

Edgar Filing: ATEC GROUP INC - Form 10-Q

ATEC GROUP INC
Form 10-Q
February 14, 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 December 31, 2000

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 December 31, 2000, there were 7,347,689 shares of the Registrant's Common Stock outstanding.

ATEC GROUP, INC.

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PART 1 FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ATEC GROUP, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

	UNAUDITED 30-Dec-00 -----	AUDITED 30-Jun-00 -----
ASSETS		
CURRENT ASSETS		
Cash	\$ 515,309	\$ 100,607
Accounts receivable, net	7,023,901	10,037,462
Inventories	2,731,307	2,356,825
Deferred taxes	934,456	459,456
Other current assets	1,218,322	1,594,027
	-----	-----
Total current assets	12,423,295	14,548,377
	-----	-----
PROPERTY AND EQUIPMENT, NET	471,014	532,238
GOODWILL, NET	1,255,069	1,346,149
OTHER ASSETS	102,714	63,753
	-----	-----
	\$ 14,252,092	\$ 16,490,517

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	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Revolving inventory line of credit	\$ 1,133,652	\$ 2,173,776
Accounts payable	1,676,071	2,518,721
Accrued expenses	590,312	283,360
Other current liabilities	195,001	230,489
	-----	-----
Total liabilities	3,595,036	5,206,346
STOCKHOLDERS' EQUITY		
Preferred stocks	310,582	310,582
Common stock	73,477	73,477
Additional paid-in capital	11,872,174	11,823,086
Discount on preferred stock	(278,640)	(278,640)
Retained earnings (deficit)	(694,112)	(17,909)
Treasury stock at cost	(626,425)	(626,425)
	-----	-----
Total stockholders' equity	10,657,056	11,284,171
	-----	-----
	\$ 14,252,092	\$ 16,490,517
	=====	=====

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

	2000	1999
	-----	-----
NET SALES	\$ 13,435,283	\$ 17,531,550
COST OF SALES	11,631,337	14,443,169
	-----	-----
GROSS PROFIT	1,803,946	3,088,381
	-----	-----
OPERATING EXPENSES		
Selling and administrative	2,526,986	2,861,726
Amortization of goodwill	45,540	22,500
	-----	-----
Total operating expenses	2,572,526	2,884,226
	-----	-----
INCOME FROM OPERATIONS	(768,580)	204,155
	-----	-----
OTHER INCOME (EXPENSE)		
Interest income	12,814	23,296
Interest expense	(1,399)	

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Total other (expense) income	11,415	23,296
INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES	(757,165)	227,451
PROVISION [BENEFIT] FOR INCOME TAXES	(335,800)	91,200
NET INCOME (LOSS)	(\$421,365)	\$ 136,251
NET EARNINGS (LOSS) PER SHARE-BASIC AND DILUTED	(0.06)	0.02
WEIGHTED AVERAGE NUMBER OF SHARES-BASIC	7,089,744	7,301,374
WEIGHTED AVERAGE NUMBER OF SHARES-DILUTED	7,089,744	7,301,374

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

	2000	1999
NET SALES	\$ 28,383,966	\$ 37,720,193
COST OF SALES	24,389,674	30,814,105
GROSS PROFIT	3,994,292	6,906,088
OPERATING EXPENSES		
Selling and administrative	5,083,954	6,213,422
Amortization of goodwill	91,080	45,000
Total operating expenses	5,175,034	6,258,422
INCOME FROM OPERATIONS	(1,180,742)	647,666
OTHER INCOME (EXPENSE)		
Interest income	31,051	44,514
Interest expense	(1,512)	
Total other (expense) income	29,539	44,514

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INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES	(1,151,203)	692,180
PROVISION [BENEFIT] FOR INCOME TAXES	(475,000)	285,800
	-----	-----
NET INCOME (LOSS)	(\$676,203)	\$ 406,380
	=====	=====
NET EARNINGS (LOSS) PER SHARE-BASIC AND DILUTED	(0.10)	0.06
	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES-BASIC	7,089,744	7,301,374
	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES-DILUTED	7,089,744	7,301,374
	=====	=====

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

	2000	1999
	-----	-----
Net cash provided by (used in) operating activities	\$ 1,466,130	\$ 537,543
	-----	-----
Cash flows from investing activities:		
Purchase of Treasury Stock	--	(301,905)
Increase in Loans Receivable	--	
Purchase of property and equipment	(11,301)	(92,363)
	-----	-----
Net cash (used in) provided by investing activities	(11,301)	(394,268)
	-----	-----
Cash flows from financing activities:		
Short term borrowings	(1,040,127)	(66,858)
	-----	-----
Net cash (used in) provided by financing activities	(1,040,127)	(66,858)
	-----	-----
Net increase (decrease) in cash	414,702	76,417
Cash and cash equivalents - Beginning of Period	100,607	2,246,951
	-----	-----
Cash and cash equivalents - End of period	\$ 515,309	\$ 2,323,368
	=====	=====

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ATEC GROUP, INC
 UNAUDITED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
 SIX MONTHS ENDING DECEMBER 31, 2000

	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, 2000	7,347,689	\$ 73,477	319,429	\$ 310,582	\$11,823,086	(\$278,640)	(\$ 17,909)
Contributed Capital					\$ 49,088		
Net Loss for the Six months Ended December 31, 2000							(\$676,203)
BALANCE AT DECEMBER 31, 2000	7,347,689	\$ 73,477	319,429	\$ 310,582	\$11,872,174	(\$278,640)	(\$694,112)

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ATEC GROUP, INC. AND SUBSIDIARIES
 FORM 10Q
 QUARTER ENDED DECEMBER 31, 2000
 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 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 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

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for the year ended June 30, 2000.

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2. EQUITY SECURITIES

CAPITAL STOCK

The Company's capital stock consists of the following:

December 31, 2000	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
		-----	-----
Total preferred		319,429	\$310,582
		=====	=====
Common Stock	70,000,000	7,347,689	\$ 73,477

The 319,429 shares of preferred stock, which are outstanding, may be converted into approximately 8,200 shares of our common stock.

STOCK OPTION PLAN AND COMMON STOCK PURCHASE WARRANTS

On August 15, 2000, the Board of Directors approved a resolution for the issuance of 215,000 options with an exercise price of \$1.625 per share .On November 14, 2000 the Board of Directors approved a resolution for the issuance of 2,850,000 common stock purchase options to certain officers, directors and employees of the Company subject to shareholder ratification. The shareholders ratified the resolution on January 9, 2001. The exercise price is \$.563 per share.

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

Goodwill is being amortized over its estimated period of benefit, not exceeding fifteen years.

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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), capital expenditures, depreciation and identifiable assets of

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these segments.

	FOR THREE MONTHS ENDING DECEMBER 31,		FOR SIX MONTHS ENDING DECEMBER 31,	
	2000	1999	2000	1999
Net sales:				
TIS	\$ 3,974,492	9,761,186	8,898,399	19,577,603
B to B	8,919,953	7,077,454	17,901,668	15,848,426
Software	--	692,910	--	2,294,164
Manufacturing	540,838	--	1,583,899	--
Elimination of inter-segment revenues	--	--	--	--
	<u>\$ 13,435,283</u>	<u>17,531,550</u>	<u>28,383,966</u>	<u>37,720,193</u>
Net income (loss):				
TIS	\$ (523,026)	444,899	(793,726)	265,009
B to B	575,571	489,754	1,026,928	536,994
Software	(69,153)	218,751	(94,578)	386,277
Manufacturing	(202,922)	(300,634)	(197,532)	(313,778)
Corporate	(201,835)	(716,520)	(617,295)	(468,122)
	<u>\$ (421,365)</u>	<u>136,250</u>	<u>(676,203)</u>	<u>406,380</u>
Depreciation:				
TIS	36,324	60,200	71,481	86,125
B to B	6,861	15,090	14,369	20,375
Software	6,431	5,099	6,431	17,000
Manufacturing	899	5,858	1,798	7,000
Corporate	5,393	5,643	12,227	17,390
	<u>\$ 55,908</u>	<u>91,890</u>	<u>106,306</u>	<u>147,890</u>
Identifiable assets:				
TIS	\$ 6,105,529	9,425,514	6,105,529	9,425,514
B to B	4,133,682	4,068,147	4,133,682	4,068,147
Software	86,374	255,202	86,374	255,202
Manufacturing	1,969,332	14,463	1,969,332	14,463
Corporate	1,957,175	3,793,667	1,957,175	3,793,667
	<u>\$ 14,252,092</u>	<u>17,556,993</u>	<u>14,252,092</u>	<u>17,556,993</u>

6. SUBSEQUENT EVENTS

In January 2001 we settled two legal actions. One case alleging breach of contract and claiming approximately \$1,680,000 was settled for approximately \$300,000. The other involved a complaint against several former employees and stockholders for violating their option agreements and a counterclaim in excess of \$9 million for various alleged courses of actions. This case was settled for \$26,500 and the complaint was withdrawn.

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ITEM 2 - MANAGEMENT'S 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, 2000, COMPARED TO THREE MONTHS ENDED DECEMBER 31, 1999.

Our revenues for the second quarter ended December 31, 2000 declined to \$13.4 million from \$17.5 million for the prior year, a decrease of approximately 23%. This decrease is attributable to a drop in sales in our software division and a decline in hardware sales by our TIS division 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 decreased to \$1.8 million for December 31, 2000 from \$3.1 million for the comparable 1999 quarter, a 42% decrease due to lower sales in the TIS and software divisions. Gross margins as a percentage of revenues for the quarter were 13% as compared to 18% for the prior year.

Selling, general and administrative expenses for the three months ended, December 31, 2000, exclusive of amortization of intangible assets, decreased to \$2.5 million as compared to \$2.9 million for the comparable period in 1999. The decrease is primarily for compensation expense, consulting fees and overhead in the software division. The income tax benefit was \$335,800 for the 2000 quarter as compared to a provision of \$91,200 for 1999 quarter.

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As a result of the above, our net loss was \$421,365 for the three months ended December 31, 2000 compared to net income of \$136,251 for the 1999 quarter. For the December 31, 2000 quarter, net loss per share was \$.06 compared to income of \$.02 in the prior year. Average diluted shares outstanding were 7,089,744 for 2000 and 7,301,374 for 1999.

SIX MONTHS ENDING DECEMBER 31, 2000 COMPARED TO DECEMBER 31, 1999.

Our revenues for the six months ending December 31, 2000 decreased to \$28.4 million from \$37.7 million for the prior year, a decrease of approximately 25%. This decrease is attributable to a significant drop in sales in our TIS and software 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 \$4.0 million for December 31, 2000 from \$6.9 million for the comparable 1999 quarter, a 42% decrease due to the loss of higher margin sales in the software division. Gross margin as a percentage of revenues for the

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quarter were 14% as compared to 18% for the prior year.

December 31, 2000 operating expenses for the six months, exclusive of amortization of intangible assets, decreased to \$5.1 million as compared to \$6.2 million for the prior year. The decrease is primarily for compensation expense and consulting fees of \$975,000 in the software division. Amortization of intangible assets increased to \$91,080 from \$45,000 in the comparable 1999 period. The income tax benefit was \$475,000 for the 2000 period as compared to a provision of \$285,800 for the prior year.

As a result of the above, our net loss was \$676,203 for the six months ended December 31, 2000 compared to net income of \$406,380 for the 1999 quarter. For the December 31, 2000 quarter, net loss per share was \$.10 compared to income of \$.06 in the prior year. Average diluted shares outstanding were 7,089,744 for 2000 and 7,301,374 for 1999.

LIQUIDITY AND CAPITAL RESOURCES.

Our cash position was \$515,309 at December 31, 2000, an increase of \$414,702 as compared to June 30, 2000. Our working capital at December 31, 2000 was \$8,828,259 as compared to a working capital of \$9,342,031 at June 30, 2000. Net cash provided by operating activities was \$1,466,130. Cash used for investing activities totaled \$11,301 for the purchase of property and equipment.

To accommodate our financial needs for inventory financing, Deutsche Financial Service granted us a credit line in the amount of \$15 million. At December 31, 2000, our indebtedness to Deutsche Financial was \$1,133,652, a decrease of \$1,040,127, as compared to June 30, 2000. Substantially all of our tangible and intangible assets are pledged as collateral for this credit line.

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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.

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, 2000. The following cautionary statements

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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:

- 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, as amended.

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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, 2000

PART II OTHER INFORMATION

Item 1. - Legal Proceedings - In January 2001 we settled two legal actions. One case alleging Breach of contract and claiming approximately \$1,680,000 was settled for approximately \$300,000. The other involved a complaint against several former employees and stockholders for violating their option agreements and a counterclaim in excess of \$9 million for various alleged courses of action. This case was settled for \$26,500 and the complaint was withdrawn.

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

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Item 5. - Other Information - None

Item 6. - Exhibits and Report on Form 8k - On November 29, 2000, we filed a Current Report on form 8K reporting a change in control of the Registrant.

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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, 2001

By: /s/ JAMES J. CHARLES

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

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