

Edgar Filing: ATEC GROUP INC - Form 10-Q

ATEC GROUP INC  
Form 10-Q  
November 13, 2001

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
-----

FORM 10-Q  
-----

CURRENT REPORT

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.  
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(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  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<br>30-Sep-01<br>===== | AUDITED<br>30-Jun-01<br>===== |
|-----------------------------|---------------------------------|-------------------------------|
| 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 current assets        | \$ 8,559,695                    | \$ 9,503,099                  |
| Property and equipment, net | 376,229                         | 420,255                       |
| Goodwill, net               | 1,134,177                       | 1,134,177                     |

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|              |               |               |
|--------------|---------------|---------------|
| 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)     |               |               |

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|                                                 |           |           |
|-------------------------------------------------|-----------|-----------|
| 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 |
|                                                 | =====     | =====     |

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

|                                                             | Discount on<br>Preferred<br>Stock | Retained<br>Earnings<br>(Deficit) | Treasury Stock |              |
|-------------------------------------------------------------|-----------------------------------|-----------------------------------|----------------|--------------|
|                                                             | -----                             | -----                             | Shares         | Amount       |
|                                                             | -----                             | -----                             | -----          | -----        |
| Balance at June 30, 2001                                    | (\$ 742,740)                      | (\$4,543,043)                     | (259,245)      | (\$ 629,031) |
| Capital Contribution                                        |                                   |                                   |                |              |
| Costs related to Contributed<br>Capital                     |                                   |                                   |                |              |
| Net Income for the Three months<br>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  
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## FINANCIAL INFORMATION

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### 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<br>Authorized<br>----- | Shares<br>Issued<br>and<br>Outstanding<br>----- | Amount<br>----- |
|---------------------------------|-------------------------------|-------------------------------------------------|-----------------|
| 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         |
|                                 |                               | -----                                           | -----           |

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|                 |            |           |            |
|-----------------|------------|-----------|------------|
| 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:

|                                  | 2001      | 2000         |
|----------------------------------|-----------|--------------|
|                                  | -----     | -----        |
| Current tax provision (benefit)  |           |              |
| 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.

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|                                                   | September 31<br>2001<br>----- | June 30<br>2000<br>----- |
|---------------------------------------------------|-------------------------------|--------------------------|
| 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<br>=====           | \$ 571,510<br>=====      |

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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<br>SEPTEMBER 30. |               |
|-----------------------------------------|------------------------------------------|---------------|
|                                         | 2001<br>-----                            | 2000<br>----- |
| 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<br>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     |



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|                      |               |               |
|----------------------|---------------|---------------|
|                      | =====         | =====         |
| 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 |
|                      | =====         | =====         |

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Item 2 - Managements Discussion and Analysis of Financial Condition and Results of operations.

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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.

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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.

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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.

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ITEM 3 - Quantitative 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.

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

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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:

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

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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)

