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

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED June 30, 2019

OR

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

FOR THE TRANSITION PERIOD FROM_______________ TO _____________

Commission File number 1-10799

ADDvantage Technologies Group, Inc.
(Exact name of registrant as specified in its charter)

OKLAHOMA	**73-1351610**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1221 E. Houston
Broken Arrow, Oklahoma 74012
(Address of principal executive office)
(918) 251-9121
(Registrant's telephone number, including area code)

Indicate by check mark whether the 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 ☒ No ☐
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 (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).	Yes ☒ No ☐
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule12b-2 of the Exchange Act. Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ (do not check if a smaller reporting company) Smaller reporting company ☒	
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).	Yes ☐ No ☒
Shares outstanding of the issuer's $.01 par value common stock as of July 31, 2019 were 10,361,292.	

ADDVANTAGE TECHNOLOGIES GROUP, INC.
Form 10-Q
For the Period Ended June 30, 2019

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

ADDVANTAGE TECHNOLOGIES GROUP, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS
(UNAUDITED)

	June 30, 2019	September 30, 2018
Assets		
Current assets:		
Cash and cash equivalents	$ 2,672,640	$ 3,129,280
Restricted cash	260,802	–
Accounts receivable, net of allowance for doubtful accounts of $150,000	5,481,478	2,578,998
Unbilled revenue	2,272,381	–
Other receivable	753,199	–
Promissory note – current	1,400,000	–
Income tax receivable	174,290	178,766
Inventories, net of allowance for excess and obsolete inventory of $800,000 and $815,000, respectively	9,094,002	7,462,491
Prepaid expenses	793,992	253,405
Other current assets	171,695	–
Current assets of discontinued operations	–	16,925,526
Total current assets	23,074,479	30,528,466
Property and equipment, at cost:		
Machinery and equipment	2,419,740	1,084,024
Leasehold improvements	190,984	190,984
Total property and equipment, at cost	2,610,724	1,275,008
Less: Accumulated depreciation	(813,978)	(773,312)
Net property and equipment	1,796,746	501,696
Promissory note – noncurrent	4,975,000	–
Investment in and loans to equity method investee	–	49,000
Intangibles, net of accumulated amortization	6,275,873	6,844,398
Goodwill	4,836,472	4,820,185
Other assets	210,854	125,903
Assets of discontinued operations	–	1,524,972
Total assets	$ 41,169,424	$ 44,394,620

See notes to unaudited consolidated condensed financial statements.

ADDVANTAGE TECHNOLOGIES GROUP, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS
(UNAUDITED)

	June 30, 2019	September 30, 2018
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 6,856,372	$ 3,300,388
Accrued expenses	1,644,337	711,936
Bank revolving line of credit	750,000	–
Notes payable – current portion	–	1,996,279
Other current liabilities	748,850	664,374
Current liabilities of discontinued operations	–	2,392,780
Total current liabilities	9,999,559	9,065,757
Other liabilities	203,682	801,612
Total liabilities	10,203,241	9,867,369
Shareholders' equity:		
Common stock, $.01 par value; 30,000,000 shares authorized; 10,861,950 and 10,806,803 shares issued, respectively; 10,361,292 and 10,306,145 shares outstanding, respectively	108,620	108,068
Paid in capital	(4,419,954)	(4,598,343)
Retained earnings	36,277,531	40,017,540
Total shareholders' equity before treasury stock	31,966,197	35,527,265
Less: Treasury stock, 500,658 shares, at cost	(1,000,014)	(1,000,014)
Total shareholders' equity	30,966,183	34,527,251
Total liabilities and shareholders' equity	$ 41,169,424	$ 44,394,620

See notes to unaudited consolidated condensed financial statements.

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2019	2018	2019	2018
Sales	$ 17,559,315	$ 7,674,997	$ 37,259,352	$ 21,137,787
Cost of sales	14,248,680	5,681,646	29,953,292	15,158,725
Gross profit	3,310,635	1,993,351	7,306,060	5,979,062
Operating, selling, general and administrative expenses	3,315,268	2,661,493	9,665,151	7,715,354
Loss from operations	(4,633)	(668,142)	(2,359,091)	(1,736,292)
Other income (expense):				
Income (loss) from equity method investment	20,005	–	75,005	(258,558)
Other expense	(89,708)	–	(132,967)	–
Interest expense	(25,860)	(39,571)	(68,612)	(171,017)
Total other expense, net	(95,563)	(39,571)	(126,574)	(429,575)
Loss before income taxes	(100,196)	(707,713)	(2,485,665)	(2,165,867)
Benefit for income taxes	(42,000)	(359,000)	(13,000)	(169,000)
Loss from continuing operations	(58,196)	(348,713)	(2,472,665)	(1,996,867)
Loss from discontinued operations, net of tax	(1,426,969)	(1,157,986)	(1,267,344)	(476,291)
Net loss	$ (1,485,165)	$ (1,506,699)	$ (3,740,009)	$ (2,473,158)
Loss per share:				
Basic				
Continuing operations	$ (0.00)	$ (0.03)	$ (0.24)	$ (0.19)
Discontinued operations	(0.14)	(0.12)	(0.12)	(0.05)
Net loss	$ (0.14)	$ (0.15)	$ (0.36)	$ (0.24)
Diluted				
Continuing operations	$ (0.00)	$ (0.03)	$ (0.24)	$ (0.19)
Discontinued operations	(0.14)	(0.12)	(0.12)	(0.05)
Net loss	$ (0.14)	$ (0.15)	$ (0.36)	$ (0.24)
Shares used in per share calculation:				
Basic	10,361,292	10,306,145	10,361,292	10,261,617
Diluted	10,361,292	10,306,145	10,361,292	10,261,617

See notes to unaudited consolidated condensed financial statements.

ADDVANTAGE TECHNOLOGIES GROUP, INC.
CONSOLIDATED CONDENSED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(UNAUDITED)

	Common Stock		Paid-in	Retained	Treasury	
	Shares	Amount	Capital	Earnings	Stock	Total
Balance, September 30, 2018	10,806,803	$108,068	$(4,598,343)	$40,017,540	$(1,000,014)	$34,527,251
Net loss	–	–	–	(1,038,981)	–	(1,038,981)
Restricted stock issuance	55,147	552	74,448	–	–	75,000
Share based compensation expense	–	–	28,070	–	–	28,070
Balance, December 31, 2018	10,861,950	$108,620	$(4,495,825)	$38,978,559	$(1,000,014)	$33,591,340
Net loss	–	–	–	(1,215,863)	–	(1,215,863)
Share based compensation expense	–	–	33,019	–	–	33,019
Balance, March 31, 2019	10,861,950	$108,620	$(4,462,806)	$37,762,696	$(1,000,014)	$32,408,496
Net loss	–	–	–	(1,485,165)	–	(1,485,165)
Share based compensation expense	–	–	42,852	–	–	42,852
Balance, June 30, 2019	10,861,950	$108,620	$(4,419,954)	$36,277,531	$(1,000,014)	$30,966,183

See notes to unaudited consolidated condensed financial statements.

	Common Stock		Paid-in	Retained	Treasury	
	Shares	Amount	Capital	Earnings	Stock	Total
Balance, September 30, 2017	10,726,653	$107,267	$(4,746,466)	$47,337,396	$(1,000,014)	$41,698,183
Net loss	–	–	–	(706,762)	–	(706,762)
Share based compensation expense	–	–	12,328	–	–	12,328
Balance, December 31, 2017	10,726,653	$107,267	$(4,734,138)	$46,630,634	$(1,000,014)	$41,003,749
Net loss	–	–	–	(259,697)	–	(259,697)
Restricted stock issuance	80,150	801	104,199	–	–	105,000
Share based compensation expense	–	–	10,531	–	–	10,531
Balance, March 31, 2018	10,806,803	$108,068	$(4,619,408)	$46,370,937	$(1,000,014)	$40,859,583
Net loss	–	–	–	(1,506,699)	–	(1,506,699)
Share based compensation expense	–	–	10,533	–	–	10,533
Balance, June 30, 2018	10,806,803	$108,068	$(4,608,875)	$44,864,238	$(1,000,014)	$39,363,417

See notes to unaudited consolidated condensed financial statements.

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

	Nine Months Ended June 30, 2019	Nine Months Ended June 30, 2018
Operating Activities		
Net loss	$ (3,740,009)	$ (2,473,158)
Net loss from discontinued operations	(1,267,344)	(476,291)
Net loss from continuing operations	(2,472,665)	(1,996,867)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	257,128	96,055
Amortization	812,525	939,933
Provision for excess and obsolete inventories	77,889	560,711
Charge for lower of cost or net realizable value for inventories	–	219,846
Gain on disposal of property and equipment	(250,877)	(1,980)
Deferred income tax provision	–	55,000
Share based compensation expense	152,691	122,142
(Gain) loss from equity method investment	(75,005)	258,558
Changes in assets and liabilities:		
Accounts receivable	(2,074,342)	36,539
Unbilled revenue	(1,793,065)	–
Income tax receivable\payable	4,476	(95,578)
Inventories	(1,799,042)	(976,343)
Prepaid expenses	(432,047)	31,218
Other assets	36,321	(291)
Accounts payable	2,306,092	(342,739)
Accrued expenses	477,352	151,045
Other liabilities	(21,926)	51,270
Net cash used in operating activities – continuing operations	(4,794,495)	(891,481)
Net cash provided by operating activities – discontinued operations	1,179,876	3,295,784
Net cash provided by (used in) operating activities	(3,614,619)	2,404,303
Investing Activities		
Acquisition of net operating assets	(1,264,058)	–
Loan repayment from (investment in and loans to) equity method investee	124,005	(249,354)
Purchases of property and equipment	(457,225)	(35,331)
Disposals of property and equipment	452,244	13,500
Net cash used in investing activities – continuing operations	(1,145,034)	(271,185)
Net cash provided by investing activities – discontinued operations	7,075,000	10,400
Net cash provided by (used in) investing activities	5,929,966	(260,785)
Financing Activities		
Change in revolving line of credit	750,000	500,000
Guaranteed payments for acquisition of business	(667,000)	(667,000)
Payments on notes payable	(1,996,279)	(3,669,801)
Net cash used in financing activities – continuing operations	(1,913,279)	(3,836,801)
Net cash used in financing activities – discontinued operations	(597,906)	(138,006)
Net cash used in financing activities	(2,511,185)	(3,974,807)
Net decrease in cash and cash equivalents and restricted cash	(195,838)	(1,831,289)
Cash and cash equivalents and restricted cash at beginning of period	3,129,280	3,972,723
Cash and cash equivalents and restricted cash at end of period	$ 2,933,442	$ 2,141,434
Supplemental cash flow information:		
Cash paid for interest	$ 109,106	$ 129,655
Cash paid for income taxes	$ –	$ 2,000
Supplemental noncash investing activities:		
Note receivable from disposition of business	$ 753,199	$ –
Promissory note from disposition of business	$ 6,375,000	$ –

See notes to unaudited consolidated condensed financial statements.

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" or "we"). Intercompany balances and transactions have been eliminated in consolidation. The Company's reportable segments are Wireless Infrastructure Services ("Wireless") and Telecommunications ("Telco"). The Cable Television ("Cable TV") segment was approved by the Company's stockholders to be sold in May 2019, so the Company has classified the Cable TV segment as discontinued operations (see Note 4 – Discontinued Operations).

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, 2018.

Reclassification

The Company adopted Accounting Standards Update ("ASU") 2016-15: "Statement of Cash Flows (Topic 230) – Classification of Certain Cash Receipts and Cash Payments." on October 1, 2018. The $667,000 of guaranteed payments for acquisition of businesses have been reclassified from investing activities and are reported as a financing activity in the Consolidated Condensed Statement of Cash Flows for the nine month period ended June 30, 2018. This reclassification had no effect on previously reported results of operations or retained earnings.

Recently Issued Accounting Standards

In February 2016, the FASB issued ASU 2016-02: "Leases (Topic 842)" which is intended to improve financial reporting about leasing transactions. This ASU will require organizations ("lessees") that lease assets with lease terms of more than twelve months to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Organizations that own the assets leased by lessees ("lessors") will remain largely unchanged from current GAAP. In addition, this ASU will require disclosures to help investors and other financial statement users better understand the amount, timing and uncertainty of cash flows arising from leases. The guidance is effective for annual periods beginning after December 15, 2018 and early adoption is permitted. Based on management's initial assessment, ASU 2016-02 will have a material impact on the Company's consolidated financial statements. Management reviewed its lease obligations and determined that the Company generally does not enter into long-term lease obligations with the exception of its real estate leases for its facilities and its fleet leases for the Wireless segment. The Company is a lessee on certain real estate leases and vehicle leases that will need to be reported as right of use assets and liabilities at an estimated amount of $4.6 million on the Company's consolidated financial statements on the date of adoption.

In June 2016, the FASB issued ASU 2016-13: "Financial Instruments – Credit Losses (Topic 326) – Measurement of Credit Losses on Financial Instruments." This ASU requires entities to measure all expected credit losses for most financial assets held at the reporting date based on an expected loss model which includes historical experience, current conditions, and reasonable and supportable forecasts. Entities will now use forward-looking information to better form their credit loss estimates. This ASU also requires enhanced disclosures to help financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an entity's portfolio. ASU 2016-13 is effective for annual periods beginning after December 15, 2019, including interim periods within those fiscal periods. Entities may adopt earlier as of the fiscal year

beginning after December 15, 2018, including interim periods within those fiscal years. We are currently in the process of evaluating this new standard update.

Note 2 – Revenue Recognition

On October 1, 2018, the Company adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606), using the modified retrospective transition method. Management determined that there was no cumulative effect adjustment to the consolidated financial statements and the adoption of the standard did not require any adjustments to the consolidated financial statements for prior periods. Under the guidance of the standard, revenue is recognized at the time a good or service is transferred to a customer and the customer obtains control of that good or receives the service performed. Most of the Company's sales arrangements with customers are short-term in nature involving single performance obligations related to the delivery of goods or repair of equipment and generally provide for transfer of control at the time of shipment to the customer. The Company generally permits returns of product or repaired equipment due to defects; however, returns are historically insignificant.

The Company acquired the net assets of Fulton Technologies, Inc. and Mill City Communications, Inc. (collectively "Fulton"), wireless infrastructure services businesses, on January 4, 2019 (See Note 3 – Acquisition). These companies provide turn-key wireless infrastructure services for the four major U.S. wireless carriers, communication tower companies, national integrators, and original equipment manufacturers that support these wireless carriers. These services primarily consist of the installation and upgrade of technology on cell sites and the construction of new small cells for 5G technology. The work under the purchase orders for wireless infrastructure services are generally completed in less than a month. Under the guidance of the standard, revenue is recognized over time.

The amount of revenue recognized reflects the consideration to which the Company expects to be entitled to receive in exchange for its products, repair services or wireless infrastructure services. The following steps are applied in determining the amount and timing of revenue recognition:

1. Identification of a contract with a customer is a sales arrangement involving a purchase order issued by the customer stating the goods or services to be transferred. Payment terms are generally due in net 30 days. Discounts on sales arrangements are generally not provided. Credit worthiness is determined by the Company based on payment experience and financial information available on the customer.

2. Identification of performance obligations in the sales arrangement which is predominantly the promise to transfer goods, repair services, recycled items or wireless infrastructure services to the customer.

3. Determination of the transaction price which is specified in the purchase order based on product or services pricing negotiated between the Company and the customer. Wireless infrastructure services transaction prices are based on the Master Service Agreement contracts between the Company and the wireless customers.

4. Allocation of the transaction price to performance obligations. Substantially all the contracts are single performance obligations and the allocated purchase price is the transaction price.

5. Recognition of revenue occurs upon the satisfaction of the performance obligation and transfer of control. Transfer of control by the Telco segment generally occurs at the point the Company ships the sold or repaired product from its warehouse locations. Transfer of control for the Wireless segment generally occurs over time as the Company installs or decommissions the equipment on the cell towers or performs other services. To measure progress towards completion on performance obligations for which revenue is recognized over time the Company utilizes an input method based upon a ratio of direct labor costs incurred to date to management's estimate of the total labor costs to be incurred on each contract. The Company has established the systems and procedures to develop the estimates required to account for performance obligations over time. These procedures include monthly review by management of costs incurred, progress towards completion, changes in estimates of costs yet to be incurred and execution by subcontractors.

The Company's principal sales are from Wireless services, sales of Telco equipment and Telco recycled equipment. Sales are primarily to customers in the United States. International sales are made by the Telco segment to customers

in Central America, South America and, to a substantially lesser extent, other international regions that utilize the same technology which totaled approximately $1.6 million and $2.1 million in the nine months ended June 30, 2019 and 2018, respectively.

The Company's customers include wireless carriers, wireless equipment providers, multiple system operators, resellers and direct sales to end-user customers. Sales to the Company's largest customer totaled approximately 11% of consolidated revenues.

Our sales by type were as follows:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2019	2018	2019	2018
Wireless services sales	$ 8,733,444	$ –	$ 12,951,368	$ –
Equipment sales:				
Telco	7,989,318	7,110,920	22,876,047	19,647,811
Intersegment	(5,305)	(5,562)	(49,452)	(7,872)
Telco repair sales	31,142	–	36,542	–
Telco recycle sales	810,716	569,639	1,444,847	1,497,848
Total sales	$ 17,559,315	$ 7,674,997	$ 37,259,352	$ 21,137,787

With the acquisition of Fulton, the timing of revenue recognition results in contract assets and contract liabilities. Generally, billing occurs subsequent to revenue recognition, resulting in contract assets. However, we sometimes receive advances or deposits from our customers before revenue is recognized, resulting in contract liabilities. Contract assets and contract liabilities are included in Unbilled revenue and Accrued expenses, respectively, in the Consolidated Condensed Balance Sheets. At June 30, 2019 contract assets were $2.3 million.

Note 3 – Acquisition

Purchase of Net Assets of Fulton Technologies, Inc. and Mill City Communications, Inc.

On December 27, 2018, the Company entered into a purchase agreement to acquire substantially all of the net assets of Fulton Technologies and Mill City. Fulton provides turn-key wireless infrastructure services for the four major U.S. wireless carriers, communication tower companies, national integrators, and original equipment manufacturers. These services primarily consist of the installation and upgrade of technology on cell sites and the construction of new small cells for 5G. This agreement closed on January 4, 2019. This acquisition is part of the overall growth strategy that will further diversify the Company into the broader telecommunications industry by providing wireless infrastructure services to the wireless telecommunications market.

The purchase price for the net assets of Fulton was $1.3 million. The purchase price was allocated to the major categories of assets and liabilities based on their estimated fair values as of January 4, 2019, the effective date of the acquisition. Any remaining amount was recorded as goodwill.

The following summarizes the final purchase price allocation of the fair value of the assets acquired and the liabilities assumed at January 4, 2019:

	(in thousands)
Assets acquired:	
Accounts receivable	$ 1,307
Prepaid expenses	341
Property and equipment, net	1,201
Intangible assets	244
Goodwill	16
Other assets	35
Total assets acquired	3,144
Liabilities assumed:	
Accounts payable	1,250
Accrued expenses	455
Capital lease obligation	175
Total liabilities assumed	1,880
Net purchase price	$ 1,264

The acquired intangible asset of approximately $0.2 million consists of customer relationships.

The unaudited financial information in the table below summarizes the combined results of operations of ADDvantage Technologies Group and Fulton Technologies for the three and nine months ended June 30, 2019 and June 30, 2018, on a pro forma basis, as though the companies had been combined as of October 1, 2017. The pro forma earnings for the three months ended June 30, 2018 were adjusted to include intangible amortization expense of $6 thousand. The pro forma earnings for the nine months ended June 30, 2019 and June 30, 2018 were adjusted to include intangible amortization expense of $18 thousand. The $0.2 million of acquisition-related expenses were excluded from the nine months ended June 30, 2019 and included in the nine month period ending June 30, 2018 as if the acquisition occurred at October 1, 2017. The pro forma net loss amounts exclude gains from the disposal of assets as well as interest expense and extinguishment of debt related to assets and debt not acquired or assumed from Fulton. The unaudited pro forma financial information does not purport to be indicative of the Company's combined results of operations which would actually have been obtained had the acquisition taken place on October 1, 2017 nor should it be taken as indicative of our future consolidated results of operations.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2019	2018	2019	2018
	(in thousands)			
Total net sales	$17,559	$12,560	$41,078	$36,592
Loss from continuing operations	$ (58)	$ (1,223)	$ (2,916)	$ (5,877)
Net loss	$ (1,485)	$ (2,381)	$ (4,184)	$ (6,353)

Note 4 – Discontinued Operations

In fiscal year 2018, the Board of Directors formed a committee of independent directors, referred to as the strategic direction committee, to consider, negotiate and approve or disapprove a sale transaction of the Cable TV segment to Leveling 8, Inc. ("Leveling 8"), a company controlled by David Chymiak. David Chymiak is a director and substantial shareholder of the Company, and he was the Chief Technology Officer and President of Tulsat LLC until the closing of the sale. The strategic direction committee consulted with senior management of the Company (excluding David Chymiak) as well as our outside legal counsel, retained appraisal firms to evaluate the Company's real estate and a business valuation firm to evaluate the fairness to the Company of the purchase price under the purchase agreement and considered many factors, including the decline over time of the Cable TV segment and of the cable TV industry in general, the large working capital requirement of the cable business relative to the return generated and the limited market for the cable business. The strategic direction committee also reviewed a significant amount of information and considered numerous factors, including the price to be paid by Leveling 8 in the sale transaction, the strategic and financial benefits of the sale transaction, the extensive review process that led to the sale transaction, and the need for

additional capital to grow the Company's non-cable businesses. In December 2018, the strategic direction committee approved and executed a stock purchase agreement of the Cable TV segment to Leveling 8, which required stockholder approval.

On May 29, 2019, at a special meeting, the Company's stockholders voted in favor of selling the Company's Cable TV segment to Leveling 8 for $10.3 million. The Cable TV segment sale was completed on June 30, 2019. The purchase price consisted of $3.9 million of cash at closing (subject to working capital adjustment estimated at $1.1 million), less the $2.1 million of cash proceeds from the sale of the Sedalia, Missouri and Warminster, Pennsylvania facilities already received (see discussion below) and a $6.4 million promissory note to be paid in semi-annual installments over five years with an interest rate of 6.0%. The calculation of the pretax loss of the sale of the Cable TV segment was as follows:

Contract price	$10,314,141
Less: Real estate sales	2,075,000
Less: Working capital adjustment	1,110,942
Net purchase price	7,128,199
Assets sold:	
Accounts receivable	2,038,305
Inventories	10,258,487
Prepaids and other assets	73,073
Property and equipment, net	335,980
	12,705,845
Liabilities transferred:	
Accounts payable	1,306,294
Accrued expenses	466,759
	1,773,053
Net assets sold	10,932,792
Pretax loss on sale of net assets of Cable TV segment	$ (3,804,593)

While the Company was in the process of selling the Cable TV segment to Leveling 8, the Company sold three of its Cable TV real estate facilities to David Chymiak, two of which were originally included in the $10.3 million contract price for the sale of the Cable TV segment. In October 2018, the Company entered into an agreement with David Chymiak to sell the Broken Arrow, Oklahoma facility. The sale agreement provided for a purchase price of $5,000,000 payable in cash at closing. The sale closed on November 29, 2018, which generated a pretax gain of approximately $1.4 million.

In March 2019, the Company sold its Sedalia, Missouri building to David Chymiak LLC for a cash purchase price of $1,350,000 and generated a pretax gain of $0.5 million. In June 2019, the Company sold its Warminster, Pennsylvania building to David Chymiak LLC for a cash purchase price of $725,000 and generated a pretax gain of $0.4 million.

Following is the calculation of the total pretax gain of the sale of the three facilities:

Aggregate purchase price	$ 7,075,000
Less: Book value of real estate facilities	4,762,782
Pretax gain	$ 2,312,218

Therefore, as a result of the sale of the Cable TV segment to Leveling 8 and the three real estate facility sales to David Chymiak, we will receive total proceeds of $14.2 million and have recorded a pretax loss on the sales of $1.5 million for the nine months ended June 30, 2019 as follows:

Proceeds:	
Cash received from real estate facility sales	$ 7,075,000
Receivable from sale of Cable TV segment	753,199
Promissory note from sale of Cable TV segment	6,375,000
Total proceeds	14,203,199
Book value of assets sold:	
Cable TV segment	10,932,792
Real estate facilities	4,762,782
Total book value of assets sold	15,695,574
Pretax loss on sale of discontinued operations	$ (1,492,375)

The receivable from the sale of the Cable TV segment resulted from the down payment of $1.8 million due at the closing less the working capital adjustment of $1.1 million. This receivable will be settled in the fourth quarter of 2019. The promissory note from the sale of the Cable TV segment will be paid in semi annual installments over five years including interest of 6% as follows:

Fiscal year 2020	$ 1,400,000
Fiscal year 2021	1,400,000
Fiscal year 2022	940,000
Fiscal year 2023	940,000
Fiscal year 2024	2,970,000
Total proceeds	$ 7,650,000

As part of the sale of the Cable TV segment to Leveling 8, David Chymiak personally guaranteed the promissory note due to the Company and pledged certain assets (directly and indirectly owned) to secure the payment of the promissory note, including substantially all of David Chymiak's Company common stock. David Chymiak also entered into a standstill agreement with the Company under which he is limited in taking action with respect to the Company or its management for a period of three years after the closing of the Cable TV segment sale.

Assets and liabilities included within discontinued operations in the Company's Consolidated Condensed Balance Sheets at June 30, 2019 and September 30, 2018, are as follows:

	June 30, 2019	September 30, 2018
Assets:		
Accounts receivable, net	$ –	$ 1,821,870
Inventories	–	11,425,551
Prepaid expenses	–	11,352
Assets held for sale	–	3,666,753
Current assets of discontinued operations	$ –	$ 16,925,526
Property and equipment, at cost:		
Land and building	$ –	$ 2,208,676
Machinery and equipment	–	2,800,835
Leasehold improvements	–	9,633
Less accumulated depreciation	–	(3,502,712)
Net property and equipment	–	1,516,432
Deposits and other assets	–	8,540
Non-current assets of discontinued operations	$ –	$ 1,524,972
Liabilities:		
Accounts payable	$ –	$ 1,356,800
Accrued expenses	–	438,074
Notes payable – current portion	–	597,906
Current liabilities of discontinued operations	$ –	$ 2,392,780

Income (loss) from discontinued operations, net of tax and the loss on sale of discontinued operations, net of tax, of the Cable TV segment business which are presented in total as discontinued operations, net of tax in the Company's Consolidated Condensed Statements of Operations for the three months and nine months ended June 30, are as follows:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2019	2018	2019	2018
Total net sales	$ 4,897,987	$ 4,898,903	$ 13,743,339	$ 15,370,405
Cost of sales	3,661,352	3,809,320	10,096,553	11,540,313
Operating, selling, general and administrative expenses	1,156,368	2,130,001	3,411,869	4,152,246
Other expenses	–	5,568	1,886	16,137
Income (loss) from discontinued operations	80,267	(1,045,986)	233,031	(338,291)
Loss on sale of discontinued operations	(1,533,236)	–	(1,492,375)	–
Income tax provision (benefit)	(26,000)	112,000	8,000	138,000
Discontinued operations, net of tax	$ (1,426,969)	$ (1,157,986)	$ (1,267,344)	$ (476,291)

Note 5 – Accounts Receivable Agreements

The Company's Wireless segment has entered into various agreements, one agreement with recourse, to sell certain receivables to unrelated third-party financial institutions. For the agreement with recourse, the Company is responsible for collecting payments on the sold receivables from its customers. Under this agreement, the third-party financial institution advances the Company 90% of the sold receivables and establishes a reserve of 10% of the sold receivables until the Company collects the sold receivables. As the Company collects the sold receivables, the third-party financial institution will remit the remaining 10% to the Company. At June 30, 2019, the third-party financial institution has a reserve against the sold receivables of $0.3 million, which is reflected as restricted cash. For the receivables sold under the agreement with recourse, the agreement addresses events and conditions which may obligate the Company to immediately repay the institution the outstanding purchase price of the receivables sold. The total amount of receivables uncollected by the institution was $1.6 million at June 30, 2019. Although the sale of receivables are with

recourse, the Company did not record a recourse obligation at June 30, 2019 as the Company determined the sold receivables are collectible. The other agreements without recourse are under programs offered by certain customers of Fulton.

For the nine months ended June 30, 2019, the Company received proceeds from the sold receivables under all of their various agreements of $9.9 million and included the proceeds in net cash provided by operating activities in the Consolidated Condensed Statements of Cash Flows. The cost of selling these receivables ranges from 1.0% to 1.8% for these programs. The Company recorded costs of $122 thousand and $165 thousand for the three and nine months ended June 30, 2019, respectively, in other expense in the Consolidated Condensed Statements of Operations.

The Company accounts for these transactions in accordance with ASC 860, "Transfers and Servicing" ("ASC 860"). ASC 860 allows for the ownership transfer of accounts receivable to qualify for sale treatment when the appropriate criteria is met, which permits the Company to present the balances sold under the program to be excluded from accounts receivable, net on the Consolidated Condensed Balance Sheet. Receivables are considered sold when they are transferred beyond the reach of the Company and its creditors, the purchaser has the right to pledge or exchange the receivables and the Company has surrendered control over the transferred receivables.

Note 6 – Inventories

Inventories, which are all within the Telco segment, at June 30, 2019 and September 30, 2018 are as follows:

	June 30, 2019	September 30, 2018
New equipment	$ 1,911,995	$ 1,371,545
Refurbished and new equipment	7,982,007	6,905,946
Allowance for excess and obsolete inventory:	(800,000)	(815,000)
Total inventories	$ 9,094,002	$ 7,462,491

New inventory includes products purchased from 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.

In the nine months ended June 30, 2019 and 2018, the Telco segment identified certain inventory that more than likely will not be sold or that the cost will not be recovered when it is processed through its recycling program. Therefore, the Company has a $0.8 million allowance at June 30, 2019.

Note 7 – Intangible Assets

As a result of the Fulton acquisition, the Company has recorded an additional intangible asset for customer relationships of $0.2 million (see Note 3 – Acquisition). The intangible assets with their associated accumulated amortization amounts at June 30, 2019 and September 30, 2018 are as follows:

	June 30, 2019		
	Gross	Accumulated Amortization	Net
Intangible assets:			
Customer relationships – 10 years	$ 8,396,000	$ (3,337,489)	$ 5,058,511
Trade name – 10 years	2,119,000	(913,305)	1,205,695
Non-compete agreements – 3 years	374,000	(362,333)	11,667
Total intangible assets	$10,889,000	$ (4,613,127)	$ 6,275,873

	September 30, 2018		
	Gross	Accumulated Amortization	Net
Intangible assets:			
Customer relationships – 10 years	$ 8,152,000	$ (2,713,890)	$ 5,438,110
Trade name – 10 years	2,119,000	(754,380)	1,364,620
Non-compete agreements – 3 years	374,000	(332,332)	41,668
Total intangible assets	$10,645,000	$ (3,800,602)	$ 6,844,398

Note 8 – Notes Payable and Line of Credit

New Credit Agreement

In December 2018, the Company entered into a credit agreement with a new lender. This credit agreement contains a $2.5 million revolving line of credit and matures on December 17, 2019. The line of credit requires quarterly interest payments based on the prevailing Wall Street Journal Prime Rate (5.5% at June 30, 2019), and the interest rate is reset monthly. The credit agreement provides that the Company maintain a fixed charge coverage ratio (net cash flow to total fixed charges) of not less than 1.25 to 1.0 measured annually. At June 30, 2019, $750,000 was outstanding under the line of credit and is reported in Bank revolving line of credit on the consolidated balance sheet. Future borrowings under the line of credit are limited to the lesser of $2.5 million or the sum of 80% of eligible accounts receivable and 25% of eligible Telco segment inventory. Under these limitations, the Company's total line of credit borrowing capacity was $2.5 million at June 30, 2019.

Subsequent to June 30, 2019, the Company paid off the $750,000 outstanding under the revolving line of credit.

Forbearance Agreement

On May 31, 2018, the Company entered into a forbearance agreement with BOKF, NA dba Bank of Oklahoma ("Lender") relating to the Company's Amended and Restated Credit and Term Loan Agreement ("Credit and Term Loan Agreement").

Under the forbearance agreement, which is Amendment Ten to the Credit and Term Loan Agreement, Lender agreed to delete the fixed charge ratio covenant from the Credit and Term Loan Agreement and to forbear from exercising its rights and remedies under the Credit and Term Loan Agreement through October 31, 2018 subject to certain requirements and commitments from the Company.

Revolving credit and term loans created under the Credit and Term Loan Agreement were collateralized by inventory, accounts receivable, equipment and fixtures, general intangibles and a mortgage on certain property. Among other financial covenants, the Credit and Term Loan Agreement provided that the Company maintain a leverage ratio (total funded debt to EBITDA) of not more than 2.50 to 1.0.

The Company had two term loans outstanding under the Credit and Term Loan Agreement. The first outstanding term loan had an outstanding balance of $0.6 million and was due on October 31, 2018, with monthly principal payments of $15,334 plus accrued interest. The interest rate was the prevailing 30-day LIBOR rate plus 1.4% (3.66% at October 31, 2018).

The second outstanding term loan had an outstanding balance of $1.5 million and was due October 31, 2018, with monthly principal and interest payments of $118,809. The interest rate on the term loan was a fixed interest rate of 4.40%.

During the first quarter of 2019, the Company extinguished its two outstanding term loans under the forbearance agreement by paying the outstanding balances of $2.1 million, and extinguished its line of credit under the forbearance agreement by paying the outstanding balance of $0.5 million.

Since the Company extinguished all of its outstanding term loans and line of credit outstanding under the forbearance agreement in the first quarter of 2019, the Company is no longer subject to the terms of the forbearance agreement and was released from the Credit and Term Loan Agreement.

Fair Value of Debt

The carrying value of the Company's variable-rate line of credit approximates its fair value since the interest rate fluctuates periodically based on a floating interest rate.

Note 9 – 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 share 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.

Basic and diluted earnings per share for the nine months ended June 30, 2019 and 2018 are:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2019	2018	2019	2018
Loss from continuing operations	$ (58,196)	$ (348,713)	$ (2,472,665)	$ (1,996,867)
Discontinued operations, net of tax	(1,426,969)	(1,157,986)	(1,267,344)	(476,291)
Net loss attributable to common shareholders	$ (1,485,165)	$ (1,506,699)	$ (3,740,009)	$ (2,473,158)
Basic weighted average shares	10,361,292	10,306,145	10,361,292	10,261,617
Effect of dilutive securities:				
Stock options	–	–	–	–
Diluted weighted average shares	10,361,292	10,306,145	10,361,292	10,261,617
Loss per common share:				
Basic				
Continuing operations	$ (0.00)	$ (0.03)	$ (0.24)	$ (0.19)
Discontinued operations	(0.14)	(0.12)	(0.12)	(0.05)
Net loss	$ (0.14)	$ (0.15)	$ (0.36)	$ (0.24)
Diluted				
Continuing operations	$ (0.00)	$ (0.03)	$ (0.24)	$ (0.19)
Discontinued operations	(0.14)	(0.12)	(0.12)	(0.05)
Net loss	$ (0.14)	$ (0.15)	$ (0.36)	$ (0.24)

The table below includes information related to stock options that were outstanding at the end of each respective three and nine month periods ended June 30, but have been excluded from the computation of weighted-average stock options for dilutive securities because their effect would be anti-dilutive. The stock options were anti-dilutive because the Company had a net loss for the periods presented. Additionally, for certain stock options, the exercise price exceeded the average market price per share of our common stock for the three and nine months ended June 30, 2019 and 2018.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2019	2018	2019	2018
Stock options excluded	770,000	645,000	770,000	645,000
Weighted average exercise price of stock options	$ 1.73	$ 2.59	$ 1.73	$ 2.59
Average market price of common stock	$ 1.38	$ 1.29	$ 1.37	$ 1.38

Note 10 – Stock-Based Compensation

Plan Information

The 2015 Incentive Stock Plan (the "Plan") provides for awards of stock options and restricted stock to officers, directors, key employees and consultants. 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 June 30, 2019, 1,100,415 shares of common stock were reserved for stock award grants under the Plan. Of these reserved shares, 7,154 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 June 30, 2019 and changes during the nine months then ended is presented below:

	Shares	Wtd. Avg. Ex. Price
Outstanding at September 30, 2018	290,000	$2.40
Granted	480,000	$1.32
Exercised	–	–
Expired	–	–
Forfeited	–	–
Outstanding at June 30, 2019	770,000	$1.73
Exercisable at June 30, 2019	443,334	$1.99

The Company granted 480,000 nonqualified stock options for the nine months ended June 30, 2019. 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 recognizes forfeitures as they occur.

The estimated fair value at date of grant for stock options utilizing the Black-Scholes option valuation model and the assumptions that were used in the Black-Scholes option valuation model for the nine months ended June 30, 2019 are as follows:

	Nine Months Ended June 30, 2019
Estimated fair value of options at grant date	$196,970
Black-Scholes model assumptions:	
Average expected life (years)	5
Average expected volatility factor	29%
Average risk-free interest rate	2.8%
Average expected dividends yield	–

Compensation expense related to unvested stock options recorded for the nine months ended June 30, 2019 is as follows:

	Nine Months Ended June 30, 2019
Fiscal year 2017 grants	$ 13,782
Fiscal year 2019 grants	$ 90,162

The Company records compensation expense over the vesting term of the related options. At June 30, 2019, compensation costs related to these unvested stock options not yet recognized in the consolidated condensed statements of operations was $116,495.

Restricted Stock

The Company granted restricted stock in October 2018 to its Chairman of the Board of Directors totaling 55,147 shares, which were valued at market value on the date of grant. The shares will vest 20% per year with the first installment vesting on the first anniversary of the grant date. The unamortized portion of the restricted stock is included in prepaid expenses on the Company's consolidated condensed balance sheets.

Note 11 – Segment Reporting

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

Wireless Infrastructure Services ("Wireless")

On January 4, 2019, the Company purchased substantially all of the net assets of Fulton, which comprises the Wireless segment. Fulton provides turn-key wireless infrastructure services for the four major U.S. wireless carriers, communication tower companies, national integrators, and original equipment manufacturers that support these wireless carriers. These services primarily consist of the installation and upgrade of technology on cell sites and the construction of new small cells for 5G.

Telecommunications ("Telco")

The Company's Telco segment sells new and refurbished telecommunications networking equipment, including both central office and customer premise equipment, to its customer base of telecommunications providers, enterprise customers and resellers located primarily in North America. This segment also offers its customers repair and testing services for telecommunications networking equipment. In addition, this segment 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 and equipment, goodwill and intangible assets.

	Three Months Ended		Nine Months Ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Sales				
Wireless	$ 8,733,444	$ –	$ 12,951,368	$ –
Telco	8,831,176	7,680,559	24,357,436	21,145,659
Intercompany	(5,305)	(5,562)	(49,452)	(7,872)
Total sales	$ 17,559,315	$ 7,674,997	$ 37,259,352	$ 21,137,787
Gross profit				
Wireless	$ 899,429	$ –	$ 983,372	$ –
Telco	2,411,206	1,993,351	6,322,688	5,979,062
Total gross profit	$ 3,310,635	$ 1,993,351	$ 7,306,060	$ 5,979,062
Income (loss) from operations				
Wireless	$ (147,463)	$ –	$ (1,334,215)	$ –
Telco	142,830	(668,142)	(1,024,876)	(1,736,292)
Total loss from operations	$ (4,633)	$ (668,142)	$ (2,359,091)	$ (1,736,292)

	June 30, 2019	September 30, 2018
Segment assets		
Wireless	$ 5,766,141	$ –
Telco	24,598,393	22,173,797
Discontinued operations	–	18,450,498
Non-allocated	10,804,890	3,770,325
Total assets	$ 41,169,424	$ 44,394,620

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 similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. These statements are subject to a number of risks, uncertainties and developments beyond our control or foresight, including changes in the trends of the telecommunications industry, changes in our cusomter agreements, changes in our supplier agreements, technological developments, changes in the general economic environment, 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.

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, 2018, 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: Wireless Infrastructure Services and Telecommunications. These reportable segments are described below.

Wireless Infrastructure Services (“Wireless”)

On January 4, 2019, the Company purchased substantially all of the net assets of Fulton Technologies, Inc. and Mill City Communications, Inc. (collectively “Fulton”), which comprises the Wireless segment. These companies provide turn-key wireless infrastructure services for the four major U.S. wireless carriers, communication tower companies, national integrators, and original equipment manufacturers that support these wireless carriers. These services primarily consist of the installation and upgrade of technology on cell sites and the construction of new small cells for 5G technology.

Telecommunications (“Telco”)

The Company’s Telco segment sells new and refurbished telecommunications networking equipment, including both central office and customer premise equipment, to its customer base of telecommunications providers, enterprise customers and resellers located primarily in North America. This segment also offers its customers repair and testing services for telecommunications networking equipment. In addition, this segment offers its customers decommissioning services for surplus and obsolete equipment, which it in turn processes through its recycling program.

Recent Business Developments

Purchase of Net Assets of Fulton Technologies, Inc. and Mill City Communications, Inc.

On December 27, 2018, we entered into a purchase agreement to acquire substantially all of the net assets of Fulton Technologies and Mill City. We closed this transaction on January 4, 2019 for $1.3 million in cash. The purchase allows us to enter into the wireless communication services business, which is poised for significant growth with the advent of 5G technology. This acquisition is part of the overall growth strategy that will further grow and diversify the Company into the broader telecommunications industry by providing wireless infrastructure services, which will continue to experience significant growth.

Fulton operates out of two primary locations. Fulton North, which is based just outside of Chicago in Roselle, Illinois, operates across the northern states including Illinois, Iowa and Minnesota. Fulton Southwest, which is based in Dallas, Texas, operates throughout Texas and neighboring states. As part of the asset purchase, we also acquired Mill City, which is based in Fridley, Minnesota. In April 2019, we decided to market and sell the assets of the Mill City operation and focus the company's operations on its two large metropolitan locations. Fulton's coverage of Chicago, Dallas, Houston, San Antonio and Austin allows it to participate in a collection of top wireless markets in the nation.

One of the key attractions of acquiring Fulton is that it had existing contracts and customer relationships. Fulton is an approved vendor with the four major U.S. wireless carriers, leading communication tower companies, national integrators, and major equipment manufacturers. The acquisition allowed us to enter the wireless communication space quickly and cost effectively. The customer contracts that Fulton has eliminated a key barrier for us to enter this industry due to the required experience and safety qualifications necessary to obtain the contracts.

In one of its business lines, Fulton performs equipment installations, upgrades and maintenance services for its customers primarily on communication towers. Having the proper safety record, training capability and quality oversight is paramount in the industry. Fulton has prided itself in performing safe, timely and high-quality services. Demand for tower equipment installation and upgrading services is at an all-time high, and we expect this trend to continue for the foreseeable future as wireless carriers continue to add capacity, expand their networks and upgrade their current technology for high speed connectivity, including 5G technology.

Fulton's other primary business line involves the installation and support of temporary tower locations. This niche and growing business includes the erection of temporary towers to allow for the maintenance of permanent locations without causing a degradation of wireless service coverage in the area. In addition, Fulton provides temporary tower solutions for special events that require an increase of coverage and capacity for festivals, concerts and sporting events. Fulton has an inventory of temporary poles of different sizes and uses a unique installation process for the quick deployment of a tower location with little to no environmental impact.

Wireless Segment Operating Results Improvements

We are excited about the fiscal third quarter results of our Wireless segment. We planned that Fulton would incur operating losses in the first few months after the acquisition as we integrated and began ramping up the operation. In just our second quarter of operating this segment, Fulton was able to achieve revenue of $8.7 million with improved Adjusted EBITDA operating results during this quarter, which demonstrates Fulton's growth potential. As part of the acquisition, we were able to hire and retain the majority of Fulton's existing employee base, and we continue to successfully recruit strong industry talent throughout the business to help us implement operational improvements with a focus on improving our quality and project margins. We are seeing increased opportunities in the industry as wireless carriers prepare for the roll out of 5G and the required densification of their networks. We also believe that the recent merger news in the industry will present additional opportunities as networks are rationalized and a new carrier potentially expands their network to gain market share. Our continued goal is to solidify our processes and project oversight to successfully and profitably take advantage of new growth opportunities as they present themselves. Although there is still much work to do at Fulton over the next several quarters, we believe that Fulton will continue to provide strong revenue growth and gradually improving margins.

Continued Momentum in Telco Segment

We are continuing to see positive results within our Telco segment, led by Nave Communications, which achieved strong revenue of $5 million for the third quarter and continued improvements in their bottom line results. We continue to see efficiencies from the operational restructuring put in place earlier this fiscal year, which has enabled us to focus our core team on sales and recycling opportunities. We are also ramping up our repair activities to take advantage of our new capabilities as we further expand our business lines. We have recently added new employees to our team across both Nave and Triton Datacom with strong experience in online marketing and sales across both Nave and Triton.

At Triton Datacom, we are excited about the upcoming move to our new facility scheduled for mid-August. The facility has been designed to streamline and improve our processes including inventory management, shipping and receiving and the refurbishment operations. The added space will allow us to develop the internal systems necessary to expand our refurbishment capabilities and new equipment sales by adding additional product lines and manufacturers. We have also increased our focus on the brokerage business and internet sales by expanding our sales channels. We believe that Triton is poised to expand, capture additional market share and develop new customers. While Triton's revenues are ahead of last year, we look forward to seeing Triton's operating results improve as a result of the upcoming changes.

Discontinued Operations

In December 2018, the Company entered into an agreement for the sale of our Cable TV segment business to Leveling 8, Inc., a company controlled by David Chymiak, for $10.3 million. David Chymiak is a director and substantial shareholder of the Company, and he was the Chief Technology Officer and President of Tulsat LLC until the closing of the sale. This agreement was approved by the Company's Strategic Direction Committee and Board of Directors. The sale was subject to shareholder approval, and in April 2019, the Company distributed a proxy statement to its shareholders for a special meeting of shareholders on May 29, 2019. The shareholders approved the sale at the special meeting, and the Company then closed the transaction effective as of June 30, 2019.

The $10.3 million purchase price consisted of $3.9 million of cash at closing (subject to working capital adjustments estimated at $1.1 million), less $2.1 million of cash proceeds received from the sale of the Sedalia, Missouri and Warminster, Pennsylvania facilities and a $6.4 million promissory note to be paid in semi-annual installments over five years with an interest rate of 6.0%. The sale of the facility in Broken Arrow, Oklahoma for $5.0 million was completed prior to entering into the sale agreement, and therefore was not an adjustment to the overall purchase price.

In March and June 2019, we sold the Sedalia, Missouri and Warminster, Pennsylvania buildings to David Chymiak LLC for a cash purchase price of $1.4 million and $0.7 million, resepctively. The proceeds from these sales were a credit to the purchase price and down payment to the proposed Cable TV sale as discussed above.

Therefore, as a result of the sale of the Cable TV business to Leveling 8 and the three facility sales to David Chymiak, we will receive total proceeds of $14.2 million. These proceeds consist of $7.1 million in cash received from the facility sales, a receivable of $0.7 million due in the fourth quarter of 2019, and a promissory note of $6.4 million to be paid over five years, which is personally guaranteed by David Chymiak. Taken as a whole, these transactions resulted in a net pretax loss of $1.5 million for the nine months ended June 30, 2019.

The proceeds from these sale transactions will be used to support the Company's strategic growth plans and working capital needs. In addition, we also paid off our outstanding revolving bank line of credit of $750,000 in July 2019.

Additional Board Member

In July, the we appointed a new independent director, John Shelnutt, to our Board of Directors. Mr. Shelnutt was appointed due to his extensive experience and contacts in the telecommunications industry as well as his background in business leadership and corporate strategy. Mr. Shelnutt is currently a Vice President of Blue Danube Systems, and previously served in various executive capacities at Cisco, including leading their mobility division with global responsibility for mobile product offerings. Mr. Shelnutt also spent 12 years in various executive leadership roles at Alcatel, including the startup of their global DSL division and managing their United States mobility division. Mr.

Shelnutt has served on various boards within the telecommunications industry including the QuEST Forum, ATIS, Broadband Forum and was an advisor to Tech Titans of Dallas, Texas and the City of New York Public Schools Technology group. We are excited about John joining the Board and sharing his experience and talent with us as we continue to grow.

Results of Operations

In January 2019, the Wireless segment was created as a result of the acquisition of Fulton. Therefore, there is only six months of activity through June 30, 2019 and no activity in fiscal year 2018. For the three and nine months ended June 30, 2019 comparisons, the Cable TV segment has been reclassified to discontinued operations as a result of the sale of this segment effective June 30, 2019.

Comparison of Results of Operations for the Three Months Ended June 30, 2019 and June 30, 2018

Consolidated

Consolidated sales increased $9.9 million before the impact of intercompany sales, or 129%, to $17.6 million for the three months ended June 30, 2019 from $7.7 million for the three months ended June 30, 2018. The increase in sales was in the Wireless segment and Telco segment of $8.7 million and $1.2 million, respectively. Consolidated gross profit increased $1.3 million, or 66%, to $3.3 million for the three months ended June 30, 2019 from $2.0 million for the same period last year. The increase in gross profit was in the Wireless segment and Telco segment of $0.9 million and $0.4 million, respectively.

Operating, selling, general and administrative expenses increased $0.6 million, or 25%, to $3.3 million for the three months ended June 30, 2019 from $2.7 million for the same period last year. This increase in expenses was due to the Wireless segment of $1.0 million, partially offset by a decrease in the Telco segment of $0.4 million.

Other income and expense primarily consists of activity related to our investment in YKTG Solutions, including equity earnings (losses). Equity earnings for the three months ended June 30, 2019 were $20 thousand and equity earnings were zero for the three months ended June 30, 2018. The equity earnings for the three months ended June 30, 2019 consisted primarily of a repayment of a loan from the former YKTG partners.

Other expense of $90 thousand is related to our factoring arrangement with our Wireless segment.

Interest expense decreased $14 thousand to $26 thousand for the three months ended June 30, 2019 from $40 thousand for the period ended June 30, 2018. The decrease in interest expense was due primarily to extinguishing a term loan in November 2018.

The benefit for income taxes was $42 thousand for the three months ended June 30, 2019 compared to a benefit for income taxes of $0.4 million for the three months ended June 30, 2018. The decrease in the tax benefit was due primarily to the valuation allowance netting the deferred tax assets to zero for the three months ended June 30, 2019, offset by income taxes payable to certain tax jurisdictions.

Segment Results

Wireless

Revenues for the Wireless segment were $8.7 million for the three months ended June 30, 2019 and zero for the same period last year as a result of the acquisition of Fulton and Mill City. Substantially all of the revenue for the quarter was derived from wireless infrastructure services. Gross margin was 10% for the three months ended June 30, 2019.

Operating, selling, general and administrative expenses were $1.0 million for the three months ended June 30, 2019.

Telco

Sales for the Telco segment increased $1.2 million to $8.8 million for the three months ended June 30, 2019 from $7.6 million for the same period last year. The increase in sales for the Telco segment was due to an increase in equipment sales and recycling revenue of $1.0 million and $0.2 million, respectively. The increase in Telco equipment sales was due primarily to increased sales at Triton Datacom of $1.0 million. The increase in recycling revenue was due primarily to timing of recycling shipments.

Gross margin was 27% for the three months ended June 30, 2019 and 26% for the three months ended June 30, 2018. The increase in gross margin was due primarily to increased recycling revenue which resulted in higher gross margins primarily due to the fixed costs within this product line.

Operating, selling, general and administrative expenses decreased $0.4 million to $2.3 million for the three months ended June 30, 2019 from $2.7 million for the same period last year.

Discontinued Operations

Loss from discontinued operations, net of tax, was $1.4 million for the three months ended June 30, 2019 compared to a loss of $1.2 million for the same period last year. This activity included the operations of the Cable TV segment prior to the sale on June 30, 2019. We recognized a loss on the sale of the Cable TV segment of $1.5 million for the three months ended June 30, 2019. The Cable TV segment recognized a goodwill impairment charge of $1.2 million for the three months ended June 30, 2018.

Comparison of Results of Operations for the Nine Months Ended June 30, 2019 and June 30, 2018

Consolidated

Consolidated sales increased $16.2 million before the impact of intercompany sales, or 76%, to $37.3 million for the nine months ended June 30, 2019 from $21.1 million for the nine months ended June 30, 2018. The increase in sales was in the Wireless segment and Telco segment of $13.0 million and $3.2 million, respectively. Consolidated gross profit increased $1.3 million, or 22%, to $7.3 million for the nine months ended June 30, 2019 from $6.0 million for the same period last year. The increase in gross profit was in the Wireless segment and Telco segment of $1.0 million and $0.3 million, respectively.

Operating, selling, general and administrative expenses increased $1.9 million, or 25%, to $9.7 million for the nine months ended June 30, 2019 from $7.8 million for the same period last year. This increase in expenses was due to the Wireless segment of $2.3 million, partially offset by a decrease in the Telco segment of $0.4 million.

Other income and expense primarily consists of activity related to our investment in YKTG Solutions, including equity earnings (losses). Equity earnings for the nine months ended June 30, 2019 were $0.1 million and equity losses were $0.3 million for the nine months ended June 30, 2018. The equity earnings for the three months ended June 30, 2019 consisted primarily of a repayment of a loan from the former YKTG partners. The equity losses for the nine months ended June 30, 2018 consisted primarily of a legal settlement with a subcontractor on the YKTG Solutions wireless cell tower decommissioning project and the associated legal expenses.

Other expense of $133 thousand is related to our factoring arrangement with our Wireless segment.

Interest expense decreased $0.1 million to $0.1 million for the nine months ended June 30, 2019 from $0.2 million for the same period last year primarily related to lower interest expense from extinguishing a term loan in November 2018.

The benefit for income taxes was $13 thousand for the nine months ended June 30, 2019, compared to a benefit for income taxes of $0.2 million for the nine months ended June 30, 2018. The decrease in the tax benefit was due primarily to the valuation allowance netting the deferred tax assets to zero for the nine months ended June 30, 2019, offset by income taxes payable to certain tax jurisdictions.

Segment Results

Wireless

Revenues for the Wireless segment were $13.0 million for the nine months ended June 30, 2019 and zero for the same period last year as a result of the acquisition of Fulton and Mill City. Substantially all of the revenue for the quarter was derived from wireless infrastructure services. Gross margin was 8% for the nine months ended June 30, 2019.

Operating, selling, general and administrative expenses were $2.3 million for the nine months ended June 30, 2019. These expenses included $0.2 million of acquisition costs in connection with the acquisition of Fulton and Mill City as well as integration expenses of $0.3 million.

Telco

Sales for the Telco segment increased $3.2 million to $24.4 million for the nine months ended June 30, 2019 from $21.2 million for the same period last year. The increase in sales for the Telco segment was due to an increase in equipment sales of $3.3 million, partially offset by a decrease in recycling revenue of $0.1 million. The increase in Telco equipment sales was due to increased sales at Nave Communications and Triton Datacom of $1.8 million and $1.5 million, respectively. The decrease in recycling revenue was due primarily to higher revenue in the prior year due to the timing of recycling shipments.

Gross margin was 26% for the nine months ended June 30, 2019 and 28% for the nine months ended June 30, 2018. The decrease in gross margin was due primarily to lower gross margins from equipment sales primarily resulting from an increase in sales of new equipment which generally yields lower margins than used equipment sales. In addition, our margin was also impacted by lower margins from our recycling program as a result of lower revenues to cover our fixed costs. The lower revenues from the recycling program for the nine months ended June 30, 2019 decreased gross profit by $0.2 million due to the fixed costs within this product line.

Operating, selling, general and administrative expenses decreased $0.4 million to $7.3 million for the nine months ended June 30, 2019 from $7.7 for the same period last year. This decrease was due primarily to employee expenses.

Discontinued Operations

Loss from discontinued operations, net of tax, was $1.3 million for the nine months ended June 30, 2019 compared to a loss of $0.5 million for the same period last year. This activity included the operations of the Cable TV segment prior to the sale on June 30, 2019. We recognized a loss on the sale of the Cable TV segment of $1.5 million for the nine months ended June 30, 2019. The Cable TV segment recognized a goodwill impairment charge of $1.2 million for the nine months ended June 30, 2018.

Non-GAAP Financial Measure

Adjusted EBITDA is a supplemental, non-GAAP financial measure. EBITDA is defined as earnings before interest expense, income taxes, depreciation and amortization. Adjusted EBITDA as presented excludes discontinued operations, stock compensation expense, other income, other expense, interest income and income from equity method investment. Adjusted 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 Adjusted 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. Adjusted EBITDA, as calculated below, may not be comparable to similarly titled measures employed by other companies. In addition, Adjusted EBITDA is not necessarily a measure of our ability to fund our cash needs.

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

	Three Months Ended June 30, 2019		
	Wireless	Telco	Total
Income (loss) from operations	$ (147,463)	$ 142,830	$ (4,633)
Stock compensation expense	12,166	34,436	46,602
Depreciation	80,076	29,615	109,691
Amortization	6,100	266,775	272,875
Adjusted EBITDA	$ (49,121)	$ 473,656	$ 424,535

	Three Months Ended June 30, 2018		
	Wireless	Telco	Total
Loss from operations	$ –	$ (668,142)	$ (668,142)
Stock compensation expense	–	46,782	46,782
Depreciation	–	32,583	32,583
Amortization	–	313,311	313,311
Adjusted EBITDA	$ –	$ (275,466)	$ (275,466)

	Nine Months Ended June 30, 2019		
	Wireless	Telco	Total
Loss from operations	$ (1,334,215)	$ (1,024,876)	$ (2,359,091)
Stock compensation expense	31,628	121,063	152,691
Depreciation	159,604	97,524	257,128
Amortization	12,200	800,325	812,525
Adjusted EBITDA (a)	$ (1,130,783)	$ (5,964)	$ (1,136,747)

(a) The Wireless segment includes acquisition expenses of $0.2 million related to the acquisition of Fulton and Mill City.

	Nine Months Ended June 30, 2018		
	Wireless	Telco	Total
Loss from operations	$ –	$ (1,736,292)	$ (1,736,292)
Stock compensation expense	–	122,142	122,142
Depreciation	–	96,055	96,055
Amortization	–	939,933	939,933
Adjusted EBITDA	$ –	$ (578,162)	$ (578,162)

Critical Accounting Policies

Note 1 to the Consolidated Financial Statements in Form 10-K for fiscal 2018 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 are discussed below.

Inventory Valuation

For our Telco segment, our position in the telecommunications industry requires us to carry relatively 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 telecommunication providers, telecommunication resellers, and other users of 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 are all carried in the Telco segment and consist of new and used electronic components for the telecommunications industry. Inventory is stated at the lower of cost or net realizable value, with cost determined using the weighted-average method. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. At June 30, 2019, we had total inventory, before the reserve for excess and obsolete inventories, of $9.9 million, consisting of $1.9 million in new products and $8.0 million in used or refurbished products.

We identified certain inventory that more than likely will not be sold or that the cost will not be recovered when it is processed through its recycling program. Therefore, we have an obsolete and excess inventory reserve of $0.8 million at June 30, 2019. If actual market conditions differ from those projected by management, this could have a material impact on our gross margin and inventory balances based on additional write-downs to net realizable value or a benefit from inventories previously written down.

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 a material component of cost of sales.

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 June 30, 2019 and September 30, 2018. At June 30, 2019, accounts receivable, net of allowance for doubtful accounts, was $5.5 million.

Goodwill

Goodwill represents the excess of purchase price of acquisitions over the acquisition date fair value of the net identifiable tangible and intangible assets 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, with the reporting unit's carrying value, including goodwill. Our

reporting units for purposes of the goodwill impairment calculation are aggregated into the Wireless 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, anticipated revenue growth rate, gross margins and operating expenses are inherent in these fair value estimates. 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.

We did not record a goodwill impairment for the Telco segment in the three year period ended September 30, 2018. In addition, we are implementing strategic plans as discussed in Recent Business Developments above and in our fiscal year 2018 Form 10-K to help prevent impairment charges in the future. 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 material negative change in the relationships with one or more of our significant customers or equipment suppliers, failure to successfully implement our plan to restructure and expand the Telco sales organization, and failure to reduce inventory levels within the Telco segment. 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 fair value of the Wireless segment and Telco segment also may change.

As a result of the Fulton and Mill City acquisition, the Company recorded additional goodwill of $16 thousand as the purchase price exceeded the acquisition date fair value of the net assets based on the final purchase price allocation.

Intangibles

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. As a result of the Fulton and Mill City acquisition, the Company has recorded an additional intangible asset for customer relationships of $0.2 million based on the preliminary purchase price allocation.

Liquidity and Capital Resources

Cash Flows Used in Operating Activities

We typically finance our operations primarily through cash flows provided by operations, and our line of credit of up to $2.5 million. During the nine months ended June 30, 2019, we used $4.8 million of cash flows for operations. The cash flows from operations was negatively impacted by $2.1 million from a net increase in accounts receivable and $1.8 million from a net increase in unbilled revenue. Also, cash flows from operations was negatively impacted by $1.8 million from a net increase of inventories. The cash flows from operations was favorably impacted by $1.6 million from uncollected receivables under the accounts receivable programs in the Wireless segment. In addition, the cash flows from operations was favorably impacted by $2.3 million from a net increase in accounts payable.

Cash Flows Provided by Investing Activities

During the nine months ended June 30, 2019, cash used by investing activities was $1.1 million, which primarily related to the purchase of substantially all of the net assets of Fulton and Mill City. The net purchase price was $1.3 million.

During the nine months ended June 30, 2019, cash provided by investing activities for discontinued operations of $7.1 million related to the sales of three facilities within the Cable TV segment to a company controlled by David Chymiak. The sales were our Broken Arrow, Oklahoma facility for $5.0 million, our Sedalia, Missouri facility for $1.4 million and our Warminster, Pennsylvania facility for $0.7 million. In addition, we also have a receivable of $0.7 million and a promissory note of $6.4 million resulting from the sale of the Cable TV segment to Leveling 8. These sales are discussed in Note 4 of the Notes to Unaudited Consolidated Condensed Financial Statements.

Cash Flows Used for Financing Activities

In November 2018, we extinguished one of our two outstanding term loans under the forbearance agreement by paying the outstanding balance of $1.5 million.

In October 2018, we also extinguished our line of credit under the forbearance agreement by paying the outstanding balance of $0.5 million.

In December 2018, the Company entered into a credit agreement with a different lender. This credit agreement contains a $2.5 million revolving bank line of credit and matures on December 17, 2019. The revolving bank line of credit requires quarterly interest payments based on the prevailing Wall Street Journal Prime Rate (5.5% at June 30, 2019), and the interest rate is reset monthly. Future borrowings under the Line of Credit are limited to the lesser of $2.5 million or the sum of 80% of eligible accounts receivable and 25% of eligible inventory. Under these limitations, the Company's total line of credit borrowing capacity was $2.5 million at June 30, 2019. At June 30, 2019, the amount outstanding under the revolving bank line of credit was $750,000. Subsequent to June 30, 2019, we paid off the $750,000 outstanding amount under the revolving bank line of credit.

During the nine months ended June 30, 2019, cash used by financing activies for discontinued operations of $0.6 million related to extinguishing one of the two outstanding term loans under the forbearance agreement by paying the outstanding balance of $0.6 million in November 2018.

We believe that our cash and cash equivalents and restricted cash of $2.9 million at June 30, 2019, our existing revolving bank line of credit, our accounts receivable programs for our Wireless segment and future payments from our promissory note resulting from the Cable TV segment sale will provide sufficient liquidity and capital resources to cover our operating losses and our additional 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 June 30, 2019, 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: August 13, 2019

/s/ Joseph E. Hart
Joseph E. Hart,
President and Chief Executive Officer
(Principal Executive Officer)

Date: August 13, 2019

/s/ Kevin D. Brown
Kevin D. Brown,
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.
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101.PRE	XBRL Taxonomy Extension Presentation Linkbase.

Exhibit 31.1

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

I, Joseph E. Hart, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ADDvantage Technologies Group, Inc.;

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

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

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

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

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

Date: August 13, 2019

/s/ Joseph E. Hart
Joseph E. Hart
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Kevin D. Brown, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ADDvantage Technologies Group, Inc.;

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

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

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

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

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

Date: August 13, 2019

/s/ Kevin D. Brown
Kevin D. Brown
Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of ADDvantage Technologies Group, Inc. (the "Company") for the fiscal quarter ended June 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report") I, Joseph E. Hart, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ Joseph E. Hart
Name: Joseph E. Hart
Title: President and Chief Executive Officer
Date: August 13, 2019

Exhibit 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of ADDvantage Technologies Group, Inc. (the "Company") for the fiscal quarter ended June 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report") I, Kevin D. Brown, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ Kevin D. Brown
Name: Kevin D. Brown
Title: Chief Financial Officer
Date: August 13, 2019