ATEC GROUP INC
Form 10-Q
February 13, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

CURRENT REPORT

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarter Ended December 31, 2001

[ ] 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 0-22710

ATEC GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware	13-3673965
(State or other jurisdiction of corporation or organization)	(I.R.S. Employer Identification Number)
69 Mall Drive, Commack, New York	11725
(Address of principal executive offices)	(Zip Code)

Issuer's telephone number, including area code (631) 543-2800

Former name, former address and former fiscal year, if changed since last report.

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES [X] NO[ ]

As of the close of business on December 31, 2001 there were 7,347,689 shares of the Registrant's Common Stock outstanding.

ATEC GROUP, INC.

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PART I
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ATEC GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	UNAUDITED 31-Dec-01	AUDITED 30-Jun-01
ASSETS		
CURRENT ASSETS		
Cash	$ 2,209,908	$ 1,555,020
Accounts receivable, net	2,501,033	5,114,302
Inventories	1,547,114	1,666,633
Deferred taxes	581,510	581,510
Other current assets	543,160	585,634
Total currrent assets	7,382,725	9,503,099
PROPERTY AND EQUIPMENT, NET	333,218	420,255
GOODWILL, NET	1,134,177	1,134,177
OTHER ASSETS	47,667	51,667
	$ 8,897,787	$ 11,109,198

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

Revolving inventory line of credit	$ 392,814	$ 1,024,157
Accounts payable	1,086,226	2,177,391
Accrued expenses	407,046	555,785
Deferred Revenue	-	139,357
Other current liabilities	290,982	353,589
Total liabilities	2,177,068	4,250,279
STOCKHOLDERS' EQUITY		
Preferred stocks	835,582	835,582
Common stock	73,477	73,477
Additional paid-in capital	11,864,674	11,864,674
Discount on preferred stock	(742,740)	(742,740)
Retained earnings (deficit)	(4,626,868)	(4,543,043)
Treasury stock at cost	(683,406)	(629,031)
Total stockholders' equity	6,720,719	6,858,919
	$ 8,897,787	$ 11,109,198

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ATEC GROUP, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS
THREE MONTHS ENDED DECEMBER 31

	2001	2000
NET SALES	$ 7,619,339	$ 13,435,283
COST OF SALES	6,561,655	11,631,337
GROSS PROFIT	1,057,684	1,803,946
OPERATING EXPENSES		
Selling and administrative	1,330,971	2,526,986
Amortization of goodwill	-	45,540
Total operating expenses	1,330,971	2,572,526
INCOME (LOSS) FROM OPERATIONS	(273,287)	(768,580)
OTHER INCOME (EXPENSE)		
Miscellaneous income	17,598	
Interest income	10,042	12,814
Interest expense	(268)	(1,399)
Total other (expense) income	27,372	11,415

INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES	(245,915)	(757,165)
PROVISION (BENEFIT) FOR INCOME TAXES	(64,800)	(335,800)
NET INCOME (LOSS)	$ (181,115)	$ (421,365)
NET EARNINGS (LOSS) PER SHARE-BASIC AND DILUTED	$ (0.03)	$ (0.06)
WEIGHTED AVERAGE NUMBER OF SHARES-BASIC	7,021,644	7,089,744
WEIGHTED AVERAGE NUMBER OF SHARES-DILUTED	7,021,644	7,089,744

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ATEC GROUP, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS
SIX MONTHS ENDED DECEMBER 31

	2001	2000
NET SALES	$ 19,667,524	$ 28,383,966
COST OF SALES	16,275,349	24,389,674
GROSS PROFIT	3,392,175	3,994,292
OPERATING EXPENSES		
Selling and administrative	3,517,870	5,083,954
Amortization of goodwill	-	91,080
Total operating expenses	3,517,870	5,175,034
INCOME(LOSS) FROM OPERATIONS	(125,695)	(1,180,742)
OTHER INCOME (EXPENSE)		
Miscellaneous income	17,598	-
Interest income	24,540	31,051
Interest expense	(268)	(1,512)
Total other income (expense)	41,870	29,539
INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES	(83,825)	(1,151,203)
PROVISION(BENEFIT) FOR INCOME TAXES	-	(475,000)

NET INCOME (LOSS)	$ (83,825)	$ (676,203)
NET EARNINGS (LOSS) PER SHARE-BASIC AND DILUTED	$ (0.01)	$ (0.10)
WEIGHTED AVERAGE NUMBER OF SHARES-BASIC	7,055,044	7,089,744
WEIGHTED AVERAGE NUMBER OF SHARES-DILUTED	7,055,044	7,089,744

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ATEC GROUP, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS
SIX MONTHS ENDED DECEMBER 31

	2001	2000
Net cash provided by (used in) operating activities	$ 1,340,606	$ 1,466,130
Cash flows from investing activities:		
Purchase of Treasury Stock	(54,375)	-
Purchase of property and equipment	0	(11,301)
Net cash (used in) provided by investing activities	(54,375)	(11,301)
Cash flows from financing activities:		
Short term borrowings (repayments)	(631,343)	(1,040,127)
Net cash (used in) provided by financing activities	(631,343)	(1,040,127)
Net increase (decrease) in cash	654,888	414,702
Cash and cash equivalents - Beginning of Period	1,555,020	100,607
Cash and cash equivalents - End of period	$ 2,209,908	$ 515,309

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ATEC GROUP, INC
UNAUDITED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
SIX MONTHS ENDING DECEMBER 31, 2001

	Common Shares Issued	Value Common Stock	Series Preferred Issued	Value Preferred Stock	Additional Paid in Capital
Balance at June 30, 2001	7,347,689	$73,477	424,429	$835,582	$11,864,674
Contributed Capital					30,082
Costs related to Contributed Capital					(30,082)
Purchase of Treasury Stock					
Net Loss for the Six months Ended December 31, 2001					
BALANCE AT DECEMBER 31, 2001	7,347,689	$73,477	424,429	$835,582	$11,864,674

	Treasury Stock Shares	Treasury Stock Amount	Total Stockholders' Equity
Balance at June 30, 2001	(259,245)	($629,031)	$6,858,919
Contributed Capital			30,082
Costs related to Contributed Capital			(30,082)
Purchase of Treasury Stock	(119,100)	($54,375)	(54,375)
Net Loss for the Six months Ended December 31, 2001			(83,825)
BALANCE AT DECEMBER 31, 2001	(378,345)	($683,406)	$6,720,719

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ATEC GROUP, INC. AND SUBSIDIARIES
FORM 10Q
QUARTER ENDED DECEMBER 31, 2001
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

BASIS OF PRESENTATION

The accompanying interim unaudited consolidated financial statements include the accounts of Atec Group, Inc. and its subsidiaries, which are hereafter referred to as (the "Company"). All intercompany accounts and transactions have been eliminated in consolidation.

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, such interim statements reflect all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position and the results of operations and cash flows for the interim periods presented. The results of operations for these interim periods are not necessarily indicative of the results to be expected for the full year. These financial statements should be read in conjunction with the audited consolidated financial statements and footnotes included in the Company's report on Form 10-K for the year ended June 30, 2001.

2. EQUITY SECURITIES

CAPITAL STOCK

The Company's capital stock consists of the following:

December 31, 2001	Shares Authorized	Shares Issued and Outstanding	Amount
Preferred Stocks:			
Series A cumulative convertible	29,233	8,371	$ 837
Series B convertible	12,704	1,458	145
Series C convertible	350,000	309,600	309,600
Series J convertible	105,000	105,000	525,000
Total preferred		424,429	$835,582
Common Stock	70,000,000	7,347,689	$ 73,477

The 424,429 shares of preferred stock, which are outstanding, may be converted into approximately 113,000 shares of our common stock.

Stock Option Plan

On November 27, 2001, the Board of Directors approved a resolution for the issuance of 1,186,300 options with an exercise price $0.45 per share to certain employees and directors of the Company and 1,500,000 options with an exercise price of $0.50 per share to certain officers.

3. COMPUTATION OF EARNINGS PER SHARE

Earnings per share are based on the weighted average number of common and common equivalent shares outstanding.

4. GOODWILL

The Company adopted Financial Accounting Standard Board (FASB) number 142 (SFAS142) effective July 1, 2001. SFAS142 changes the accounting for goodwill from an amortization method to an impairment-only approach. Under SFAS142, goodwill will be tested annually and whenever events or circumstances occur indicating that goodwill might be impaired. In connection with the adoption of SFAS142, we have performed a transitional goodwill impairment assessment and found that there was no impairment.

5. SEGMENT INFORMATION

The Company is comprised of four business segments. These segments consist of the technology integration services (TIS), Business to Business (B to B), software and manufacturing divisions. Set forth below are net sales, net income (loss) depreciation and identifiable assets of these segments.

	FOR THREE MONTHS ENDING DECEMBER 31,		FOR SIX MONTHS ENDING DECEMBER 31,	
	2001	2000	2001	2000
Net sales:				
TIS	$ 2,911,395	$ 3,974,492	$ 7,492,247	$ 8,898,399
B to B	4,493,711	8,919,953	11,689,460	17,901,668
Software	1,386	-	1,386	-
Manufacturing	212,847	540,838	484,431	1,583,899
	$ 7,619,339	$ 13,435,283	$ 19,667,524	$ 28,383,966
Net income (loss):				
TIS	$ (187,012)	$ (523,026)	$ (343,655)	$ (793,726)
B to B	455,199	575,571	1,284,698	1,026,928
Software	(20,636)	(69,153)	(44,351)	(94,578)
Manufacturing	(253,774)	(202,922)	(347,115)	(197,532)
Corporate	(174,892)	(201,835)	(633,402)	(617,295)
	$ (181,115)	$ (421,365)	$ (83,825)	$ (676,203)
Depreciation:				
TIS	$ 35,601	$ 36,324	$ 69,499	$ 71,481
B to B	2,608	6,861	5,217	14,369
Software	-	6,431	-	6,431
Manufacturing	723	899	1,445	1,798
Corporate	4,078	5,393	10,875	12,227
	$ 43,010	$ 55,908	$ 87,036	$ 106,306
Identifiable assets:				
TIS	$ 3,388,540	$ 6,105,529	$ 3,388,540	$ 6,105,529
B to B	2,187,264	4,133,682	2,187,264	4,133,682
Software	3,853	86,374	3,853	86,374
Manufacturing	707,335	1,969,332	707,335	1,969,332
Corporate	2,610,795	1,957,175	2,610,795	1,957,175
	$ 8,897,787	$ 14,252,092	$ 8,897,787	$ 14,252,092

6. SUBSEQUENT EVENT

On January 31, 2002 the Company decided to close its IT Enabled Services division and transferred it to Surinder Rametra, the Company's Chairman. This call center division was in the development stage. Mr. Rametra will give ten percent of the pre-tax profits (if any) to the Company for a period of three years to January 31, 2005.

ITEM 2 - MANAGEMENTS DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS

OF OPERATIONS.

ATEC GROUP, INC. AND SUBSIDIARIES

OVERVIEW

ATEC Group, Inc. ("Atec, our, we or us") is a one-stop provider of a full line of information technology products and services to businesses, professionals, government and educational institutions. We offer multiple solutions to our clients that we believe generate loyalty and improve our ability to seek higher margins. We have developed several core competencies, including system design, software development, networking, server-based computing, help desk, wireless telecommunications, voice over TP, high speed bandwidth e-commerce, web-hosting, ISP, ASP and Internet/Intranet solutions.

RESULTS OF OPERATIONS

THREE MONTHS ENDED DECEMBER 31, 2001, COMPARED TO THREE MONTHS ENDED DECEMBER 31, 2000.

Our revenues for the second quarter ended December 31, 2001 declined to $7.6 million from $13.4 million for the prior year, a decrease of approximately 43%. This decrease is attributable to a decline in hardware sales by our B2B and TIS divisions. We believe that the decline in sales was due to weakness in corporate technology spending in the fourth quarter and a significant decline in the New York Metropolitan economy following the events of September 11. Revenues are generated by our sales of computer hardware and software, and related support services. Gross margin for the period decreased to $1.1 million for December 31, 2001 from $1.8 million for the comparable 2000 quarter, a 39% decrease due to lower sales in the TIS division. Gross margins as a percentage of revenues for the quarter were 14 % as compared to 13% for the prior year.

Selling, general and administrative expenses for the three months ended, December 31, 2001 decreased to $1.3 million as compared to $2.5 million for the comparable period in 2000. The decrease is primarily due to lower compensation expense and consulting fees. The income tax benefit was $64,800 for the 2001 quarter as compared to $335,800 for 2000 quarter.

As a result of the above, our net loss was $181,115 for the three months ended December 31, 2001 compared to net loss of $421,365 for the 2000 quarter. For the December 31, 2001 quarter, net loss per share was $.03 compared to net loss of $.06 in the prior year. Average diluted shares outstanding were 7,021,644 for 2001 and 7,089,744 for 2000.

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SIX MONTHS ENDING DECEMBER 31, 2001 COMPARED TO DECEMBER 31, 2000.

Our revenues for the six months ending December 31, 2001 decreased to $19.7 million from $28.4 million for the prior year, a decrease of approximately 31%. This decrease is attributable to a significant drop in sales in our B2B and TIS divisions. We believe that the decline in sales was due to weakness in corporate technology spending and the significant decline in the economy of the New York Metropolitan area following the events of September 11, 2001. Revenues are generated by the Company's sales of computer hardware and software, and related support services. Gross margin for the period decreased to $3.4 million for December 31, 2001 from $4.0 for the comparable 2000 quarter. Gross margin as a percentage of revenues for the quarter were 17% as compared to 14% for the prior year.

December 31, 2001 operating expenses for the six months decreased to $3.5 million as compared to $5.1 million for the prior year. The decrease is primarily due to lower compensation expense and consulting fees. The income tax benefit was $0 for the 2001 period as compared to a benefit of $475,000 for the prior year.

As a result of the above, our net loss was $83,825 for the six months ended December 31, 2001 compared to net loss of $676,203 for the 2000 quarter. For the December 31, 2001 quarter, net loss per share was $.01 compared to net loss per share of $.10 in the prior year. Average diluted shares outstanding were 7,055,044 for 2001 and 7,089,744 for 2000.

LIQUIDITY AND CAPITAL RESOURCES.

Our cash position was $2,209,908 at December 31, 2001, an increase of $654,888 as compared to June 30, 2001. Our working capital at December 31, 2001 was $5,205,658 as compared to a working capital of $5,252,820 at June 30, 2001. Net cash provided by operating activities was $1,340,606. Cash used for investing activities totaled $54,375 for the purchase of Treasury Stock.

To accommodate our financial needs for inventory financing, IBM Credit granted us a credit line in the amount of $750,000. At December 31, 2001, our indebtedness to IBM Credit was $392,814, a decrease of $631,343, as compared to June 30, 2001.

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ITEM 3 - QUANTITIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We presently do not use any derivative financial instruments to hedge our exposure to adverse fluctuations in interest rates, fluctuations in commodity prices or other market risks, nor do we invest in speculative financial instruments. Borrowings under our line of credit are at Prime plus a quarter percent, which is adjusted monthly. Our interest income is sensitive to changes in the general level of U.S. interest rates, particularly since the majority of our investments are in short-term instruments.

Due to the nature of ATEC's borrowings and short-term investments, we have concluded that there is no material risk exposure and, therefore, no quantitative tabular disclosures are required.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Any statements in this Quarterly Report on Form 10-Q about our expectations, beliefs, plans, objectives, assumptions or future events or performance are not historical facts and are forward-looking statements. These statements are often, but not always, made through the use of words or phrases such as "will," "will likely result," "expect," "will continue," "anticipate," "estimate," "intend," "plan," "projection," "would," "should" and "outlook." Accordingly, these statements involve estimates, assumptions and uncertainties that could cause actual results to differ materially from those expressed in them. Any forward-looking statements are qualified in their entirety by reference to the factors discussed throughout this Report and our Annual Report on Form 10-K, as amended, for the year ended June 30, 2001. The following cautionary statements identify important factors that could cause our actual results to differ materially from those projected in the forward-looking statements made in this prospectus. Among the key factors that have a direct bearing on our results of operations are:

- general economic and business conditions; the existence or absence of adverse publicity; changes in, or failure to comply with, government regulations; changes in marketing and technology; change in political, social and economic conditions;

- increased competition in the computer industry and general risks of the Internet;
- success of acquisitions and operating initiatives; changes in business strategy or development plans; management of growth;
- availability, terms and deployment of capital;
- costs and other effects of legal and administrative proceedings;
- dependence on senior management; business abilities and judgment of personnel; availability of qualified personnel; labor and employee benefit costs;
- development risks; risks relating to the availability of financing; and
- other factors referenced in this Report and the Form 10-K.

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Because the risk factors referred to above could cause actual results or outcomes to differ materially from those expressed in any forward-looking statements made by us, you should not place undue reliance on any such forward-looking statements. Further, any forward-looking statement speaks only as of the date on which it is made and we undertake no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for us to predict which will arise. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

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ATEC GROUP, INC. AND SUBSIDIARIES
OTHER INFORMATION
DECEMBER 31, 2001

PART II
OTHER INFORMATION

Item 1. - Legal Proceedings - None

Item 2. - Changes in Securities and use of Proceeds - None

Item 3. - Defaults Upon Senior Securities - None

Item 4. - Submission of Matters to a Vote of Security Holders - On December 18, 2001 we held our annual meeting of stockholders for the following purposes:

(i) to elect Surinder Rametra, Ashok Rametra, James Charles, David Reback, Stewart Benjamin and Praveen Bhutani as members to the board of directors and

(ii) to ratify and approve Weinick Sanders Leventhal & Co., LLP, as our independent public accountants, to audit our financial statements for the year ending June 30, 2002.

The votes cast for each of the foregoing matters was as follows:

(i) Election of Board of Directors

Nominees	Favor	Withhold Authority
Ashok Rametra	6,067,488	177,394
James Charles	6,085,548	157,329
Surinder Rametra	6,082,488	160,389
Stewart Benjamin	6,111,487	155,290
David Reback	6,111,487	154,790
Praveen Bhutani	6,107,308	158,969

(ii) Appointment of Weinick Sanders Leventhal & Co., LLP.

Votes in Favor	Votes Against	Abstain
6,102,647	150,720	12,910

Item 5. - Other Information - None

Item 6. - Exhibits and Report on Form 8k - On January 3, 2002 we filed a Current Report on form 8K reporting the employment of a new Chief Executive Officer.

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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.

ATEC GROUP, INC.
(Registrant)

Date: February 13, 2002

By: /s/ JAMES J. CHARLES

James J. Charles, Chief Financial Officer
(Duly authorized to sign on behalf
of registrant)

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