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ATEC GROUP INC
Form 10-Q
May 14, 2002

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 March 31, 2002

☐ 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 ☒ NO ☐

As of the close of business on March 31, 2002, 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 31-Mar-02	30-Jun-01
	-----	-----
ASSETS		
Current Assets		
Cash	\$ 415,646	\$ 1,555,020
Accounts receivable, net	4,879,332	5,114,302
Inventories	826,822	1,666,633
Deferred taxes	581,510	581,510
Other current assets	717,213	585,634
	-----	-----
Total current assets	7,420,523	9,503,099
	-----	-----
Property and equipment, net	316,575	420,255
Goodwill, net	1,134,177	1,134,177
Other assets	47,667	51,667
	-----	-----
	\$ 8,918,942	\$ 11,109,198
	=====	=====

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LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities		
Revolving inventory line of credit	\$ 391,922	\$ 1,024,157
Accounts payable	1,591,690	2,177,391
Accrued expenses	454,220	555,785
Deferred Revenue	--	139,357
Other current liabilities	223,165	353,589
	-----	-----
Total liabilities	2,660,997	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)	(5,089,642)	(4,543,043)
Less: Treasury stock at cost	(683,406)	(629,031)
	-----	-----
Total stockholders' equity	6,257,945	6,858,919
	-----	-----
	\$ 8,918,942	\$ 11,109,198
	=====	=====

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

	2002	2001
	-----	-----
Net sales	\$ 10,876,246	\$ 14,096,629
Cost of sales	9,655,189	12,790,010
	-----	-----
Gross profit	1,221,057	1,306,619
	-----	-----
Operating expenses		
Selling and administrative	1,698,611	3,140,214
Amortization of goodwill	--	47,493
	-----	-----
Total operating expenses	1,698,611	3,187,707
	-----	-----
Loss from operations	(477,554)	(1,881,088)
	-----	-----
Other income		
Interest income	10,101	11,399
Miscellaneous	4,679	--
	-----	-----
Total other income	14,780	11,399

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	-----	-----
Loss before benefit from income taxes	(462,774)	(1,869,689)
Benefit from income taxes	--	(733,400)
	-----	-----
Net loss	\$ (462,774)	\$ (1,136,289)
	=====	=====
Net loss per share basic and diluted	\$ (0.07)	\$ (0.16)
	=====	=====
Weighted average number of shares-basic	6,969,344	7,089,744
	=====	=====
Weighted average number of shares-diluted	6,969,344	7,089,744
	=====	=====

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ATEC GROUP, INC. AND SUBSIDIARIES UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS NINE MONTHS ENDED MARCH 31

	2002	2001
	-----	-----
Net sales	\$ 30,543,770	\$ 42,480,595
Cost of sales	25,930,538	37,179,684
	-----	-----
Gross profit	4,613,232	5,300,911
	-----	-----
Operating expenses		
Selling and administrative	5,216,481	8,224,168
Amortization of goodwill	--	138,573
	-----	-----
Total operating expenses	5,216,481	8,362,741
	-----	-----
Loss from operations	(603,249)	(3,061,830)
	-----	-----
Other income (expense)		
Interest income	34,641	42,450
Interest expense	(268)	(1,512)
Miscellaneous	22,277	--
	-----	-----
Total other (expense) income	56,650	40,938
	-----	-----
Loss before benefit from income taxes	(546,599)	(3,020,892)

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Benefit from income taxes	--	(1,208,400)
	-----	-----
Net loss	\$ (546,599)	\$ (1,812,492)
	=====	=====
Net loss per share basic and diluted	\$ (0.08)	\$ (0.26)
	=====	=====
Weighted average number of shares-basic	7,026,937	7,089,744
	=====	=====
Weighted average number of shares-diluted	7,026,937	7,089,744
	=====	=====

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

	2002	2001
	-----	-----
Net cash provided by (used in) operating activities	\$ (423,011)	\$ 1,211,034
Cash flows from investing activities:		
Purchase of property and equipment	(29,753)	(92,184)
	-----	-----
Net cash (used in) provided by investing activities	(29,753)	(92,184)
	-----	-----
Cash flows from financing activities:		
Short term borrowings	(632,235)	(662,931)
Purchase of Treasury Stock	(54,375)	--
	-----	-----
Net cash (used in) provided by financing activities	(686,610)	(662,931)
	-----	-----
Net increase (decrease) in cash	(1,139,374)	455,919
	-----	-----
Cash - Beginning of period	1,555,020	100,607
	-----	-----
Cash - End of period	\$ 415,646	\$ 556,526
	=====	=====

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ATEC GROUP, INC UNAUDITED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY NINE MONTHS ENDING MARCH 31, 2002

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	Common Shares Issued	Value Common Stock	Series Preferred Issued	Value Preferred Stock	Additional Paid in Capital	Discount on Preferred Stock	Retained Earnings (Deficit)
Balance at							
June 30, 2001	7,347,689	\$73,477	424,429	\$835,582	\$11,864,674	(\$742,740)	(\$4,543,043)
Contributed Capital					\$30,082		
Costs related to							
Contributed Capital					(\$30,082)		
Purchase of Treasury							
Stock							
Net Loss for the							
Nine months Ended							(\$546,599)
March 31, 2002							
Balance at							
March 31, 2002	7,347,689	\$73,477	424,429	\$835,582	\$11,864,674	(\$742,740)	(\$5,089,642)

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ATEC GROUP, INC. AND SUBSIDIARIES
FORM 10Q
QUARTER ENDED MARCH 31, 2002
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 inter-company 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.

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2. Equity Securities

Capital Stock

The Company's capital stock consists of the following:

March 31, 2002	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.

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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.

The Company has agreed to enter into employment and consulting agreements that will require the issuance of 1,000,000 shares of common stock. It is anticipated that these agreements will become effective in the quarter ending June 30, 2002.

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. 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 MARCH 31,		FOR NINE MONTHS ENDING MARCH 31,	
	2002	2001	2002	2001
Net sales:				
TIS	\$ 6,029,936	\$ 5,523,692	\$ 13,522,183	\$ 14,422,092
B to B	4,598,142	8,187,377	16,287,603	26,089,045
Software	152	--	1,538	--
Manufacturing	248,016	385,560	732,446	1,969,458
	-----	-----	-----	-----
	\$ 10,876,246	\$ 14,096,629	\$ 30,543,770	\$ 42,480,595
	=====	=====	=====	=====
Net income (loss):				
TIS	\$ (132,351)	\$ 332,065	\$ (476,041)	\$ (461,661)
B to B	265,122	(458,469)	1,549,820	568,459
Software	(10,573)	11,948	(54,888)	(82,630)
Manufacturing	(331,777)	(453,557)	(678,892)	(651,089)
Corporate	(253,195)	(568,276)	(886,598)	(1,185,571)
	-----	-----	-----	-----
	\$ (462,774)	\$ (1,136,289)	\$ (546,599)	\$ (1,812,492)
	=====	=====	=====	=====
Depreciation:				
TIS	\$ 41,706	\$ 34,257	\$ 111,206	\$ 105,738
B to B	2,609	5,838	7,826	20,207
Software	--	3,215	--	9,646
Manufacturing	722	899	2,167	2,697
Corporate	1,359	9,646	12,234	21,873
	-----	-----	-----	-----
	\$ 46,396	\$ 53,855	\$ 133,433	\$ 160,161
	=====	=====	=====	=====
Capital additions:				
TIS	\$ 29,753	33,213	29,753	\$ 83,295
B to B	--	7,425	--	8,889
Software	--	--	--	--
Manufacturing	--	--	--	--
Corporate	--	--	--	--
	-----	-----	-----	-----
	\$ 29,753	40,638	29,753	\$ 92,184
	=====	=====	=====	=====
Identifiable assets:				
TIS	\$ 5,340,418	\$ 5,784,046	\$ 5,340,418	\$ 5,784,046
B to B	2,385,254	4,550,623	2,385,254	4,550,623
Software	3,853	141,597	3,853	141,597
Manufacturing	256,651	1,408,610	256,651	1,408,610
Corporate	932,766	2,206,707	932,766	2,206,707
	-----	-----	-----	-----
	\$ 8,918,942	\$ 14,091,583	\$ 8,918,942	\$ 14,091,583
	=====	=====	=====	=====

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 March 31, 2002 compared to March 31, 2001

Our revenues for the third quarter ended March 31, 2002 were \$10.9 million compared to \$14.1 million for the prior year, a decrease of approximately 23%. This decrease is attributable to a drop in hardware sales by our TIS and distribution divisions. Revenues are generated by our sales of computer hardware and software, and related support services. Gross margin for the period decreased to \$1.2 million for March 31, 2002 from \$1.3 million for the comparable 2001 quarter, a 7% decrease due to lower sales. Gross margins as a percentage of revenues for the three months were 11% as compared to 9% for the prior year.

Selling, general and administrative expenses for the three months ended, March 31, 2002 decreased to \$1.7 million as compared to \$3.1 million for the prior year. The decrease of \$1.4 million is primarily due to reduced salary expenses of \$454,114, provision for doubtful accounts of \$585,330 and legal/accounting expenses of \$140,546. The income tax benefit was \$0 for the 2002 quarter as compared to a benefit of \$733,400 for 2001 quarter.

As a result of the above, our net loss was \$462,774 for the three months ended March 31, 2002 compared to net loss of \$1,136,289 for the 2001 quarter. For the March 31, 2002 quarter, net loss per share was \$.07 compared to a net loss of \$.16 in the prior year. Average diluted shares outstanding were 6,969,344 for 2002 and 7,089,744 for 2001.

Nine Months Ended March 31, 2002 compared to March 31, 2001

Our revenues for the nine months ended March 31, 2002 were \$30.5 million compared to \$42.5 million for the prior year, a decrease of approximately 28%. This decrease is attributable to a significant drop in sales in our TIS and distribution divisions. Revenues are generated by the Company's sales of computer hardware and software, and related support services. Gross margin for the period decreased to \$4.6 million for March 31, 2002 from \$5.3 million for the comparable 2001 quarter, a 13% decrease due to the lower sales in the TIS

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and distribution divisions. Gross margins as a percentage of revenues for the period were 15% as compared to 12% for the prior year.

March 31, 2002 operating expenses for the nine months decreased to \$5.2 million as compared to \$8.3 million for the prior year. The decrease of \$3.1 million is primarily due to reduced salary expenses of \$1,048,767, reduced provision for bad debt of \$785,330, amortization expense \$138,573 and legal/accounting expenses of \$565,642. The income tax benefit was \$0 for the 2002 period as compared to a benefit of \$1,208,400 for the prior year.

As a result of the above, our net loss was \$546,599 for the nine months ended March 31, 2002 compared to a net loss of \$1,812,492 for the comparable 2001 quarter. For the nine months ending March 31, 2002, net loss per share was \$.08 compared to loss of \$.26 in the prior year. Average diluted shares outstanding were 7,026,937 for 2002 and 7,089,744 for 2001.

Liquidity and Capital Resources

Our cash position was \$415,646 at March 31, 2002, a decrease of \$1,139,374, as compared to June 30, 2001. Our working capital at March 31, 2002 was \$4,760,000 as compared to working capital of \$5,253,000 at June 30, 2001. Net cash used by operating activities was \$423,011.

To accommodate our financial needs for inventory financing, IBM Credit granted us a credit line in the amount of \$750,000. At March 31, 2002, our indebtedness to IBM Credit was \$391,922, a decrease of \$632,235, as compared to June 30, 2001.

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ITEM 3 - QUANTATIVE 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

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prospectus. 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 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
March 31, 2002

PART II OTHER INFORMATION

- Item 1. - None - Legal Proceedings
- Item 2. - None - Changes in Securities and use of Proceeds
- Item 3. - None - Defaults Upon Senior Securities
- Item 4. - None - Submission of Matters to a Vote of Security Holders
- Item 5. - None - Other Information
- 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

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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)

Dated: May 13, 2002

By: /s/ JAMES J. CHARLES

James J. Charles, Chief Financial Officer