ATEC GROUP INC
Form 10-Q
November 13, 2001

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 September 30, 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 September 30, 2001, there were 7,347,689 shares of the Registrant's Common Stock outstanding.

ATEC GROUP, INC.

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ATEC GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	UNAUDITED 30-Sep-01	AUDITED 30-Jun-01
ASSETS		
Current Assets		
Cash	$ 870,375	$ 1,555,020
Accounts receivable, net	5,158,599	5,114,302
Inventories	1,522,675	1,666,633
Deferred taxes	516,710	581,510
Other current assets	491,336	585,634
Total currrent assets	$ 8,559,695	$ 9,503,099
Property and equipment, net	376,229	420,255
Goodwill, net	1,134,177	1,134,177

Other assets	47,667	51,667
	$ 10,117,768	$ 11,109,198
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Revolving inventory line of credit	$ 495,481	$ 1,024,157
Accounts payable	1,593,029	2,177,391
Accrued expenses	872,801	555,785
Deferred income	-	139,357
Other current liabilities	200,248	353,589
Total liabilities	$ 3,161,559	$ 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)	(4,445,753)	(4,543,043)
Treasury stock at cost	(629,031)	(629,031)
Total stockholders' equity	6,956,209	6,858,919
	$ 10,117,768	$ 11,109,198

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ATEC GROUP, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS
THREE MONTHS ENDED SEPTEMBER 30

	2001	2000
Net sales	$ 12,048,185	$ 14,948,683
Cost of sales	9,713,694	12,758,337
Gross profit	2,334,491	2,190,346
Operating expenses		
Selling and administrative	2,186,899	2,556,968
Amortization of goodwill	-	45,540
Total operating expenses	2,186,899	2,602,508
Income from operations	147,592	(412,162)
Other income (expense)		

Interest income	14,498	18,237
Interest expense	-	(113)
Total other (expense) income	14,498	18,124
Income (loss) before provision for income taxes	162,090	(394,038)
Provision [benefit] for income taxes	64,800	(139,200)
Net income (loss)	97,290	(254,838)
Net earnings (loss) per share-basic and diluted	0.01	(0.04)
Weighted average number of shares-basic	7,088,444	7,089,744
Weighted average number of shares-diluted	7,088,444	7,089,744

ATEC GROUP, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS
THREE MONTHS ENDED SEPTEMBER 30

	2001	2000
Net cash provided by (used in) operating activities	$ (682,602)	$ 1,498,434
Cash flows from investing activities:		
Purchase of property and equipment	(2,043)	(36,089)
Net cash (used in) provided by investing activities	(2,043)	(36,089)
Cash flows from financing activities:		
Purchase of common stock	-	-
Contributed additional capital		39,088
Net cash (used in) provided by financing activities	0	39,088
Net increase (decrease) in cash	(684,645)	1,501,433
Cash and cash equivalents - Beginning of period	1,555,020	100,607
Cash and cash equivalents - End of period	$ 870,375	1,602,040

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ATEC GROUP, INC
UNAUDITED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
THREE MONTHS ENDING SEPTEMBER 30, 2001

	Common Shares Issued	Value Common Stock	Series Preferred Issued	Value Preferred Stock
Balance at June 30, 2001	7,347,689	$ 73,477	424,429	$ 835,582
Capital Contribution				
Costs related to Contributed Capital				
Net Income for the Three months Ended September 30, 2001				
Balance at September 30, 2001	7,347,689	$ 73,477	424,429	$ 835,582

	Discount on Preferred Stock	Retained Earnings (Deficit)	Treasury Stock Shares	Treasury Stock Amount
Balance at June 30, 2001	($ 742,740)	($4,543,043)	(259,245)	($ 629,031)
Capital Contribution				
Costs related to Contributed Capital				
Net Income for the Three months Ended September 30, 2001		$ 97,290		
Balance at September 30, 2001	($ 742,740)	($4,445,753)	(259,245)	($ 629,031)

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PART 1

FINANCIAL INFORMATION

Item 1. Financial Statements.

ATEC GROUP, INC. AND SUBSIDIARIES
FORM 10Q
QUARTER ENDED SEPTEMBER 30, 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 generally accepted accounting principles 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 generally accepted accounting principles 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.

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2. Equity Securities

Capital Stock

The Company's capital stock consists of the following:

September 30, 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.

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.

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5. Income Taxes

The Company's income tax provision consists of the following:

Current tax provision (benefit)	2001	2000
Federal	$ -	($134,000)
State	-	(5,200)
	-	(139,200)
Deferred tax provision (benefit)		
Federal	55,100	-
State	9,700	-
	64,800	-
Income tax provision (benefit)	$ 64,800	($139,200)

The deferred tax benefit results from differences in recognition of expenses for tax and financial statement purposes and for minimum tax provision for the various state and local taxing authorities where the Company and its subsidiaries are subject to tax. The Company has deferred tax assets consisting of the following temporary difference.

	September 31 2001	June 30 2000
Net operating loss carry forward	$1,469,200	$1,524,000
Allowance for bad debts	485,510	485,510
Total deferred tax assets	$1,954,710	$2,009,510
Less: Valuation allowance for deferred tax assets	1,438,000	1,438,000
Total	$ 516,710	$ 571,510

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6. 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 is net sales, net income (loss), capital expenditures, depreciation and identifiable assets of these segments.

	FOR THREE MONTHS ENDING SEPTEMBER 30. 2001	2000
Net sales:		
TIS	$ 4,580,852	$ 4,923,907
Global Distribution	7,195,749	8,981,715
Software	-	-
Manufacturing	271,584	1,043,061
Elimination of intersegment revenues	-	-
	$ 12,048,185	$ 14,948,683
Net Income (loss):		
TIS	$ (156,643)	$ (276,528)
Global Distribution	829,499	479,335
Software	(23,715)	(27,514)
Manufacturing	(93,341)	6,205
Corporate	(458,510)	(436,336)
	$ 97,290	$ (254,838)
Depreciation:		
TIS	$ 33,898	$ 35,157
Global Distribution	2,609	7,508
Software	-	-
Manufacturing	722	899
Corporate	6,797	6,834
	$ 44,026	$ 50,398

Capital additions:		
TIS	$ 2,043	$ 36,089
Global Distribution	-	-
Software	-	-
Manufacturing	-	-
Corporate	-	-
	$ 2,043	$ 36,089
Identifiable assets:		
TIS	$ 3,708,618	$ 6,207,633
Global Distribution	4,260,477	4,335,873
Software	3,853	92,804
Manufacturing	941,223	1,646,617
Corporate	1,203,597	2,483,200
	$ 10,117,768	$ 14,766,127

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 September 30, 2001, compared to three months ended September 30, 2000.

Revenues

Our revenues for the first quarter ended September 30, 2001 declined to $12 million from $14.9 million for the prior year, a decrease of approximately 19%. This decrease is attributable to a decline in hardware sales as our sales force focuses on service oriented business. Revenues are generated by our sales of computer hardware and software, and related support services. Gross margin for the period increased to $2.3 million for September 30, 2001 from $2.2 million for the comparable 2000 quarter, a 5% increase due to increased service sales. Gross margins as a percentage of revenues for the quarter were 19 % as compared to 14.7% for the prior year.

Selling, general and administrative expenses.

Selling, general and administrative expenses for the three months ended, September 30, 2001, decreased to $2.2 million as compared to $2.6 million for the comparable period in 2000. The decrease is primarily for compensation expense and consulting fees.

Net Income

As a result of the above, our net income was $97,290 for the three months ended September 30, 2001 compared to net loss of $254,838 for the 2000 quarter. For the September 30, 2001 quarter, net income per share was $.01 compared to a loss of $.04 in the prior year. Average diluted shares outstanding were 7,088,444 for 2001 and 7,089,744 for 2000.

Liquidity and capital resources.

Our cash position was $870,375 at September 30, 2001, a decrease of $684,645 as compared to June 30, 2001. Our working capital at September 30, 2001 was $5,398,136 as compared to a working capital of $5,252,820 at June 30, 2001. Net cash used by operating activities was $682,602. Cash used for investing activities totaled $2,043 for the purchase of property and equipment.

ITEM 3 - Quantitive and Qualitive 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.

EFFECTS OF RECENT ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board (FASB) issued FASB Statements Nos. 141 and 142 (SFAS 141 and SFAS142), " Business Combinations" and "Goodwill and Other Intangible Assets," respectively. SFAS 141 replaces APB 16 and eliminates pooling-of-interests accounting prospectively. It also provides guidance on purchase accounting related to the recognition of intangible assets and accounting for negative goodwill. SFAS 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. Under SFAS 142, goodwill will be tested annually and whenever events or circumstances occur indicating that goodwill might be impaired. SFAS 141 and SFAS 142 are required to be adopted for fiscal years beginning after December 15, 2001 but must be applied to all business combinations completed after June 30, 2001. Upon adoption of SFAS 142, amortization of goodwill recorded for business combinations consummated prior to July 1, 2001 will cease, and intangible assets acquired prior to July 1, 2001 that do not meet the criteria for recognition under SFAS 141 will be reclassified to goodwill.

Companies are required to adopt SFAS 142 for fiscal years beginning after December 15, 2001, but early adoption is permitted. In connection with the adoption of SFAS 142, we have performed a transitional goodwill impairment assessment and found that there was no impairment.

In August 2001, the FASB issued Statement No. 143 ("SFAS 143"), "Accounting for Asset Retirement Obligations," which is effective for fiscal years beginning after June 15, 2002. SFAS 143 addresses financial accounting and reporting for obligations associated with the retirement of Tangible long-lived assets and the associated asset retirement costs. The Statement applies to all entities. It applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development, and (or) the normal operation of long-lived assets, except for certain obligations of lessees. We do not expect the adoption of SFAS 143 will have a significant impact on our financial position and results of operations.

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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 which 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, 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 herein. 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.

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
September 30, 2000

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 - None

Item 5.- Other Information - None

Item 6.- Exhibits and Report on Form 8k - None

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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: November 13, 2001

By: /s/ JAMES J. CHARLES

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

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