reliance on such forward-looking statements. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risks in the section entitled “Risk Factors” that may cause our or our industry’s actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. You should not place undue reliance on these forward-looking statements, which speak only as of the date of this report. Except as required by law, we do not undertake to update or revise any of the forward-looking statements to conform these statements to actual results, whether as a result of new information, future events or otherwise.

As used in this annual report, “Xstream Mobile Solutions Corp.,” the “Company,” “we,” “us,” “our,”or “XSM” refer to Xstream Mobile Solutions Corp., unless otherwise indicated.

Table of Contents

PART I

ITEM 1. Business.

Corporate History

We were incorporated as a Delaware corporation on May 10, 1998 under the name Environmental Monitoring and Testing Corporation. Since our incorporation, we provided electronic filing services to companies that are required to electronically file disclosure information with the Securities and Exchange Commission "SEC."

The Company filed a Form 8-K with the Securities and Exchange Commission and changed its name to Netchoice, Inc., effective February 3, 2005.

Subsequent to the reporting period, the Company filed a Form 8-K with the Securities and Exchange Commission and changed its name to Xstream Mobile Solutions Corp. effective December 19, 2005.

Business of the Issuer

In 2006 Xstream deployed its flagship software, Xstream Safe, in the Will County EMA. Were proud to say after more than a year of utilizing our product internally, Will County EMA was quite pleased with its performance. Xstream currently has systems in use by the Lemont Illinois EMA and they also have been using it for a year with great success. Additionally, in 2006 we discussed the possibilities of installations in the Kankakee County Sheriff's Department and the Manteno Police Department. That now has been successfully completed and phase 1 is installed and operating. We have now begun the deployment of our systems in 28 school districts in Kankakee and Iroquois counties, over 70 schools.

In Nov. 2006 Xstream deployed our SAFE system with the New Lenox Police Dept. and should be operating by years end. XSM has also deployed our Safe system with the Metro East Emergency Response Team in southern Illinois. Ultimately, XSM has agreed to deploy an additional 5 systems covering the entire state of Illinois. Also over the last year we have made great strides in our relationships with the cellular providers, achieving high-level contacts and important technical relationships, helping in securing a higher level of performance and customer care for our software systems customers. We have now installed our XSM Sentinel secure servers in a hardened Equinix IBX server location in downtown Chicago.

XSM has done a great deal of marketing directly to every sheriff's office in every county in the state of Illinois. We also have attended many professional emergency and educational conferences and trade shows. This has had a very positive affect on our product visibility.

In the end of 2007 and beginning of 2008, Xstream is preparing to experience major achievements. We have received the green light in Iroquois and Kankakee County IL to begin deployment of our safety products in over 70 schools in 28 school districts. This will mark the first utilization of XSM's safety products in educational organizations, the fulfillment of a major corporate goal - to see our safety products expand the level of protection our children enjoy.

Table of Contents

Xstream Mobile Solutions is actively seeking to expand its sales force and create third party distribution agreements for our corporate and safety products. We have had discussions with Motorola, Sprint/Nextel, and Federal Sign. We have also partnered with Microsoft, Symantec, Verizion, AT&T, US Cellular and T-Mobile to increase our product visibility. Any third party distribution deal should create a substantial revenue stream from these external agreements.

In regards to our educational distribution, we're pleased to say that we are in discussions with several school districts that were not mentioned earlier in this report. Those districts are 230 and district 122 that, should we consummate an agreement with them, will also help us to expand and grow into the educational market. These schools represent a significant portion of the south suburban areas.

We are pleased to announce that we currently have many pending safety product sales in the State of Illinois. Various counties, cities, healthcare providers, and Emergency organizations that we are in discussions with are scheduled for additional meetings. Some are currently reviewing our products based on an earlier meeting. Many of these entities have indicated they are interested in potentially coming on board. This will obviously enhance our position in the state of Illinois. With the addition of these communities we will have achieved the goal of assisting in the protection of well over a million people. We are also actively pursuing deals in Indiana and Texas.

XSM devotes a great deal of time and economics towards keeping the Xstream Mobile Solutions web site as informative and accurate as possible. We feel that this is the best way to stay directly in touch with the public and our stockholders.

Description of Business

We are creating and marketing Software for the emergency text message market. Xstream Safe© allows your organization to easily send messages to anyone or everyone in a database from any internet accessible computer. DBM-1©: Database Migration Software creates databases automatically for an organization. Import/Export: provides the ability to import and export existing contact databases, if needed. Archive of sent messages and two methods of Delivery: Send Text, E-mail or both simultaneously. Cell-Enabled Message Interface: Send messages from internet capable devices (cell phones, PDA's, etc.) Message Storage: Store messages for easy retrieval when seconds count. Both Client-Side and Server-Side Capabilities: This means that sensitive personal data is stored on your server, not a server in another state or country. Certification Indicator: Lets you know that people in groups have tested and registered their phones. Contact Size: Scalable from small groups of 1-100 up to large groups encompassing tens of thousands.

Patents, Licenses, Trademarks, Intellectual Property, Franchises, Concessions, Royalty Agreements, or Labor Contracts

We do not own any interest in a patent, trademark, license, franchise, concession, or royalty agreement.

Employees

We currently have three full-time administrative employees. Our employees are not represented by labor unions or collective bargaining agreements. Our key employees are Mr. Michael See, founder, Chief Executive Officer, and Chairman of the Board of Directors, Mr. Joseph Johns, Director, Chief Financial Officer and President, and Mrs. Cynthia See, Director and Secretary.

Government Regulation

We are not aware of any existing or probable governmental regulation that will have a material impact on our company.

We are not subject to any compliance with environmental laws.

Research and Development

We did not incur any research or development expenditures during the fiscal years ended September 30, 2007 or 2006.

Table of Contents

ITEM 1A. Risk Factors.

You should carefully consider the following risk factors in evaluating our business and us. The factors listed below represent certain important factors that we believe could cause our business results to differ. These factors are not intended to represent a complete list of the general or specific risks that may affect us. It should be recognized that other risks may be significant, presently or in the future, and the risks set forth below may affect us to a greater extent than indicated. If any of the following risks occur, our business, financial condition or results of operations could be materially and adversely affected. You should also consider the other information included in this Annual Report and subsequent quarterly reports filed with the SEC.

Risk Factors

Risks Associated With Our Business

Our accountants have raised substantial doubt with respect to our ability to continue as a going concern.

As noted in our financial statements, we have incurred a net loss of $ $ 5,610,767 for the period from inception on May 10, 1998 to September 30, 2007 and have present no source of revenue. At September 30, 2007, we had a working capital of $28,367 . As of September 30, 2007, we had cash and cash equivalents in the amount of $51,724. We will have to raise additional funds to meet our currently budgeted operating requirements for the next twelve months.

The audit report of Bagell, Josephs, Levine & Company, L.L.C. Certified Public Accountants for the fiscal year ended September 30, 2007 and 2006 contained a paragraph that emphasizes the substantial doubt as to our continuance as a going concern. This is a significant risk that we may not be able to generate and/or raise enough resources to remain operational for an indefinite period of time.

We have a limited operating history and have incurred losses that we expect may continue into the future.

We have not yet secured sufficient users of our software in order to fully fund our day to day operating expenses. In addition, we have a limited operating history upon which an evaluation of our future success or failure can be made. Our business plan is in its early stages and faces numerous regulatory, practical, legal and other obstacles. At this early stage of our operation, we also expect to face the risks, uncertainties, expenses and difficulties frequently encountered by companies at the start-up stage of their business development. We cannot be sure that we will be successful in addressing these risks and uncertainties, and our failure to do so could have a materially adverse effect on our financial condition.

We do not have enough money to complete our marketing plan and consequently may have to suspend or limit our operations unless we are able to raise additional capital.

We presently do not have sufficient capital to exercise our marketing plan. Although management believes that sources of capital are available, no assurances can be given that these capital sources will ultimately be sufficient.

Our success is dependent upon a limited number of people.

The ability to identify, negotiate and consummate transactions that will benefit us is dependent upon the efforts of our management team. The loss of the services of any member of management could have a material adverse effect on us.

Our business will be harmed if we are unable to manage growth.

Our business may experience periods of rapid growth that will place significant demands on our managerial, operational and financial resources. In order to manage this possible growth, we must continue to improve and expand our management, operational and financial systems and controls. We will need to expand, train and manage our employee base. No assurances can be given that we will be able to timely and effectively meet such demands.

We may not be able to attract and retain qualified personnel necessary for the implementation of our business strategy.

Our future success depends largely upon the continued service of board members, executive officers and other key personnel. Our success also depends on our ability to continue to attract, retain and motivate qualified personnel.

Table of Contents

Our officers and directors may have conflicts of interest and do not devote full time to our operations.

Mr. See, our chief executive officer and Mr. Johns, our chief financial officer, devote 20 to 30 hours per week to our business affairs. We do not have any employment agreements with Mr. See or Mr. Johns nor do we maintain a key man life insurance policy for them. Currently, we do not have any full or part-time employees and hire consultants on an as-needed basis. If the demands of our business require the full business time of Mr. See or Mr. Johns, it is possible that Mr. See or Mr. Johns will not be able to devote sufficient time to the management of our business, as and when needed. If our management is unable to devote a sufficient amount of time to manage our operations, our business will fail.

If we are not granted trademark and copyright protection for our designs, we may have difficulty safeguarding our designs potentially resulting in our competitors utilizing them impairing our ability to achieve profitable operations.

Our success will depend, in part, on our ability to obtain and enforce intellectual property rights over our name and original designs in the United States. As of September 30, 2007, we have not sought any trademark or trade name registrations. No assurance can be given that any intellectual property rights owned by us will not be challenged, invalidated or circumvented, that any rights granted will provide competitive advantages to us. Intellectual property litigation is expensive and time-consuming, and can be used by well-funded adversaries as a strategy for depleting the resources of a small company such as us. There is no assurance that we will have sufficient resources to successfully prosecute our interests in any litigation that may be brought. The failure to adequately protect our intellectual property and original designs could result in our competitors utilizing our designs and impair our ability to achieve profitable operations.

Because the demand for our services is continually changing in nature, our inability to effectively manage cash flows could harm our business.

We are primarily in the business of providing media, internet, wireless and telecommunications services to those who benefit from the interactive lifestyle. As a result, the demand for our media services is continually changing. The technology of our business requires us to manage our cash flows carefully over the course of any given fiscal year. If we fail to manage our cash flows effectively in response to media and telecommunication changes, we may be unable to offset the results from any such period with results from other periods, which could impair our ability to meet cash flow needs. If we fail to monitor production and distribution accurately during these periods and are unable to satisfy our customers' delivery requirements, we could jeopardize our relationships with our customers.

In the event that we are unable to successfully compete within the software business, we may not be able to achieve profitable operations.

We face substantial competition in the industry. Due to our small size, it can be assumed that many of our competitors have significantly greater financial, technical, marketing and other competitive resources. Many of our competitors and potential competitors have greater name recognition and more extensive distribution and customer bases that could be leveraged, for example, to position themselves as being more experienced. To compete, we may be forced to offer lower prices and narrow our marketing focus, resulting in reduced revenues.

If we are unable to deliver our services on time to our consumers’ specifications, we could suffer lost sales.

The success of our business depends on our ability to deliver our services to our consumers’ specifications for time sensitive events. We are dependent on major cellular telephone companies and their existing infrastructure to deliver our services. Disruptions in the delivery of our services for any reason could delay timely sales, which could result in cancelled sales.

Risks Relating to our Common Stock

Trading on the over-the-counter bulletin board may be volatile and sporadic, which could depress the market price of our common stock and make it difficult for our stockholders to resell their shares.

Our common stock is quoted on the over-the-counter bulletin board service of the Financial Industry Regulatory Authority (the "OTCBB"). Trading in stock quoted on the OTCBB is often thin and characterized by wide fluctuations in trading prices, due to many factors that may have little to do with our operations or business prospects. This volatility could depress the market price of our common stock for reasons unrelated to operating performance. Moreover, the OTCBB is not a stock exchange, and trading of securities on the OTCBB is often more sporadic than the trading of securities listed on a quotation system like Nasdaq or a stock exchange like Amex. Accordingly, shareholders may have difficulty reselling any of the shares.

Table of Contents

Because our common stock is quoted and traded on the OTCBB, short selling could increase the volatility of our stock price.

Short selling occurs when a person sells shares of stock which the person does not yet own and promises to buy stock in the future to cover the sale. The general objective of the person selling the shares short is to make a profit by buying the shares later, at a lower price, to cover the sale. Significant amounts of short selling, or the perception that a significant amount of short sales could occur, could depress the market price of our common stock. In contrast, purchases to cover a short position may have the effect of preventing or retarding a decline in the market price of our common stock, and together with the imposition of the penalty bid, may stabilize, maintain or otherwise affect the market price of our common stock. As a result, the price of our common stock may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued at any time. These transactions may be effected on the OTCBB or any other available markets or exchanges. Such short selling if it were to occur could impact the value of our stock in an extreme and volatile manner to the detriment of our shareholders.

New legislation, including the Sarbanes-Oxley Act of 2002, may make it more difficult for us to retain or attract officers and directors.

The Sarbanes-Oxley Act of 2002 was enacted in response to public concerns regarding corporate accountability in connection with recent accounting scandals. The stated goals of the Sarbanes-Oxley Act are to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies, and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. The Sarbanes-Oxley Act generally applies to all companies that file or are required to file periodic reports with the SEC, under the Securities Exchange Act of 1934. Upon becoming a public company, we will be required to comply with the Sarbanes-Oxley Act. The enactment of the Sarbanes-Oxley Act of 2002 has resulted in a series of rules and regulations by the SEC that increase responsibilities and liabilities of directors and executive officers. The perceived increased personal risk associated with these recent changes may deter qualified individuals from accepting these roles. As a result, it may be more difficult for us to attract and retain qualified persons to serve on our board of directors or as executive officers. We continue to evaluate and monitor developments with respect to these rules, and we cannot predict or estimate the amount of additional costs we may incur or the timing of such costs.
We have never paid dividends and have no plans to in the foreseeable future.

Holders of shares of our common stock are entitled to receive such dividends as may be declared by our board of directors. To date, we have paid no cash dividends on our shares of common stock and we do not expect to pay cash dividends on our common stock in the foreseeable future. We intend to retain future earnings, if any, to provide funds for operation of our business. Therefore, any return investors in our common stock will have to be in the form of appreciation, if any, in the market value of their shares of common stock.

We have additional securities available for issuance, which, if issued, could adversely affect the rights of the holders of our common stock.

Our Articles of Incorporation authorize the issuance of additional shares of our common stock and additional shares of preferred stock. The common stock or preferred stock can be issued by our board of directors, without stockholder approval. Any future issuances of our common stock would further dilute the percentage ownership of our common stock held by public stockholders.

Because the SEC imposes additional sales practice requirements on brokers who deal in our shares that are penny stocks, some brokers may be unwilling to trade them. This means that you may have difficulty in reselling your shares

and may cause the price of the shares to decline.

Our stock is a penny stock. The Securities and Exchange Commission has adopted Rule 15g-9 which generally defines “penny stock” to be any equity security that has a market price (as defined) less than $5.00 per share or an exercise price of less than $5.00 per share, subject to certain exceptions. Our securities are covered by the penny stock rules, which impose additional sales practice requirements on broker-dealers who sell to persons other than established customers and “accredited investors”. The term “accredited investor” refers generally to institutions with assets in excess of $5,000,000 or individuals with a net worth in excess of $1,000,000 or annual income exceeding $200,000 or $300,000 jointly with their spouse. The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document in a form prepared by the SEC which provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction and monthly account statements showing the market value of each penny stock held in the customer’s account. The bid and offer quotations and the broker-dealer and salesperson compensation information must be given to the customer orally or in writing prior to effecting the transaction and must be given to the customer in writing before or with the customer’s confirmation. In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from these rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser’s written agreement to the transaction. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for the stock that is subject to these penny stock rules. Consequently, these penny stock rules may affect the ability of broker-dealers to trade our securities. We believe that the penny stock rules discourage investor interest in, and limit the marketability of, our common stock.

Table of Contents

In addition to the “penny stock” rules promulgated by the Securities and Exchange Commission, FINRA has adopted rules that require that in recommending an investment to a customer, a broker-dealer must have reasonable grounds for believing that the investment is suitable for that customer. Prior to recommending speculative, low-priced securities to their non-institutional customers, broker-dealers must make reasonable efforts to obtain information about the customer’s financial status, tax status, investment objectives and other information. Under interpretations of these rules, FINRA believes that there is a high probability that speculative low-priced securities will not be suitable for at least some customers. The FINRA requirements make it more difficult for broker-dealers to recommend that their customers buy our common stock, which may limit your ability to buy and sell our stock.

Indemnification of officers and directors.

Our articles of incorporation and the bylaws contain broad indemnification and liability limiting provisions regarding our officers, directors and employees, including the limitation of liability for certain violations of fiduciary duties. Our stockholders therefore will have only limited recourse against such individuals.

ITEM 1B. Unresolved Staff Comments.

None.

ITEM 2. Properties.

Our principal office was located at 14422 Edison Drive, Unit D, New Lenox, Illinois. We do not own or lease any real estate property.

ITEM 3. Legal Proceedings.

We are not a party to any pending legal proceeding. We are not aware of any pending legal proceeding to which any of our officers, directors, or any beneficial holders of 5% or more of our voting securities are adverse to us or have a material interest adverse to us.

Our agent for service of process in Delaware is The Corporation Trust Company.

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

No matters were submitted to a vote of our shareholders during the fourth quarter of the fiscal year ended September 30, 2007.

Executive Officers of the Registrant

Name	Age	Officers
Michael See	55	Mr. See began his career in Sales and Marketing in 1981 and held various management positions. Since 1991, Mr. See has acted as an entrepreneur in the financial and wealth management areas primarily in insurance, real estate, stocks and trading. Mr. See’s clients and associates have included University of Chicago, KLM, Natural World, Beverly Sassoon, Frank Tarkenton, Nick Parisi and Ed Bachrach. Mr. See is a motivational speaker and financial

		educator. Mr. See had his own radio show called "Dollars & Sense" which aired across the U.S.A., dealing in understanding financial programs .Mr. See has launched several cable television shows specializing in financial matters.
Joseph Johns, III	53	Mr. Johns since 1985 has been the President and CEO of The Sterling Group, a worldwide provider of media products and services. Mr. Johns has Designed Software applications for many high-end corporations such as Northern Trust, Hansen technologies and many more. Joe has extensive experience in the microwave telecommunication industry, having been employed by Andrew Corporation in management for almost 10 years. Mr. Johns also owns AVMUSIC Plus, Inc., a retail outlet of professional audiovisual equipment. Mr. Johns has specialized in computers and cellular audio, digital, visual and communication technology throughout his career.
Cynthia See	47	Ms. See is a graduate of DePaul University and Moraine ValleyCollege. Ms. See has extensive experience in the development and growth of start up companies. She has worked closely with Michael See in the marketing and the expansion of companies nationally.

Table of Contents

PART II

ITEM 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Prices

Our common stock is currently quoted on the Pink Sheets under the symbol “XMSC.PK.”

The following table sets forth the range of high and low bid quotations for our common stock for each of the periods indicated as reported by the Pink Sheets. These quotations below reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

Fiscal Year Ended September 30, 2007		
	High Bid	Low Bid
Fiscal Quarter Ended:		
December 31, 2006	$3.25	$1.15
March 31, 2007	$4.25	$1.05
June 30, 2007	$2.75	$2.00
September 30, 2007	$3.25	$1.50

Fiscal Year Ended September 30, 2006		
	High Bid	Low Bid
Fiscal Quarter Ended:		
December 31, 2005	$1.36	$1.04
March 31, 2006	$4.50	$1.36
June 30, 2006	$4.25	$2.00
September 30, 2006	$4.25	$1.50

Holders of Common Stock

As of September 30, 2007, we had approximately three hundred seventy-five (375) holders of record of our common stock and several other stockholders hold shares in street name.

Table of Contents

Dividend Policy

$14,433,549				
Cost of sales	7,123,027	6,082,648	14,128,382	10,339,154
Gross profit	4,243,512	2,231,167	8,075,315	4,094,395
Operating, selling, general and administrative expenses	3,803,155	2,659,420	6,878,614	4,289,296
Operating income (loss)	440,357	(428,253)	1,196,701	(194,901)
Interest expense	79,102	25,011	164,523	30,994
Income (loss) before provision for income taxes	361,255	(453,264)	1,032,178	(225,895)
Provision (benefit) for income taxes	127,000	(176,000)	382,000	(88,000)
Income (loss) from continuing operations	234,255	(277,264)	650,178	(137,895)
Discontinued operations:				
Loss from discontinued operations, net of tax	–	(60,444)	–	(34,076)
Loss on sale of discontinued operations, net of tax	–	(556,442)	–	(556,442)
Discontinued operations, net of tax	–	(616,886)	–	(590,518)
Net income (loss)	$234,255	$(894,150)	$650,178	$(728,413)
Earnings (loss) per share:				
Basic				
Continuing operations	$0.02	$(0.03)	$0.06	$(0.01)
Discontinued operations	–	(0.06)	–	(0.06)
Net income (loss)	$0.02	$(0.09)	$0.06	$(0.07)
Diluted				
Continuing operations	$0.02	$(0.03)	$0.06	$(0.01)
Discontinued operations	–	(0.06)	–	(0.06)
Net income (loss)	$0.02	$(0.09)	$0.06	$(0.07)
Shares used in per share calculation:				

Basic	10,051,844	10,004,830	10,046,525	10,001,655
Diluted	10,051,844	10,004,830	10,046,525	10,001,655

See notes to unaudited consolidated condensed financial statements.

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

	Six Months Ended March 31,	
	2015	2014
Operating Activities		
Net income (loss)	$650,178	$(728,413)
Net loss from discontinued operations	–	(590,518)
Net income (loss) from continuing operations	650,178	(137,895)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	198,887	160,177
Amortization	412,903	76,656
Provision for excess and obsolete inventories	300,000	300,000
Deferred income tax benefit	(133,000)	(88,000)
Share based compensation expense	125,306	61,851
Changes in assets and liabilities:		
Accounts receivable	(7,431)	(376,746)
Income tax refund receivable	220,104	(385,868)
Inventories	(2,303,817)	(2,264,830)
Prepaid expenses	(60,571)	(35,441)
Accounts payable	1,602,015	1,669,098
Accrued expenses	31,351	13,934
Net cash provided by (used in) operating activities – continuing operations	1,035,925	(1,007,064)
Net cash provided by operating activities – discontinued operations	–	257,401
Net cash provided by (used in) operating activities	1,035,925	(749,663)
Investing Activities		
Acquisition of business, net of cash acquired	–	(10,011,080)
Guaranteed payments for acquisition of business	(1,000,000)	–
Additions to machinery and equipment	(77,523)	(23,476)
Proceeds from sale of discontinued operations	–	2,000,000
Net cash used in investing activities	(1,077,523)	(8,034,556)
Financing Activities		
Proceeds on notes payable	–	5,000,000
Payments on notes payable	(420,272)	(146,912)
Net cash provided by (used in) financing activities	(420,272)	4,853,088
Net decrease in cash and cash equivalents	(461,870)	(3,931,131)
Cash and cash equivalents at beginning of period	5,286,097	8,476,725
Cash and cash equivalents at end of period	$4,824,227	$4,545,594
Supplemental cash flow information:		
Cash paid for interest	$105,564	$31,004

Cash paid for income taxes	$264,000	$27,000
Supplemental noncash investing activities:		
Deferred guaranteed payments for acquisition of business	$–	$(2,744,338)
Working capital purchase price receivable	$–	$380,433

See notes to unaudited consolidated condensed financial statements.

5

ADDVANTAGE TECHNOLOGIES GROUP, INC.
NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Note 1 - Basis of Presentation and Accounting Policies

Basis of presentation

The consolidated condensed financial statements include the accounts of ADDvantage Technologies Group, Inc. and its subsidiaries, all of which are wholly owned (collectively, the “Company”). Intercompany balances and transactions have been eliminated in consolidation. The Company’s reportable segments are Cable Television (“Cable TV”) and Telecommunications (“Telco”).

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial statements and do not include all the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. However, the information furnished reflects all adjustments, consisting only of normal recurring items which are, in the opinion of management, necessary in order to make the consolidated condensed financial statements not misleading. It is suggested that these consolidated condensed financial statements be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended September 30, 2014.

Recently Issued Accounting Standards

In May 2014, the FASB issued ASU No. 2014-09: “Revenue from Contracts with Customers (Topic 606)”. This guidance was issued to clarify the principles for recognizing revenue and develop a common revenue standard for U.S. GAAP and International Financial Reporting Standards (“IFRS”). The guidance is effective for the fiscal year and interim periods beginning October 1, 2017. Management is evaluating the impact that ASU No. 2014-09 will have on the Company’s consolidated financial statements.

Note 2 – Inventories

Inventories at March 31, 2015 and September 30, 2014 are as follows:

	March 31, 2015	September 30, 2014
New:		
Cable TV	$17,338,805	$16,949,713
Refurbished:		
Cable TV	3,726,751	3,982,140
Telco	6,175,412	4,005,298
Allowance for excess and obsolete inventory	(2,456,628)	(2,156,628)
	$24,784,340	$22,780,523

New inventory includes products purchased from the manufacturers plus “surplus-new”, which are unused products purchased from other distributors or multiple system operators. Refurbished inventory includes factory refurbished, Company refurbished and used products. Generally, the Company does not refurbish its used inventory until there is a sale of that product or to keep a certain quantity on hand.

The Company regularly reviews the Cable Television segment inventory quantities on hand, and an adjustment to cost is recognized 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 charges in the Cable Television segment to allow for obsolete inventory, which increased the cost of sales during the six months ended March 31, 2015, and 2014, by approximately $0.3 million. For the Telco segment, any obsolete and excess telecommunications inventory is processed through its recycling program when it is identified.

Note 3 – Intangible Assets

Intangible assets that have finite useful lives are amortized on a straight-line basis over their estimated useful lives ranging from 3 years to 10 years. The intangible assets with their associated accumulated amortization amounts at March 31, 2015 and September 30, 2014 are as follows:

	March 31, 2015		
	Gross	Accumulated Amortization	Net
Intangible assets:			
Customer relationships – 10 years	$ 4,257,000	$ (461,174)	$ 3,795,826
Technology – 7 years	1,303,000	(201,654)	1,101,346
Trade name – 10 years	1,293,000	(140,075)	1,152,925
Non-compete agreements – 3 years	254,000	(91,722)	162,278
Total intangible assets	$ 7,107,000	$ (894,625)	$ 6,212,375

	September 30, 2014		
	Gross	Accumulated Amortization	Net
Intangible assets:			
Customer relationships – 10 years	$4,257,000	$ (248,325)	$4,008,675
Technology – 7 years	1,303,000	(108,583)	1,194,417
Trade name – 10 years	1,293,000	(75,425)	1,217,575
Non-compete agreements – 3 years	254,000	(49,389)	204,611
Total intangible assets	$7,107,000	$ (481,722)	$6,625,278

Note 4 – Notes Payable and Line of Credit

Notes Payable

The Company has an Amended and Restated Revolving Credit and Term Loan Agreement ("Credit and Term Loan Agreement"). At March 31, 2015, the Company has two term loans outstanding under the Credit and Term Loan Agreement. The first outstanding term loan has an outstanding balance of $1.2 million at March 31, 2015 and is due on November 20, 2021, with monthly principal payments of $15,334 plus accrued interest. The interest rate is the prevailing 30-day LIBOR rate plus 1.4% (1.57% at March 31, 2015) and is reset monthly. This term loan is collateralized by inventory, accounts receivable, equipment and fixtures and general intangibles.

The second outstanding term loan has an outstanding balance of $4.4 million at March 31, 2015 and is due March 4, 2019, with monthly principal and interest payments of $68,505, with the balance due at maturity. It is a five year term loan with a seven year amortization payment schedule with a fixed interest rate of 4.07%. This term loan is collateralized by inventory, accounts receivable, equipment and fixtures and general intangibles.

Capital Lease Obligations

The Company has two capital lease obligations related to machinery and equipment totaling $53 thousand at March 31, 2015 with monthly principal and interest payments of $2,069. The capital lease obligations are due on June 20, 2017 and September 20, 2017.

7

Line of Credit

The Company has a $7.0 million Revolving Line of Credit (“Line of Credit”) under the Credit and Term Loan Agreement. At March 31, 2015, the Company had no balance outstanding under the Line of Credit. The Line of Credit requires quarterly interest payments based on the prevailing 30-day LIBOR rate plus 2.75% (2.91% at March 31, 2015), and the interest rate is reset monthly. Any future borrowings under the Line of Credit are due on November 27, 2015. Future borrowings under the Line of Credit are limited to the lesser of $7.0 million or the net balance of 80% of qualified accounts receivable plus 50% of qualified inventory. Under these limitations, the Company’s total available Line of Credit borrowing base was $7.0 million at March 31, 2015. Among other financial covenants, the Line of Credit agreement provides that the Company maintain a fixed charge ratio of coverage (EBITDA to total fixed charges) of not less than 1.25 to 1.0, determined quarterly. The Line of Credit is collateralized by inventory, accounts receivable, equipment and fixtures and general intangibles.

Fair Value of Debt

FASB ASC 820, Fair Value Measurements and Disclosures, defines fair value, establishes a consistent framework for measuring fair value and establishes a fair value hierarchy based on the observability of inputs used to measure fair value. The three levels of the fair value hierarchy are as follows:

- Level 1 – Quoted prices for identical assets in active markets or liabilities that we have the ability to access. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Inputs are other than quoted prices in active markets included in Level 1 that are either directly or indirectly observable. These inputs are either directly observable in the marketplace or indirectly observable through corroboration with market data for substantially the full contractual term of the asset or liability being measured.
- Level 3 – Inputs that are not observable for which there is little, if any, market activity for the asset or liability being measured. These inputs reflect management’s best estimate of the assumptions market participants would use in determining fair value.

The Company has determined the carrying value of its variable-rate term loan approximates its fair value since the interest rate fluctuates periodically based on a floating interest rate.

The Company has determined the fair value of its fixed-rate term loan utilizing the Level 2 hierarchy as the fair value can be estimated from broker quotes corroborated by other market data. These broker quotes are based on observable market interest rates at which loans with similar terms and maturities could currently be executed. The Company then estimated the fair value of the fixed-rate term loan using cash flows discounted at the current market interest rate obtained. The fair value of the Company’s fixed rate loan was $4.2 million as of March 31, 2015.

Note 5 – 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 and restricted stock. In computing the diluted weighted average shares, the average stock price for the period is used in determining the number of shares assumed to be reacquired under the treasury stock method from the exercise of options.

8

Basic and diluted earnings per share for the three and six months ended March 31, 2015 and 2014 are:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2015	2014	2015	2014
Income (loss) from continuing operations	$234,255	$(277,264)	$650,178	$(137,895)
Discontinued operations, net of tax	–	(616,886)	–	(590,518)
Net income (loss) attributable to common shareholders	$234,255	$(894,150)	$650,178	$(728,413)
Basic weighted average shares	10,051,844	10,004,830	10,046,525	10,001,655
Effect of dilutive securities:				
Stock options	–	–	–	–
Diluted weighted average shares	10,051,844	10,004,830	10,046,525	10,001,655
Earnings (loss) per common share:				
Basic				
Continuing operations	$0.02	$(0.03)	$0.06	$(0.01)
Discontinued operations	–	(0.06)	–	(0.06)
Net income (loss)	$0.02	$(0.09)	$0.06	$(0.07)
Diluted				
Continuing operations	$0.02	$(0.03)	$0.06	$(0.01)
Discontinued operations	–	(0.06)	–	(0.06)
Net income (loss)	$0.02	$(0.09)	$0.06	$(0.07)

Note 6 – Stock Option Plan

Plan Information

At the annual meeting of shareholders in March 2015, the shareholders approved the 2015 Incentive Stock Plan (the "Plan"). The Plan provides for awards of stock options and restricted stock to officers, directors, key employees and consultants. The Plan provides an additional 500,000 shares of common stock available for issuance in addition to those stock awards that were outstanding under the previous incentive stock plan. Under the Plan, option prices will be set by the Compensation Committee and may not be less than the fair market value of the stock on the grant date.

At March 31, 2015, 1,100,591 shares of common stock were reserved for stock award grants under the Plan. Of these reserved shares, 500,000 shares were available for future grants.

Stock Options

All share-based payments to employees, including grants of employee stock options, are recognized in the financial statements based on their grant date fair value over the requisite service period. Compensation expense for share-based awards is included in the operating, selling, general and administrative expense section of the Company's consolidated condensed statements of operations.

Stock options are valued at the date of the award, which does not precede the approval date, and compensation cost is recognized on a straight-line basis over the vesting period. Stock options granted to employees generally become exercisable over a three, four or five-year period from the date of grant and generally expire ten years after the date of

grant. Stock options granted to the Board of Directors generally become exercisable on the date of grant and generally expire ten years after the grant.

A summary of the status of the Company's stock options at March 31, 2015 and changes during the six months then ended is presented below:

	Shares	Wtd. Avg. Ex. Price
Outstanding at September 30, 2014	560,000	$2.96
Granted	–	–
Exercised	–	–
Expired	(15,000)	$4.62
Forfeited	–	–
Outstanding at March 31, 2015	545,000	$2.91
Exercisable at March 31, 2015	195,000	$2.97

No nonqualified stock options were granted for the six months ended March 31, 2015. The Company estimates the fair value of the options granted using the Black-Scholes option valuation model. The Company estimates the expected term of options granted based on the historical grants and exercises of the Company's options. The Company estimates the volatility of its common stock at the date of the grant based on both the historical volatility as well as the implied volatility on its common stock. The Company bases the risk-free rate that is used in the Black-Scholes option valuation model on the implied yield in effect at the time of the option grant on U.S. Treasury zero-coupon issues with equivalent expected term. The Company has never paid cash dividends on its common stock and does not anticipate paying cash dividends in the foreseeable future. Consequently, the Company uses an expected dividend yield of zero in the Black-Scholes option valuation model. The Company amortizes the resulting fair value of the options ratably over the vesting period of the awards. The Company uses historical data to estimate the pre-vesting option forfeitures and records share-based expense only for those awards that are expected to vest.

Compensation expense related to unvested stock options recorded for the six months ended March 31, 2015 is as follows:

	Six Months Ended March 31, 2015
Fiscal year 2012 grant	$16,522
Fiscal year 2014 grant	$54,312

The Company records compensation expense over the vesting term of the related options. At March 31, 2015, compensation costs related to these unvested stock options not yet recognized in the consolidated condensed statements of operations was $154,706.

Restricted Stock

The Company granted restricted stock in March 2015 to its Board of Directors totaling 31,915 shares, which were valued at market value on the date of grant. The shares are being held by the Company for 12 months and will be delivered to the directors at the end of the 12 month holding period. The fair value of these shares upon issuance

totaled $75,000 and is being amortized over the 12 month holding period as compensation expense. The Company granted restricted stock in April of 2014 to certain employees totaling 23,676 shares, which were valued at market value on the date of grant. The shares have a holding restriction, which will expire in equal annual installments of 7,892 shares over three years starting in April 2015. The fair value of these shares upon issuance totaled $76,000 and is being amortized over the respective one, two and three year holding periods as compensation expense. The unamortized portion of the restricted stock is included in prepaid expenses on the Company's consolidated condensed balance sheets.

Note 7 – Segment Reporting

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

Cable Television ("Cable TV")

The Company's Cable TV segment sells new, surplus and re-manufactured cable television equipment throughout North America, Central America, South America and, to a substantially lesser extent, other international regions that utilize the same technology. In addition, this segment also repairs cable television equipment for various cable companies.

Telecommunications ("Telco")

The Company's Telco segment sells certified used telecommunications networking equipment from a broad range of manufacturers to customers primarily in North America as well as other international regions. In addition, this segment also offers its customers decommissioning services for surplus and obsolete equipment, which it in turn processes through its recycling program.

The Company evaluates performance and allocates its resources based on operating income. The accounting policies of its reportable segments are the same as those described in the summary of significant accounting policies.

Segment assets consist primarily of cash and cash equivalents, accounts receivable, inventory, property, plant and equipment, goodwill and intangible assets.

	Three Months Ended		Six Months Ended	
	March 31, 2015	March 31, 2014	March 31, 2015	March 31, 2014
Sales				
Cable TV	$5,792,272	$7,248,191	$12,625,291	$13,367,925
Telco	5,813,777	1,065,624	9,850,071	1,065,624
Intercompany	(239,510)	–	(271,665)	–
Total sales	$11,366,539	$8,313,815	$22,203,697	$14,433,549
Gross profit				
Cable TV	$1,787,639	$1,852,660	$3,822,484	$3,715,888
Telco	2,455,873	378,507	4,252,831	378,507
Total gross profit	$4,243,512	$2,231,167	$8,075,315	$4,094,395
Operating income (loss)				
Cable TV	$347,839	$264,365	$966,650	$497,717
Telco	92,518	(692,618)	230,051	(692,618)
Total operating income (loss)	$440,357	$(428,253)	$1,196,701	$(194,901)

	March 31, 2015	September 30, 2014

Segment assets		
Cable TV	$28,085,530	$29,241,335
Telco	19,813,675	17,781,114
Non-allocated	6,423,582	6,383,232
Total assets	$54,322,787	$53,405,681

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

Special Note on Forward-Looking Statements

Certain statements in Management's Discussion and Analysis (“MD&A”), other than purely historical information, including estimates, projections, statements relating to our business plans, objectives and expected operating results, and the assumptions upon which those statements are based, are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These forward-looking statements generally are identified by the words “estimates,” “projects,” “believes,” “plans,” “intends,” “will likely result,” and sin expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. These statements are subject to a number of risks, uncertainties and developments beyond our control or foresight, including changes in the trends of the cable television industry, changes in the trends of the telecommunications industry, changes in our supplier agreements, 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 achievement 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.

Overview

The following MD&A is intended to help the reader understand the results of operations, financial condition, and cash flows of the Company. MD&A is provided as a supplement to, and should be read in conjunction with the information presented elsewhere in this quarterly report on Form 10-Q and with the information presented in our annual report on Form 10-K for the year ended September 30, 2014, which includes our audited consolidated financial statements and the accompanying notes to the consolidated financial statements.

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

Cable Television (“Cable TV”)

The Company’s Cable TV segment sells new, surplus and re-manufactured cable television equipment throughout North America, Central America and South America. In addition, this segment also repairs cable television equipment for various cable companies.

Telecommunications (“Telco”)

The Company’s Telco segment sells certified used telecommunications networking equipment from a broad range of manufacturers primarily in North America. In addition, this segment offers its customers decommissioning services for surplus and obsolete equipment, which it then processes through its recycling program.

Results of Operations

Comparison of Results of Operations for the Three Months Ended March 31, 2015 and March 31, 2014

Consolidated

Consolidated sales increased $3.1 million, or 37%, to $11.4 million for the three months ended March 31, 2015 from $8.3 million for the three months ended March 31, 2014. The increase in sales was primarily in the Telco segment resulting from the Nave Communications Company ("Nave Communications") acquisition on February 28, 2014, while sales from the Cable TV segment decreased $1.4 million compared to the same period last year. Consolidated gross profit increased $2.0 million, or 90%, to $4.2 million for the three months ended March 31, 2015 from $2.2 million for the same period last year. The increase in gross profit was due primarily to gross profit from the Telco segment as a result of the Nave Communications acquisition, while gross profit from the Cable TV segment decreased $0.1 million compared to the same period last year.

Consolidated operating, selling, general and administrative expenses include all personnel costs, which include fringe benefits, insurance and business taxes, as well as occupancy, communication and professional services, among other less significant cost categories. Operating, selling, general and administrative expenses increased $1.1 million, or 43%, to $3.8 million for the three months ended March 31, 2015 from $2.7 million for the same period last year. This increase in expenses was primarily due to the Telco segment of $1.3 million as a result of the Nave Communications acquisition, partially offset by a decrease in the Cable TV segment of $0.2 million.

Interest expense increased $54 thousand to $79 thousand for the three months ended March 31, 2015 from $25 thousand for the same period last year. The increase was due primarily to interest expense incurred on the second outstanding term loan entered into in connection with the Nave Communications acquisition.

The provision for income taxes was $0.1 million for the three months ended March 31, 2015, or an effective rate of 35%, from a benefit for income taxes of $0.2 million for the three months ended March 31, 2014, or an effective rate of 39%.

Segment Results

Cable TV

Sales for the Cable TV segment decreased $1.4 million to $5.8 million for the three months ended March 31, 2015 from $7.2 million for the same period last year. The decrease in sales was due primarily to a decrease in new equipment sales and refurbished equipment sales of $1.1 million and $0.2 million, respectively. Gross margin was 31% for the three months ended March 31, 2015 and 26% for the same period last year.

Operating, selling, general and administrative expenses decreased $0.2 million to $1.4 million for the three months ended March 31, 2015 from $1.6 million for the same period last year. The decrease was due primarily to decreased personnel costs.

Telco

Sales for the Telco segment increased $4.7 million to $5.8 million for the three months ended March 31, 2015 from $1.1 million for the same period last year as a result of the acquisition of Nave Communications. The increase in sales primarily resulted from an increase in used equipment sales and recycling revenue of $4.4 million and $0.3 million, respectively. The increase in used equipment sales was benefited by a $1.5 million equipment sale to an end-user customer in the second quarter of 2015. Gross margin was 42% for the three months ended March 31, 2015 and 36% for the same period last year.

Operating, selling, general and administrative expenses increased $1.3 million to $2.4 million for the three months ended March 31, 2015 from $1.1 million for the same period last year as a result of the acquisition of Nave Communications. The increase in expenses included $0.5 million for the three months ended March 31, 2015 and zero for the same period last year for the earn-out payments related to the Nave Communications acquisition. In March 2015, we made our first of three earn-out payments for $0.7 million, which was equal to 70% of Nave Communications' annual adjusted EBITDA in excess of $2.0 million per year ("Nave Earn-out"). We will make earn-out payments in March 2016 and 2017, which we estimate will be between $1.0 million and $1.5 million each. In addition, for the three months ended March 31, 2014, these expenses included $0.6 million of direct costs in connection with the acquisition of Nave Communications.

Discontinued Operations

Discontinued operations, net of tax, was zero for the three months ended March 31, 2015 and a loss of $60 thousand for the same period last year. This activity included the operations of Adams Global Communications prior to the sale on January 31, 2014.

Loss on sale of discontinued operations, net of tax, was zero for the three months ended March 31, 2015 and $0.6 million for the same period last year, which resulted from the sale of the net assets of Adams Global Communications on January 31, 2014 for $2 million in cash.

Comparison of Results of Operations for the Six Months Ended March 31, 2015 and March 31, 2014

Consolidated

Consolidated sales increased $7.8 million, or 54%, to $22.2 million for the six months ended March 31, 2015 from $14.4 million for the six months ended March 31, 2014. The increase in sales was primarily in the Telco segment resulting from the Nave Communications acquisition, while sales from the Cable TV segment decreased $0.8 million compared to the same period last year. Consolidated gross profit increased $4.0 million, or 97%, to $8.1 million for the six months ended March 31, 2015 from $4.1 million for the same period last year. The increase in gross profit was due to an increase in the Telco segment of $3.9 million as a result of the Nave Communications acquisition and an increase in the Cable TV segment of $0.1 million.

Consolidated operating, selling, general and administrative expenses include all personnel costs, which include fringe benefits, insurance and business taxes, as well as occupancy, communication and professional services, among other less significant cost categories. Operating, selling, general and administrative expenses increased $2.6 million, or 60%, to $6.9 million for the six months ended March 31, 2015 from $4.3 million for the same period last year. This increase was primarily due to increased expenses of the Telco segment of $2.9 million as a result of the Nave Communications acquisition, partially offset by decreased expenses of the Cable TV segment of $0.3 million.

Interest expense increased $134 thousand to $165 thousand for the six months ended March 31, 2015 from $31 thousand for the same period last year. The increase was due primarily to interest expense incurred on the second outstanding term loan entered into in connection with the Nave Communications acquisition.

The provision for income taxes was $0.4 million for the six months ended March 31, 2015, or an effective rate of 37%, from a benefit for income taxes of $0.1 million for the six months ended March 31, 2014, or an effective rate of 39%.

Segment Results

Cable TV

Sales for the Cable TV segment decreased $0.8 million to $12.6 million for the six months ended March 31, 2015 from $13.4 million for the same period last year. The decrease in sales was due primarily to a decrease in new equipment sales, refurbished equipment sales and service revenue of $0.3 million, $0.2 million and $0.3 million, respectively. Gross margin was 30% for the six months ended March 31, 2015 and 28% for the same period last year.

Operating, selling, general and administrative expenses decreased $0.3 million to $2.9 million for the six months ended March 31, 2015 from $3.2 million for the same period last year. The decrease was due primarily to decreased personnel costs.

Telco

Sales for the Telco segment increased $8.8 million to $9.9 million for the six months ended March 31, 2015 from $1.1 million for the same period last year as a result of the acquisition of Nave Communications. The increase in sales resulted from an increase in used equipment sales of $8.2 million and recycling revenue of $0.6 million. The increase in used equipment sales was benefited by a $1.5 million equipment sale to an end-user customer in the second quarter of 2015. Gross margin was 43% for the six months ended March 31, 2015 and 36% for the same period last year.

Operating, selling, general and administrative expenses increased $2.9 million to $4.0 million for the six months ended March 31, 2015 from $1.1 million for the same period last year as a result of the acquisition of Nave Communications. The increase in expenses included $0.7 million for the six months ended March 31, 2015 and zero for the same period last year for the earn-out payments related to the Nave Communications acquisition. In March 2015, we made our first of three earn-out payments for $0.7 million, which was equal to 70% of Nave Communications' annual adjusted EBITDA in excess of $2.0 million per year ("Nave Earn-out"). We will make earn-out payments in March 2016 and 2017, which we estimate will be between $1.0 million and $1.5 million each.

In addition, for the six months ended March 31, 2014, these expenses included $0.6 million of direct costs in connection with the acquisition of Nave Communications.

Discontinued Operations

Loss from discontinued operations, net of tax, was zero for the six months ended March 31, 2015 and a loss of $34 thousand for the same period last year. This activity included the operations of Adams Global Communications prior to the sale on January 31, 2014.

Loss on sale of discontinued operations, net of tax, was zero for the six months ended March 31, 2015 and a loss of $0.6 million for the same period last year, which resulted from the sale of the net assets of Adams Global Communications on January 31, 2014 for $2 million in cash.

Non-GAAP Financial Measure

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

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

	Three Months Ended March 31, 2015			Three Months Ended March 31, 2014		
	Cable TV	Telco	Total	Cable TV	Telco	Total
Operating income (loss)	$ 347,839	$ 92,518	$ 440,357	$ 264,365	$ (692,618)	$ (428,253)
Depreciation	70,149	29,930	100,079	76,444	14,757	91,201
Amortization	–	206,451	206,451	–	76,656	76,656
EBITDA (a)	$ 417,988	$ 328,899	$ 746,887	$ 340,809	$ (601,205)	$ (260,396)

(a) The Telco segment includes earn-out expenses of $0.5 million and zero for the three months ended March 31, 2015 and 2014, respectively, related to the acquisition of Nave Communications. In addition, the Telco segment includes acquisition-related costs of $0.6 million for the three months ended March 31, 2014 related to the acquisition of Nave Communications.

	Six Months Ended March 31, 2015			Six Months Ended March 31, 2014		
	Cable TV	Telco	Total	Cable TV	Telco	Total
Operating income (loss)	$966,650	$230,051	$1,196,701	$497,717	$(692,618)	$(194,901)
Depreciation	141,713	57,174	198,887	145,420	14,757	160,177
Amortization	–	412,903	412,903	–	76,656	76,656
EBITDA (a)	$1,108,363	$700,128	$1,808,491	$643,137	$(601,205)	$41,932

(a) The Telco segment includes earn-out expenses of $0.7 million and zero for the six months ended March 31, 2015 and 2014, respectively, related to the acquisition of Nave Communications. In addition, the Telco segment includes acquisition-related costs of $0.6 million for the six months ended March 31, 2014 related to the

acquisition of Nave Communications.

Critical Accounting Policies

Note 1 to the Consolidated Financial Statements in Form 10-K for fiscal 2014 includes a summary of the significant accounting policies or methods used in the preparation of our Consolidated Condensed 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 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 it also allows us to realize high overall gross profit margins on our sales. We market our products primarily to multiple system operators (“MSOs”), telecommunication providers and other users of cable television and telecommunication equipment who are seeking products for which manufacturers have discontinued production or cannot ship new equipment on a same-day basis as well as providing used products as an alternative to new products from the manufacturer. Carrying these large inventory quantities represents our largest risk.

We are required to make judgments as to future demand requirements from our customers. We regularly review the value of our inventory in detail with consideration given to rapidly changing technology which can significantly affect future customer demand. For individual inventory items, we may carry inventory quantities that are excessive relative to market potential, or we may not be able to recover our acquisition costs for sales that we do make. In order to address the risks associated with our investment in inventory, we review inventory quantities on hand and reduce the carrying value when the loss of usefulness of an item or other factors, such as obsolete and excess inventories, indicate that cost will not be recovered when an item is sold.

Our inventories consist of new and used electronic components for the cable television and telecommunications industries. Inventory is stated at the lower of cost or market, with cost determined using the weighted-average method. At March 31, 2015, we had total inventory, before the reserve for excess and obsolete inventory, of $27.2 million, consisting of $17.3 million in new products and $9.9 million in used or refurbished products.

For the Cable TV segment, our reserve at March 31, 2015 for excess and obsolete inventory was $2.5 million, which reflects an increase of approximately $0.3 million to reflect deterioration in the market demand 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 materially adversely affected.

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

Inbound freight charges are included in cost of sales. Purchasing and receiving costs, inspection costs, warehousing costs, internal transfer costs and other inventory expenditures are included in operating expenses, since the amounts involved are not considered material.

Accounts Receivable Valuation

Management judgments and estimates are made in connection with establishing the allowance for doubtful accounts. Specifically, we analyze the aging of accounts receivable balances, historical bad debts, customer concentrations, customer credit-worthiness, current economic trends and changes in our customer payment terms. Significant changes in customer concentration or payment terms, deterioration of customer credit-worthiness, or weakening in economic trends could have a significant impact on the collectability of receivables and our operating results. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make

payments, an additional provision to the allowance for doubtful accounts may be required. The reserve for bad debts was $0.2 million at March 31, 2015 and September 30, 2014. At March 31, 2015, accounts receivable, net of allowance for doubtful accounts, was $6.4 million.

Goodwill

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

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

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

Intangible Assets

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

Liquidity and Capital Resources

Cash Flows Provided by Operating Activities

We finance our operations primarily through operations, and we also have available to us a bank line of credit of $7.0 million. During the six months ended March 31, 2015, we generated $1.0 million of cash flow for operations. The cash flow from operations was favorably impacted by $1.6 million from a net increase in accounts payable primarily as a result of inventory purchases. The cash flow from operations was unfavorably impacted by $2.3 million from a net increase in inventory due primarily to purchases of used telecommunications equipment.

During the six months ended March 31, 2015, we increased the Nave Earn-out by $0.7 million, which is recorded in accrued expenses. In March 2015, we paid $0.7 million for the first of three annual Nave Earn-out payments. The

Nave Earn-out is equal to 70% of Nave Communications adjusted EBITDA earnings in excess of $2.0 million each year. We estimate the remaining two annual payments will be between $1.0 million and $1.5 million each.

Cash Flows Used for Investing Activities

In March 2015, we paid $1.0 million for the first of three annual installment payments to the Nave Communications owners for deferred consideration resulting from the Nave Communications acquisition. The deferred consideration, which consists of $3.0 million to be paid in equal annual installments over the three years, is recorded at its present value of $1.9 million at March 31, 2015. During the six months ended March 31, 2015, cash used in investing activities was $0.1 million related to capital expenditures.

Cash Flows Used for Financing Activities

During the six months ended March 31, 2015, we made principal payments of $0.4 million on our two term loans under our Credit and Term Loan Agreement with our primary lender. The first term loan requires monthly payments of $15,334 plus accrued interest through November 2021. Our second term loan is a five year term loan with a seven year amortization payment schedule with monthly principal and interest payments of $68,505 through March 2019.

At March 31, 2015, there was not a balance outstanding under our line of credit. The lesser of $7.0 million or the total of 80% of the qualified accounts receivable plus 50% of qualified inventory is available to us under the revolving credit facility ($7.0 million at March 31, 2015). Any future borrowings under the revolving credit facility are due at maturity.

We believe that our cash and cash equivalents of $4.8 million at March 31, 2015, cash flow from operations and our existing line of credit provide sufficient liquidity and capital resources to meet our working capital and debt payment needs.

Item 4. Controls and Procedures.

We maintain disclosure controls and procedures that are designed to ensure the information we are required to disclose in the reports we file or submit under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Based on their evaluation as of March 31, 2015, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to accomplish their objectives and to ensure the information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

PART II OTHER INFORMATION

Item 6. Exhibits.

Exhibit No.	Description
31.1	Certification of Chief Executive Officer under Section 302 of the Sarbanes Oxley Act of 2002.
31.2	Certification of Chief Financial Officer under Section 302 of the Sarbanes Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF	XBRL Taxonomy Extension Definition Linkbase.
101.LAB	XBRL Taxonomy Extension Label Linkbase.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ADDVANTAGE TECHNOLOGIES GROUP, INC.
(Registrant)

Date: May 12, 2015 /s/ David L. Humphrey
David L. Humphrey,
President and Chief Executive Officer
(Principal Executive Officer)

Date: May 12, 2015 /s/ Scott A. Francis
Scott A. Francis,
Chief Financial Officer
(Principal Financial Officer)

Exhibit Index

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

Exhibit No.	Description
31.1	Certification of Chief Executive Officer under Section 302 of the Sarbanes Oxley Act of 2002.
31.2	Certification of Chief Financial Officer under Section 302 of the Sarbanes Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF	XBRL Taxonomy Extension Definition Linkbase.
101.LAB	XBRL Taxonomy Extension Label Linkbase.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.