

Edgar Filing: ATEC GROUP INC - Form 10-K/A

ATEC GROUP INC  
Form 10-K/A  
February 11, 2003

SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

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FORM 10-K/A-1  
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ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended June 30, 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)

-----  
(IRS. 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  
-----

Securities registered pursuant to Section 12(b) of the Act: Common Stock \$.01  
par value

Securities registered pursuant to Section 12(g) of the Act: Series A Preferred  
Stock \$.01 par value

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 requirement for the past 90 days.

YES  NO

Indicate by check mark if disclosure of delinquent filer pursuant to  
Item 405 of Regulation S-K is not contained herein, and will not be contained,  
to the best of Registrant's knowledge, in definitive proxy or information  
statements incorporated by reference in Part III of this Form 10-K or any

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amendment to this Form 10-K.

YES [X] NO [ ]

On September 20, 2002, the aggregate market value of the voting common equity of ATEC Group, Inc., held by non-affiliates of the Registrant was \$2,284,974\* based on the closing price of \$.35 for such common stock on said date as reported by the American Stock Exchange. On such date, there were 8,347,689 shares of common stock of the Registrant outstanding.

\* Excludes 1,819,192 shares of common stock beneficially owned by Surinder Rametra, Ashok Rametra, Praveen Bhutani, Balwinder Singh Bathla, Stewart Benjamin, James Charles and David Reback, the officers and directors of the Company.

### EXPLANATORY NOTE

The undersigned registrant hereby amends Item 6, Item 7 and Item 8 of Part II of its Annual Report on Form 10-K for the fiscal year ended June 30, 2002 previously filed with the Commission.

ii

#### ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data as and for each of the five years in the period ended June 30, 2002, have been derived from audited financial statements. This information should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this report and "Management's Discussion and Analysis."

Operating Data -----	2002 ----	2001 ----	2000 ----	1999 ----	1998 ----
Net Sales	\$ 39,032,043	\$ 53,051,120	\$ 71,937,680	\$107,435,617	\$187,150,1
Income (Loss) from Continuing operations	\$ (1,676,408)	\$ (4,525,134)	\$ 296,953	\$ (4,299,228)	\$ 2,740,0
Income (Loss) per common share:					
Basic	\$ (.24)	\$ (.64)	\$ .04	\$ (.62)	\$ .
Diluted	\$ (.24)	\$ (.64)	\$ .04	\$ (.62)	\$ .
 Balance Sheet Data -----					
Total Assets	\$ 7,801,950	\$ 11,109,198	\$ 16,490,517	\$ 16,004,995	\$ 26,634,1
Long-term obligations	Nil	Nil	Nil	Nil	N
Cash dividend per common share	Nil	Nil	Nil	Nil	N

Results for 2002 include a charge of \$220,000 for the impairment of goodwill for our Nexar patents and trademark.

Results for fiscal 2001 include expenses of \$325,000 that the previous management would not have incurred. The expenses were for investor relations,

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business plans, legal and other items incurred during the temporary control of the Company by Applied Digital Solutions ("ADS") and the settlement of litigation of \$160,900. For more information about the ADS transaction see Item 7. "Management's Discussion And Analysis Of Financial Condition And Results Of Operations; Results of Operations; Fiscal 2002 compared to Fiscal 2001."

Results for fiscal 2000 reflected one-time charges totaling \$284,000, including approximately \$186,200 in expenses related to a class-action lawsuit, \$58,800 in moving expenses for the relocation of the Company's headquarters and warehouse, and \$39,400 of costs related to a terminated merger with Applied Digital Solutions.

1

### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS ----- OF OPERATIONS -----

#### RESULTS OF OPERATIONS

##### General

We are an integrator and reseller of computer hardware, software and networking products, primarily for commercial customers. We offer our customers single-source solutions, customized to their information systems needs, by integrating analysis, design and implementation services with hardware, software, networking products and peripherals from leading vendors. To date, most of our revenues have been derived from product sales. We generally do not develop software products. However, certain computer hardware products sold by us are loaded with prepackaged software products.

##### Fiscal 2002 compared to Fiscal 2001

Revenues for the fiscal year ended June 30, 2002 ("fiscal 2002") decreased to \$39.0 million from \$53.1 million for the prior year, a decrease of approximately 27%. This decrease is primarily attributable to a decline in orders that we believe is due to a drop of \$12.7 million in sales in our B to B division. We believe that this drop in sales resulted from continued weakness in the PC industry due to reduced capital expenditures. Gross profit for fiscal 2002 decreased to \$5.4 million from \$6.3 million for 2001, a 14% decrease due to the decreased revenues. Gross margin for fiscal 2002 was 14% as compared to 12% for the prior year.

Fiscal 2002 operating expenses decreased to \$6.9 million as compared to \$10.6 million (exclusive of amortization of intangible assets) for the prior year. The 35% decrease in operating expenses is related primarily to non-recurring charges of \$485,900 in 2001 for the settlement of litigation of \$160,900 and \$325,000 of expenses incurred during the temporary control of the Company by Applied Digital Solutions. These expenses were for items that the previous management would not have incurred. The expenses were for investor relations, business plans, legal and other. The period during which ADS temporarily controlled Atec commenced on October 31, 2000, when Surinder Rametra, our then Chairman and Chief Executive Officer retired and he and his spouse entered into a stock purchase agreement to sell their Atec stock to ADS. Pursuant to the stock purchase agreement, Mr. Rametra and his spouse delivered to ADS an irrevocable proxy for all of their shares in Atec which, at the time, represented approximately 16.1% of our issued and outstanding shares of common stock. The term of the proxy continued until such time as the stock purchase agreement was consummated or terminated in accordance with its terms. At that

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time, Mr Rametra and two outside directors resigned and the remaining directors elected four ADS designated members to the board. On March 7, 2001, ADS terminated its agreement with the Rametras and the ADS designees resigned.

2

Operating expenses also decreased in 2002 because we reduced our headcount by 49 people and salary expense by \$1,755,000.

In 2002 we incurred a one-time charge of \$220,000 for impaired Goodwill. We also earned \$41,000 of interest income and incurred no interest expense in 2002.

The provision for income taxes for 2002 was \$63,678 as compared to an expense of \$38,000 for 2001. The current year benefit from income taxes was reduced by a reserve against our deferred tax asset of \$473,000.

As a result of the above, the Company incurred a loss of \$1,676,408 for 2002 compared to a loss of \$4,525,134 in 2001. For 2002, basic and diluted net loss per share was \$.24 compared to basic and diluted loss of \$.64 per share in the prior year. Basic and diluted average shares outstanding were 6,988,054 for 2002.

Fiscal 2001 compared to Fiscal 2000

Revenues for the fiscal year ended June 30, 2001 ("fiscal 2001") decreased to \$53.1 million from \$71.9 million for the prior year, a decrease of approximately 26%. This decrease is primarily attributable to a \$15.1 million drop in sales in our TIS division and a \$2.3 million decline in our former Y2K consulting group. The TIS sales decline was due to a significant decrease, approximately 46%, in orders received and our phase out of the Y2K division. Gross profit for fiscal 2001 decreased to \$6.3 million from \$11.6 million for 2000, a 46% decrease due to the decreased revenues. Gross margin for fiscal 2001 was 12% as compared to 16% for the prior year.

Fiscal 2001 operating expenses, exclusive of amortization of intangible assets, decreased to \$10.6 million as compared to \$11.1 million for the prior year. The 4% decrease in operating expenses is related primarily to decreased costs of \$1.7 million in our former Y2K consulting group, partially offset by increased costs of \$600,000 in our manufacturing division. Also in 2001, we incurred \$645,535 of bad debts due to three customers going bankrupt with outstanding receivables totaling \$604,859.

Amortization of intangible assets was essentially unchanged in 2001. We incurred a one-time charge of \$23,000 for impaired Goodwill. We also earned \$52,000 of interest income and incurred \$1,500 of interest expense in 2001.

The provision for income taxes for 2001 was \$38,000 as compared to an expense of \$102,000 for 2000. The current year benefit from income taxes was reduced by a reserve against our deferred tax asset of \$1,438,000.

As a result of the above, the Company incurred a loss of \$4,525,134 for 2001 compared to net income of \$296,953 in 2000. For 2001, basic and diluted net loss per share was \$.64 compared to basic and diluted net income of \$.04 per share in the prior year. Basic and diluted average shares outstanding were 7,088,603 for 2001.

3

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### LIQUIDITY AND CAPITAL RESOURCES

The cash position was \$1,382,722 at June 30, 2002, a decrease of \$172,298 as compared to June 30, 2001. Working capital at June 30, 2002, was \$3,662,451 as compared to working capital of \$5,253,000 at June 30, 2001. Cash used for investing activities totaled \$29,753. We believe that our resources are adequate to meet our capital requirements over the next twelve months.

To accommodate our financial needs for inventory financing, we have arranged a line of credit with one financial institution in the aggregate amount of \$775,000. At June 30, 2002, our indebtedness was \$368,292, or a decrease of \$655,865 compared to June 30, 2001.

### Critical Accounting Policies

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America requires management to make judgments, assumptions and estimates that affect the amounts reported in the consolidated financial statements and accompanying notes. Note 1 to this consolidated financial statements in the Annual Report on Form 10-K for the fiscal year ended June 30, 2002 describes the significant accounting policies and methods used in the preparation of the consolidated financial statements. Estimates are used for, but not limited to, the accounting for the allowance for doubtful accounts, inventory allowances, and goodwill impairments. Actual results could differ from these estimates. The following critical accounting policies are impacted significantly by judgments, assumptions and estimates used in the preparation of the consolidated financial statements.

The allowance for doubtful accounts is based on our assessment of the collectibility of specific customer accounts and the aging of the accounts receivable. If there is a deterioration of a major customer's credit worthiness or actual defaults are higher than our historical experience, our estimates of the recoverability of amounts due us could be adversely affected.

Inventory purchases and commitments are based upon future demand forecasts. If there is a sudden and significant decrease in demand for our products or there is a higher risk of inventory obsolescence because of rapidly changing technology and customer requirements, we may be required to increase our inventory allowances and our gross margin could be adversely affected.

We will perform goodwill impairment tests on an annual basis and between annual tests in certain circumstances. In assessing the recoverability of the Company's goodwill, the Company must make various assumptions regarding estimated future cash flows and other factors in determining the fair values of the respective assets. If these estimates or their related assumptions change in the future, the Company may be required to record impairment charges for these assets in future periods. Any such resulting impairment charges could be material to the Company's results of operations.

4

### Issues And Uncertainties

The following issues and uncertainties, among others, should be considered in evaluating the Company's financial outlook.

The computer industry is characterized by a number of potentially adverse business conditions, including pricing pressures, evolving distribution channels, market consolidation and a decline in the rate of growth in sales of personal computers. Heightened price competition among various hardware

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manufacturers may result in reduced per unit revenue and declining gross profit margins. As a result of the intense price competition within our industry, we have experienced increasing pressure on our gross profit and operating margins with respect to our sale of products. Our inability to compete successfully on the pricing of products sold, or a continuing decline in gross margins on products sold due to adverse industry conditions or competition, may have a material adverse effect on our business, financial condition and results of operations.

An integral part of our strategy is to increase our value-added services revenue. These services generally provide higher operating margins than those associated with the sale of products. This strategy requires us, among other things, to attract and retain highly skilled technical employees in a competitive labor market, provide additional training to our sales representatives and enhance our existing service management system. We cannot predict whether we will be successful in increasing our focus on providing value-added services, and the failure to do so may have a material adverse effect on our business, results of operations and financial condition.

To date, our revenues have been based primarily upon sales in the New York Metropolitan area and Albany, New York. Our strategy, encompassing the expansion of service offerings and the expansion of existing offices, has challenged and will continue to challenge our senior management and infrastructure. We cannot predict our ability to respond to these challenges. If we fail to effectively manage our planned growth, there may be a material adverse effect on our business, results of operations and financial condition.

The success of our strategy depends in large part upon our ability to attract and retain highly skilled technical personnel and sales representatives, including independent sales representatives, in a very competitive labor market. Our ability to grow our service offerings has been somewhat limited by a shortage of qualified personnel, and we cannot assure you that we will be able to attract and retain such skilled personnel and representatives. The loss of a significant number of our existing technical personnel or sales representatives, difficulty in hiring or retaining additional technical personnel or sales representatives, or reclassification of our sales representatives as employees may have a material adverse effect on our business, results of operations and financial condition.

The computer industry is characterized by intense competition. We directly compete with local, regional and national systems integrators, value-added resellers and distributors as well as with certain computer manufacturers that market through direct sales forces and/or the Internet. The computer industry has recently experienced a significant amount of consolidation

through mergers and acquisitions, and manufacturers of personal computers may increase competition by offering a range of services in addition to their current product and service offerings. In the future, we may face further competition from new market entrants and possible alliances between existing competitors. Moreover, additional suppliers and manufacturers may choose to market products directly to end users through a direct sales force and/or the Internet rather than or in addition to channel distribution, and may also choose to market services, such as repair and configuration services, directly to end-users. Some of our competitors have or may have, greater financial, marketing and other resources, and may offer a broader range of products and services, than us. As a result, they may be able to respond more quickly to new or emerging technologies or changes in customer requirements, benefit from greater purchasing economies, offer more aggressive hardware and service pricing or devote greater resources to the promotion of their products and services. We

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may not be able to compete successfully in the future with these or other current or potential competitors.

Our business is dependent upon our relationships with major manufacturers and distributors in the computer industry. Many aspects of our business are affected by our relationships with major manufacturers, including product availability, pricing and related terms, and reseller authorizations. The increasing demand for personal computers and ancillary equipment has resulted in significant product shortages from time to time, because manufacturers have been unable to produce sufficient quantities of certain products to meet demand. In addition, many manufacturers have adopted "just in time" manufacturing principles that can reduce the immediate availability of a wide range of products at any one time. We cannot predict that manufacturers will maintain an adequate supply of these products to satisfy all the orders of our customers or that, during periods of increased demand, manufacturers will provide products to us, even if available, or at discounts previously offered to us. In addition, we cannot assure you that the pricing and related terms offered by major manufacturers will not adversely change in the future. Our failure to obtain an adequate supply of products, the loss of a major manufacturer, the deterioration of our relationship with a major manufacturer or our inability in the future to develop new relationships with other manufacturers may have a material adverse effect on our business, financial condition and results of operations. On May 3, 2002, the Hewlett-Packard Company and Compaq Computer Corporation merged. ATEC sells the products of both companies and we believe that we have strong relationships with both companies. While we do not believe that there will be a material adverse effect on our business, financial condition and results of operations as a result of this merger, there can be no assurance that such a material adverse effect will not occur.

The markets for our products and services are characterized by rapidly changing technology and frequent introduction of new hardware and software products and services. This may render many existing products and services noncompetitive, less profitable or obsolete. Our continued success will depend on our ability to keep pace with the technological developments of new products and services and to address increasingly sophisticated customer requirements. Our success will also depend upon our abilities to address the technical requirements of our customers arising from new generations of computer technologies, to obtain these new products from present or future suppliers and vendors at reasonable costs, to educate and train our employees as well as our customers with respect to these new products or services and to integrate effectively and efficiently these new products into both our internal systems

6

and systems developed for our customers. We may not be successful in identifying, developing and marketing product and service developments or enhancements in response to these technological changes. Our failure to respond effectively to these technological changes may have a material adverse effect on our business, financial condition and results of operations.

Rapid product improvement and technological change characterize the computer industry. This results in relatively short product life cycles and rapid product obsolescence, which can place inventory at considerable valuation risk. Certain of our suppliers provide price protection to us, which is intended to reduce the risk of inventory devaluation due to price reductions on current products. Certain of our suppliers also provide stock balancing to us pursuant to which we are able to return unsold inventory to a supplier as a partial credit against payment for new products. There are often restrictions on the dollar amount of inventory that we can return at any one time. Price protection and stock balancing may not be available to us in the future, and, even if available, these measures may not provide complete protection against the risk

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of excess or obsolete inventories. Certain manufacturers have reduced the period for which they provide price protection and stock balancing rights. Although we maintain a sophisticated proprietary inventory management system, we cannot assure you that we will continue to successfully manage our existing and future inventory. Our failure to successfully manage our current or future inventory may have a material adverse effect on our business, financial conditions and results of operations.

As a result of the rapid changes that are taking place in computer and networking technologies, product life cycles are short. Accordingly, our product offerings change constantly. Prices of products change, with generally higher prices early in the life cycle of the product and lower prices near the end of the product's life cycle. The computer industry has experienced rapid declines in average selling prices of personal computers. In some instances, we have been able to offset these price declines with increases in units shipped. There can be no assurance that average selling prices will not continue to decline or that we will be able to offset declines in average selling prices with increases in units shipped.

Most of the personal computers we sell utilize operating systems developed by Microsoft Corporation. The United States Department of Justice has brought a successful antitrust action against Microsoft, which could delay the introduction and distribution of Microsoft products. The potential unavailability of Microsoft products could have a material adverse effect on our business, results of operations and financial condition.

### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Our consolidated financial statements, including the notes thereto, together with the report of independent certified public accountants thereon, are presented beginning at page F-1.

7

## PART IV

### ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

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(a) (1) FINANCIAL STATEMENTS

The following financial statements of ATEC Group, Inc., are included:

Independent Auditor's Report  
Consolidated Balance Sheet as at June 30, 2002 and 2001  
Consolidated Statements of Operations for the years ended June 30, 2002, 2001 and 2000  
Consolidated Statements of Cash Flows for the years ended June 30, 2002, 2001 and 2000  
Consolidated Statements of Stockholders' Equity for the years ended June 30, 2002, 2001 and 2000  
Notes to Consolidated Financial Statements

(2) OTHER SCHEDULES

All other schedules are omitted since the required information is not present or is not present in an amount sufficient to require submission of schedules, or because the information required is included in the financial statements and notes thereto.



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(3) EXHIBITS

See c below.

(b) REPORTS ON FORM 8-K

None

(c) EXHIBITS

Number	Description
*3.1	Certificate of Incorporation of the Company
*3.2	Certificate of Amendment of Certificate of Incorporation, filed October 21, 1992
*3.3	By-laws of the Company
*3.4	Certificate of Amendment of Certificate of Incorporation, filed December 22, 1992
*3.5	Form of Certificate of Powers, Designations, Preferences and Rights of the Series A 10% Cumulative Convertible Preferred Stock
8	
*4.7	Form of Common Stock Certificate
*4.9	Form of Preferred Stock Certificate
21.1	List of Subsidiaries
23.1	Consent of Weinick Sanders Leventhal & Co LLP
99.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*	Incorporated by reference from Registration Statement on Form SB-2 (registration no. 33-54356) filed by the Company with the Securities and Exchange Commission on November 9, 1992.
**	Previously filed with the original Annual Report on Form 10-K for the year ended June 30, 2002.

(d) Not Applicable.

9

### SIGNATURES

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Pursuant to the requirements of Section 13 or 15(d) 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.

By: /s/ JAMES J. CHARLES

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James J. Charles, Chief Financial  
Officer (Principal Financial and  
Accounting Officer) and a Director

Dated: February 10, 2003

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ SURINDER RAMETRA February 10, 2003  
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Surinder Rametra, Chairman of the Board

/s/ BALWINDER SINGH BATHLA February 10, 2003  
-----

Chief Executive Officer (Principal Executive Officer)

/s/ ASHOK RAMETRA February 10, 2003  
-----

Ashok Rametra, President, Secretary, Treasurer and  
Director

/s/ STEWART BENJAMIN February 10, 2003  
-----

Stewart Benjamin, Director

/s/ DAVID REBACK February 10, 2003  
-----

David Reback, Director

10

CERTIFICATIONS

Certifications pursuant to Securities and Exchange Act of 1934 Rule 13a-14 as adopted pursuant to Section 302 of Sarbanes-Oxley Act of 2002:

I, Balwinder Singh Bathla, Chief Executive Officer of Atec Group, Inc. (the "Company") certify that:

- (1) I have reviewed this annual report on Form 10-K/A-1 of the Company;
- (2) Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report; and
- (3) Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this annual report.

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/s/ BALWINDER SINGH BATHLA

-----  
Balwinder Singh Bathla  
Chief Executive Officer  
February 10, 2003

I, James J. Charles, Chief Financial Officer of Atec Group, Inc. (the "Company") certify that:

(1) I have reviewed this annual report on Form 10-K/A-1 of the Company;

(2) Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report; and

(3) Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this annual report.

/s/ JAMES J. CHARLES

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James J. Charles  
Chief Financial Officer  
February 10, 2003

11

ATEC GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2002

ATEC GROUP, INC. AND SUBSIDIARIES

JUNE 30, 2002

I N D E X

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Page No.

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INDEPENDENT AUDITORS' REPORT ..... F-1

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## FINANCIAL STATEMENTS:

Consolidated Balance Sheets as at June 30, 2002 and 2001 .....	F-2
Consolidated Statements of Operations For the Years Ended June 30, 2002, 2001 and 2000 .....	F-3
Consolidated Statements of Cash Flows For the Years Ended June 30, 2002, 2001 and 2000 .....	F-4
Consolidated Statements of Stockholders' Equity For the Years Ended June 30, 2002, 2001 and 2000 .....	F-5
NOTES TO FINANCIAL STATEMENTS .....	F-6 - F-19

All schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are not applicable and have therefore been omitted or the required information is shown in the Financial Statements or the Notes thereto.

[GRAPHIC OMITTED] WEINICK  
SANDERS 1375 BROADWAY  
LEVENTHAL & CO. LLP NEW YORK, N.Y. 10018-7010  
-----  
CERTIFIED PUBLIC ACCOUNTANTS 212-869-3333  
FAX: 212-764-3060  
WWW.WSLCO.COM

## INDEPENDENT AUDITORS' REPORT

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Stockholders and Board of Directors  
ATEC Group, Inc.

We have audited the accompanying consolidated balance sheets of ATEC Group, Inc. and Subsidiaries as at June 30, 2002 and 2001, and the related consolidated statements of operations, cash flows, and stockholders' equity for each of the three years ended June 30, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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In our opinion, the consolidated financial statements referred to above pre-sent fairly, in all material respects, the consolidated financial position of ATEC Group, Inc. and Subsidiaries as at June 30, 2002 and 2001, and the consolidated results of their operations and their cash flows for each of the three years ended June 30, 2002, in conformity with accounting principles generally accepted in the United States of America.

s/s: WEINICK SANDERS LEVENTHAL & CO., LLP

New York, N. Y.  
August 14, 2002

F-1

### ATEC GROUP, INC. AND SUBSIDIARIES

#### CONSOLIDATED BALANCE SHEETS

	June 30,	
	2002	2001
<u>ASSETS</u>		
-----		
Current assets:		
Cash	\$ 1,382,722	\$ 1,555,020
Accounts receivable - net	3,166,078	5,114,302
Inventories	602,792	1,666,633
Deferred taxes	401,493	581,510
Other current assets	858,682	585,634
	-----	-----
Total current assets	6,411,767	9,503,099
Property and equipment - net	290,040	420,255
Goodwill - net	864,961	1,134,177
Other assets	235,182	51,667
	-----	-----
	\$ 7,801,950	\$ 11,109,198
	=====	=====
 <u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
-----		
Current liabilities:		
Revolving lines of credit	\$ 368,292	\$ 1,024,157
Accounts payable	1,114,071	2,177,391
Accrued expenses	585,795	555,785

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Deferred income	26,976	139,357
Other current liabilities	654,182	353,589
	-----	-----
Total current liabilities	2,749,316	4,250,279
	-----	-----
Stockholders' equity:		
Preferred stocks	835,582	835,582
Common stock	73,435	73,477
Additional paid-in capital	11,815,397	11,864,674
Discount on preferred stocks	(742,740)	(742,740)
Deficit	(6,219,452)	(4,543,043)
	-----	-----
	5,762,222	7,487,950
Less: Treasury stock - at cost	709,588	629,031
	-----	-----
Total stockholders' equity	5,052,634	6,858,919
	-----	-----
	\$ 7,801,950	\$ 11,109,198
	=====	=====

See accompanying notes to financial statements.

F-2

ATEC GROUP, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Years Ended June 30,		
	2002	2001	2000
	-----	-----	-----
Net sales	\$ 39,032,043	\$ 53,051,120	\$ 71,937,680
Cost of sales	33,600,688	46,767,529	60,353,009
	-----	-----	-----
Gross profit	5,431,355	6,283,591	11,584,671
	-----	-----	-----
Operating expenses:			
Selling and administrative	6,886,953	10,489,929	10,824,623
Research and development	--	157,595	234,557
Amortization of goodwill	--	189,327	186,626
Impairment of long-lived assets	219,896	22,645	--
	-----	-----	-----
Total operating expenses	7,106,849	10,859,496	11,245,806
	-----	-----	-----
Income (loss) from operations	(1,675,494)	(4,575,905)	338,865
	-----	-----	-----

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Other income (expense):			
Interest income	40,755	52,101	62,789
Interest expense	--	(1,512)	(11,467)
Other income	22,009	38,450	8,291
	-----	-----	-----
Total other income (expense)	62,764	89,039	59,613
	-----	-----	-----
Income (loss) before income taxes	(1,612,730)	(4,486,866)	398,478
Provision for income taxes	63,678	38,268	101,525
	-----	-----	-----
Net income (loss)	(\$ 1,676,408)	(\$ 4,525,134)	\$ 296,953
	=====	=====	=====
Earnings (loss) per common share:			
Basic	(\$ .24)	(\$ .64)	\$ .04
	=====	=====	=====
Diluted	(\$ .24)	(\$ .64)	\$ .04
	=====	=====	=====
Weighted average shares outstanding:			
Basic	6,988,054	7,088,603	7,177,432
	=====	=====	=====
Diluted	6,988,054	7,088,603	7,221,927
	=====	=====	=====

See accompanying notes to financial statements.

F-3

ATEC GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended June 30,		
	2002	2001	2000
	-----	-----	-----
Cash flows from operating activities:			
Net income (loss)	(\$1,676,408)	(\$4,525,134)	\$ 296,953
	-----	-----	-----
Adjustments to reconcile net income (loss) in net cash provided by (used in) operating activities:			
Depreciation and amortization	159,969	228,665	274,877
Amortization of goodwill	--	189,327	186,627
Loss on abandonment of leasehold improvements	--	--	1,437
Compensatory element of issuances of capital stock	--	60,900	5,250
Loss on impairment of long-lived assets	219,896	22,645	--
Provision for doubtful accounts	75,308	645,535	42,210
Deferred income	(112,381)	139,357	--

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Deferred taxes	--	(122,054)	(208,16)
Changes in assets and liabilities:			
Accounts receivable	1,872,916	4,277,625	(1,413,17)
Inventories	1,063,841	690,192	(1,246,55)
Deferred taxes	180,017	--	--
Other current assets	(273,048)	1,008,393	(188,69)
Other assets	(183,515)	--	--
Revolving lines of credit	(655,865)	(1,149,619)	239,24
Accounts payable	(1,063,320)	(341,330)	808,95
Accrued expenses	30,010	272,425	(386,37)
Other current liabilities	300,592	123,100	(2,27)
	-----	-----	-----
Total adjustments	1,614,420	6,045,161	(1,886,64)
	-----	-----	-----
Net cash provided by (used in) operating activities	(61,988)	1,520,027	(1,589,68)
	-----	-----	-----
Cash flows from investing activities:			
Purchase of property and equipment	(29,753)	(116,682)	(58,27)
Security deposits	--	12,086	(9,15)
Addition to goodwill	--	--	(13,00)
	-----	-----	-----
Net cash used in investing activities	(29,753)	(104,596)	(80,43)
	-----	-----	-----
Cash flows from financing activities:			
Capital contribution	--	41,588	--
Issuance of capital stock	--	--	58,75
Purchase of treasury stock	(80,557)	(2,606)	(534,97)
	-----	-----	-----
Net cash provided by (used in) financing activities	(80,557)	38,982	(476,22)
	-----	-----	-----
Net increase (decrease) in cash	(172,298)	1,454,413	(2,146,34)
Cash at beginning of year	1,555,020	100,607	2,246,95
	-----	-----	-----
Cash at end of year	\$ 1,382,722	\$ 1,555,020	\$ 100,60
	=====	=====	=====
Supplemental Disclosures of Cash Flow Information:			
Cash paid during the year for:			
Income taxes	\$ 7,721	\$ 88,510	\$ 50,17
	=====	=====	=====
Interest	\$ --	\$ 1,512	\$ 11,46
	=====	=====	=====
Supplemental Schedules of Noncash Operating Operating and Financial Transactions:			
Issuance of common stock for services	\$ --	\$ --	\$ 5,25
	=====	=====	=====
Issuance of Preferred Stock Series J convertible in connection with settlement of a lawsuit	\$ --	\$ 60,900	\$ --
	=====	=====	=====
Retirement of common stock	\$ 49,319	\$ --	\$ --
	=====	=====	=====



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See accompanying notes to financial statements.

F-4

ATEC GROUP, INC. AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
 FOR THE YEARS ENDED JUNE 30, 2002, 2001 AND 2000

	Preferred Stock		Common Stock	
	Shares	Amount	Shares	Amount
Balance at July 1, 1999	330,009	\$ 321,090	7,326,963	\$ 73,270
Purchase of treasury stock	--	--	--	--
Shares issued for services	--	--	2,500	25
Shares issued for options exercised	--	--	18,000	180
Shares issued for conversion of Preferred Series A and C	(10,580)	(10,508)	226	2
Net income for the year	--	--	--	--
Balance at June 30, 2000	319,429	310,582	7,347,689	73,477
Purchase of treasury stock	--	--	--	--
Capital contribution	--	--	--	--
Issuance of convertible Preferred Stock Series J	105,000	525,000	--	--
Net loss for the year	--	--	--	--
Balance at June 30, 2001	424,429	835,582	7,347,689	73,477
Purchase of treasury stock	--	--	--	--
Capital contribution	--	--	--	--
Cost related to capital contribution	--	--	--	--
Net loss for the year	--	--	--	--
Retirement of common stock	--	--	(42,718)	(42)

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	----- 424,429 =====	\$ 835,582 =====	7,304,971 =====	\$ 73,435 =====	\$ -----
Balance at June 30, 2002					
	-----	----- Treasury Stock -----		----- Total Stockholders' Equity -----	
	Deficit	Shares	Amount		
	-----	-----	-----		
Balance at July 1, 1999	(\$ 314,862)	(18,000)	(\$ 91,451)	\$ 11,458,192	
Purchase of treasury stock	--	(239,945)	(534,974)	(534,974)	
Shares issued for services	--	--	--	5,250	
Shares issued for options exercised	--	--	--	58,750	
Shares issued for conversion of Preferred Series A and C	--	--	--	--	
Net income for the year	296,953	--	--	296,953	
	-----	-----	-----		
Balance at June 30, 2000	(17,909)	(257,945)	(626,425)	11,284,171	
Purchase of treasury stock	--	(1,300)	(2,606)	(2,606)	
Capital contribution	--	--	--	41,588	
Issuance of convertible Preferred Stock Series J	--	--	--	60,900	
Net loss for the year	(4,525,134)	--	--	(4,525,134)	
	-----	-----	-----		
Balance at June 30, 2001	(4,543,043)	(259,245)	(629,031)	6,858,919	
Purchase of treasury stock	--	(119,100)	(80,557)	(80,557)	
Capital contribution	--	--	--	30,082	
Cost related to capital contribution	--	--	--	(30,082)	
Net loss for the year	(1,676,408)	--	--	(1,676,408)	
Retirement of common stock	--	--	--	(49,319)	
	-----	-----	-----		
Balance at June 30, 2002	(\$ 6,219,451)	(378,345)	(\$ 709,588)	\$ 5,052,635	
	=====	=====	=====		

See accompanying notes to financial statements.

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F-5

ATEC GROUP, INC. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2002, 2001, AND 2000

NOTE 1 - SUMMARY OF SIGNIFICANT AND CRITICAL ACCOUNTING POLICIES:

(a) Organization and Presentation of Financial Statements:

ATEC Group, Inc. (the "Company" or "ATEC") was incorporated under the laws of the State of Delaware on July 17, 1992. The accompanying consolidated financial statements include the accounts of ATEC Group, Inc. and all of its wholly owned subsidiaries and a 90% owned subsidiary. All significant intercompany transactions and balances have been eliminated.

(b) Principal Business Activity:

The Company is an "end to end" provider of a full line of computer and information technology products and services to business, professionals, government agencies and educational institutions. The Company focuses on system design, high-speed data transmission, LAN/WAN, video conferencing, internet/intranet technology, digital arts solutions and E-commerce services for its customers.

(c) Basis of Presentation:

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

(d) Summary of Significant Accounting Policies:

(1) Inventories:

Inventories are stated at the lower of cost or market using the first-in, first-out method. Inventories consist of microcomputer hardware, software and related peripherals, accessories and finished products.

F-6

NOTE 1 - SUMMARY OF SIGNIFICANT AND CRITICAL ACCOUNTING POLICIES:  
(Continued)

(2) Property and Equipment:

Property and equipment are carried at cost less accumulated depreciation. When assets are sold or retired, the cost and related accumulated depreciation is eliminated from the accounts, and any resulting gain or loss is reflected in income for the period. The cost of maintenance and repairs is charged to expense as incurred. Significant renewals and replacements which substantially extend the

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lives of the assets are capitalized.

Depreciation is computed on either straight-line or accelerated methods over useful lives ranging from 5 to 10 years. Leasehold improvements are amortized over the shorter of the useful life of the improvement or the life of the related lease.

### (3) Goodwill:

In June 2001, the Financial Accounting Standards Board issued Statement NO. 141, ACCOUNTING FOR BUSINESS COMBINATIONS, and Statement NO. 142, GOODWILL AND OTHER INTANGIBLE ASSETS. These Statements modify accounting for business combinations after June 30, 2001. SFAS No. 141 prohibits pooling-of-interests accounting for acquisitions. SFAS No. 142 requires that goodwill existing at the date of adoption be reviewed for possible impairment and the impairment tests be periodically repeated, with impaired assets written-down to fair value. Additionally, existing goodwill must be assessed and classified consistent with the Statements' criteria. The Company has adopted FASB No. 142 beginning July 1, 2001, upon which the amortization of goodwill ceased. For the years ended June 30, 2001 and 2000, the Company recognized \$189,327 and \$186,626 of goodwill amortization, respectively. The recoverability of goodwill is evaluated on a separate basis for each acquisition. Based on an evaluation of its goodwill at June 30, 2002 and 2001, the Company determined that \$219,896 and \$22,645, respectively, of goodwill, net of accumulated amortization, associated with the Company's prior acquisitions was impaired.

### (4) Revenue Recognition:

The Company recognizes revenue at the time products are shipped to its customers, or when sales are made on a "cash and carry" basis. For service income, revenue is recognized upon completion of the contract and acceptance by the customer.

### (5) Research and Development Costs:

Research and development costs are charged to expense as incurred.

F-7

## NOTE 1 - SUMMARY OF SIGNIFICANT AND CRITICAL ACCOUNTING POLICIES: (Continued)

### (d) Summary of Significant Accounting Policies: (Continued)

#### (6) Income Taxes:

The Company adopted Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes" which utilizes a balance sheet approach for financial accounting and reporting of income taxes, and requires that deferred tax assets and liabilities be established at income tax rates expected to apply to taxable income in periods in which the deferred tax asset or liability is expected to be settled or realized.

#### (7) Concentrations of Credit Risk:

Financial instruments that potentially subject the Company to

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significant concentrations of credit risk consist principally of cash and trade accounts receivable. The Company places its cash with high credit quality financial institutions, which at times, may be in excess of the FDIC insurance limit.

Concentrations of credit risk with respect to trade accounts receivable are generally limited due to the large number of customers comprising the Company's customer base. A substantial portion of the Company's revenue is derived from customers located in the northeastern region of the United States. An economic downturn in the geographic region could have an adverse effect on the Company's operations. Management continually reviews its trade receivables credit risk and has adequately allowed for potential losses.

### (8) Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

### (9) Asset Impairment:

The Company adopted Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of". This statement requires that the Company recognize an impairment loss in the event that facts and circumstances indicate that the carrying amount of an asset may not be recoverable, and an estimate of future undiscounted cash flows is less than the carrying amount of the asset. Property and equipment is evaluated separately within each subsidiary.

F-8

## NOTE 1 - SUMMARY OF SIGNIFICANT AND CRITICAL ACCOUNTING POLICIES: (Continued)

### (d) Summary of Significant Accounting Policies: (Continued)

### (10) Earnings Per Share:

The Company adopted Statement of Financial Accounting Standards No. 128, "Earnings Per Share". Basic earnings per share is based on the weighted average of all common shares issued and outstanding, and is calculated by dividing net income available to common stockholders by the weighted average shares outstanding during the period. Diluted earnings per share is calculated by dividing net income available to common stockholders by the weighted average number of common shares used in the basic earnings per share calculation plus the number of common shares that would be issued assuming conversion of all potentially dilutive securities outstanding. Below is the calculation of basic and diluted earnings per share for each of the past three fiscal years:

For the Years Ended June 30,		
2002	2001	2000
-----	-----	-----

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Net income (loss) available to common stockholders	(\$1,676,408)	(\$4,525,134)	\$ 296,953
	=====	=====	=====
Weighted average shares outstanding - basic	6,988,054	7,088,603	7,177,432
Employee stock options	--	--	18,392
Acquisition options	--	--	17,945
Convertible preferred stock	--	--	8,158
	-----	-----	-----
Weighted average shares outstanding - diluted	6,988,054	7,088,603	7,221,927
	=====	=====	=====
Earnings (loss) per common share:			
Basic	(\$ .24)	(\$ .64)	\$ .04
	=====	=====	=====
Diluted	(\$ .24)	(\$ .64)	\$ .04
	=====	=====	=====

NOTE 2 - ACQUISITIONS.

Nexar Technologies, Inc.:

On January 15, 1999 the Company purchased the trademarks and patents of Nexar Technologies, Inc. resulting in goodwill of \$405,805. In May 1999, the Company registered the trademark for the "Nexar" brand name. The goodwill associated with this acquisition has been fully amortized or reserved as of June 30, 2002.

F-9

NOTE 3 - EQUITY SECURITIES.

The Company's authorized and issued capital stock at June 30, 2002 and 2001 consists of the following:

	Shares Authorized	Shares Issued or Outstanding	Amount
	-----	-----	-----
June 30, 2002:			
-----			
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
		=====	=====

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Common stock	70,000,000	7,304,971 =====	\$ 73,435 =====
June 30, 2001: -----			
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 =====

(a) Treasury Stock:

From time to time, the Board of Directors authorizes a common stock buy-back program. During the years ended June 30, 2002 and 2001, the Company purchased 119,100 and 1,300 shares of the Company's common stock at a cost of \$80,577 and \$2,606, respectively.

(b) Preferred Stock:

At June 30, 2002 and 2001, ATEC had four authorized series of preferred stock; Series A Cumulative Convertible (par value \$.10), Series B Convertible (par value \$.10), Series C Convertible (par value \$1) and Series J Convertible (par value \$.01) (hereinafter referred to as the "A", "B", "C" and "J" shares, respectively). The authorized and issued shares for each of the Series at June 30, 2002 and 2001 are described in detail in Note 3 above.

F-10

NOTE 3 - EQUITY SECURITIES. (Continued)

(b) Preferred Stock: (Continued)

The A shares have an annual dividend rate of 10% of the par value, which is cumulative. They are senior to all other series or classes of capital stock. At June 30, 2002, the A shareholders were due \$1,502 in dividends in arrears. The B shares have a non-cumulative stated annual dividend rate of \$1 each and are senior to all but the rights of the A shareholders. The C and J shares have no dividend rights, except as may be authorized at the sole discretion of the Company's Board of Directors.

Each of the A, B and C shares has the right to one vote on all matters in which shareholders are entitled to vote. The holders of Series J shares shall not be entitled to any voting rights. Each of the A, B and C shares carry dissolution rights amounting to \$100, \$10 and \$5 per share, respectively. The A shares grant the Company the right to redeem such shares at a price of \$100 per share. The A, B, C and J shares may be converted into shares of common stock at an exchange rate of five, five, fifty and one shares, respectively, for each share of common stock or approximately 134,200 shares.

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The J shares have a maturity date of three years from the applicable issuance date. The shares have a mandatory conversion, if any time on or after the applicable issuance date the closing price of the common stock of the Company for three consecutive trading days is equal to or greater than five dollars. At the end of the third year, should the stock price be \$2.50 or less, the stock would automatically be converted into 210,000 shares of the Company's common stock.

(c) Options:

At June 30, 2002, there were 8,598,299 options to acquire shares of ATEC's common stock outstanding, comprised of both qualified and non-qualified options as those terms are defined by Internal Revenue Codes.

The following table summarizes the activity relating to the option grants:

	2002		2001		2000	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	7,602,087	\$1.81	2,527,614	\$4.39	2,602,072	\$5.26
Granted	2,686,300	.48	6,218,500	1.05	789,500	2.26
Exercised	--	--	--	--	(18,000)	3.26
Expired	(79,100)	3.17	(314,027)	8.52	(765,700)	5.30
Cancelled	(1,610,988)	1.91	(830,000)	.57	(80,258)	3.46
Outstanding at end of year	8,598,299	\$1.36	7,602,087	\$1.81	2,527,614	\$4.39
Exercisable at end of year	4,344,032	\$2.19	5,058,787	\$2.45	1,604,114	\$5.44

F-11

NOTE 3 - EQUITY SECURITIES. (Continued)

(c) Options: (Continued)

The following table summarizes information concerning currently outstanding and exercisable stock options:



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Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Weighted Number Outstanding at June 30, 2002	Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at June 30, 2002	Weighted Average Exercise Price
\$ .40 - \$ 6.80	8,598,299	\$ 5.19	\$ 1.36	4,344,032	\$ 2.19

NOTE 4 - ACCOUNTING FOR STOCK - BASED COMPENSATION.

In accordance with Statement of Financial Accounting Standard No. 123, the following information is provided. The weighted average fair value of all stock options at date of grant was \$3.19, \$3.22 and \$1.99 per option for options granted during the years ended June 30, 2002, 2001 and 2000, respectively. Additionally, the weighted average fair value of employee stock options granted in the years ended June 30, 2002, 2001 and 2000 was \$2.10, \$1.93 and \$2.01, per option, respectively. The weighted average fair value of options was determined based on the Black-Scholes model, utilizing the following weighted average assumptions:

	For the Years Ended June 30,		
	2002	2001	2000
Expected term:			
All stock options	10 years	10 years	10 years
Interest rate	4.00%	5.00%	5.00%
Volatility	85.00%	93.27%	78.40%
Dividends	None	None	None

Had ATEC accounted for its stock options by recording compensation expense based on the fair value at the grant date on a straight-line basis over the vesting period, stock-based compensation costs would have reduced pre-tax income by \$1,214,835 (\$905,052, net of taxes), \$1,155,001 (\$860,477 net of taxes) and \$986,845 (\$735,200 net of taxes) for the years ended June 30, 2002, 2001 and 2000, respectively. The pro forma effect on diluted earnings per common share would have been a reduction of \$.17, \$.12 and \$.10 for the years ended June 30, 2002, 2001 and 2000, respectively. The pro forma effect on basic earnings per common share would have been a reduction of \$.17, \$.12 and \$.10 for the years ended June 30, 2002, 2001 and 2000, respectively.

F-12

NOTE 5 - OPERATING LEASES.

ATEC conducts its operations under several noncancellable operating leases expiring at various dates through 2007. Future minimum rent payments, net of annual sublease rental income of \$80,548 are as follows:

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For the Years  
Ending June 30,  
-----

2003	\$ 276,374
2004	213,168
2005	209,939
2006	57,094
2007	50,012
	-----
Total minimum annual rentals	\$ 806,587 =====

Total rent expense for the years ended June 30, 2002, 2001 and 2000 amounted to \$382,044, \$456,060 and \$460,084, respectively.

NOTE 6 - REVOLVING LINES OF CREDIT.

At June 30, 2002, ATEC and its subsidiaries have had agreements with two financial institutions, whereby certain inventory purchases are financed. The first facility granted the Company terms and charged no interest for 40 days and thereafter at rates ranging from prime plus 1/4% to 6-1/2% per annum. The facility was collateralized by all the assets of the Company. At June 30, 2002 the facility expired and has not been renewed. At June 30, 2001, the borrowings under this facility amounted to \$709,586. The second facility grants the Company terms and charges interest at the prime rate. Borrowings under this line may be up to \$775,000. The facility is collateralized by the inventory, subject to a prior lien. At June 30, 2002 and 2001, the borrowings under this facility amounted to \$368,292 and \$314,571.

NOTE 7 - LITIGATION.

On August 23, 1999, a class action lawsuit was filed on behalf of all persons who purchased the Company's common stock from October 12, 1998 through May 19, 1999, inclusive. The complaint charges ATEC and certain of its officers and directors with violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as well as SEC Rule 10b-5 promulgated thereunder. Plaintiff seeks to recover damages on behalf of all class members. The Company has reached a settlement with the plaintiffs subject to court approval. This settlement has been agreed to and will be paid by the Company's insurance carrier.

F-13

NOTE 8 - INCOME TAXES.

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

	2002	2001	2000
	-----	-----	-----
Current tax provision (benefit):			

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Federal	\$	--	\$ 112,036	\$ 188,675
State		63,678	48,286	121,016
		-----	-----	-----
		63,678	160,322	309,691
		-----	-----	-----
Deferred tax provision (benefit):				
Federal		--	(100,085)	(170,696)
State		--	(21,969)	(37,470)
		-----	-----	-----
		--	(122,054)	(208,166)
		-----	-----	-----
Income tax provision (benefit)	\$	63,678	\$ 38,268	\$ 101,525
		=====	=====	=====

A reconciliation of the above effective tax rate to the federal statutory rate is as follows:

	2002		2001		2000	
		%		%		%
	-----	----	-----	----	-----	----
Tax at statutory	(\$ 548,000)	(34.0)	(\$1,526,000)	(34.0)	\$ 135,483	34.0
State income tax, net of federal tax benefit	63,678	3.9	(114,000)	(2.5)	(56,023)	(14.0)
Effect of nondeductibility of:						
Amortization and impairment of goodwill	74,460	4.6	72,000	1.6	54,089	13.6
Tax expense and loss limitations	--	--	16,000	0.4	55,472	13.9
Effect of NOL carryforward	--	--	--	--	(72,519)	(18.2)
Valuation allowance for deferred tax assets	473,540	29.4	1,438,000	32.0	--	--
Other	--	--	152,268	3.4	(14,977)	(3.8)
	-----	----	-----	----	-----	----
	\$ 63,678	3.9	\$ 38,268	0.9	\$ 101,525	25.5
	=====	=====	=====	=====	=====	=====

F-14

NOTE 8 - INCOME TAXES. (Continued)

The deferred tax benefit results from differences in recognition of expense 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 differences.

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	June 30,	
	2002	2001
Net operating loss carryforward	\$1,879,341	\$1,524,000
Allowance for bad debts	134,836	485,510
Total deferred tax assets	2,014,177	2,009,510
Less: Valuation allowance for deferred tax assets	1,612,684	1,438,000
Total	\$ 401,493	\$ 571,510

NOTE 9 - RELATED PARTY TRANSACTIONS.

The Company has an operating lease for space at its Albany, N.Y. location with a partnership, which is controlled by the Company's Chairman and its President. The lease runs through June 30, 2003 at a minimum annual rent of \$108,192, plus applicable expenses and taxes.

The Company also periodically enters into transactions with entities, which are owned or controlled by officers of the Company. All such transactions were immaterial in the aggregate, when compared to the results of operations taken as a whole, for all periods presented.

In March of 2002, the Company paid approximately \$224,000 to a company owned and controlled by the present Chief Executive Officer (CEO). The payment was for inventory, property and equipment and certain receivables which have been guaranteed by a company owned and controlled by the CEO.

NOTE 10 - OTHER FINANCIAL INFORMATION.

(a) Accounts receivable - Net:

Accounts receivable, net at June 30, 2002 and 2001 consists of the following:

	2002	2001
Accounts receivable	\$3,484,892	\$6,357,064
Allowance for doubtful accounts, returns and discounts	(318,814)	(1,242,762)
	\$3,166,078	\$5,114,302

For the years ended June 30, 2002, 2001 and 2000, \$75,308, \$645,535 and \$42,216, respectively, was charged to bad debt expense.

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NOTE 10 - OTHER FINANCIAL INFORMATION. (Continued)

(b) Other Current Assets:

Other current assets consist of the following at June 30, 2002 and 2001:

	2002	2001
	-----	-----
Receivables from suppliers	\$ 122,155	\$ 140,546
Prepaid expenses	226,119	242,811
Prepaid and refundable income taxes	259,732	167,930
Sundry loans	101,000	34,347
Current portion of deferred compensation	149,676	--
	-----	-----
	\$ 858,682	\$ 585,634
	=====	=====

(c) Goodwill - Net:

Goodwill, net at June 30, 2002 and 2001 consists of the following:

	2002	2001
	-----	-----
Cost	\$5,678,253	\$5,727,573
Less: Impairment	3,241,616	3,021,720
	-----	-----
	2,436,637	2,705,853
Less: Accumulated amortization	1,571,676	1,571,676
	-----	-----
	\$ 864,961	\$1,134,177
	=====	=====

Amortization charged to operations for the years ended June 30, 2002, 2001 and 2000 amounted to \$-0-, \$189,327 and \$186,626, respectively. Net income (loss) exclusive of amortization and impairment of goodwill was (\$1,456,512), (\$4,313,162) and \$483,579, for the years ended June 30, 2002, 2001 and 2000, respectively.

At June 30, 2002 the goodwill recognized on the acquisition of Nexar, our manufacturing division, in the amount of \$219,896 was written off. This goodwill became impaired when we ceased manufacturing and closed the division. The June 30, 2001 goodwill write off of \$22,645 was attributable to the acquisition of Global Leasing and Trading Corporation. All outstanding contracts between Global and its customers expired in 2001 and no new contracts were entered into.

(d) Property and Equipment:

Property and equipment are carried at cost and consist of the following at June 30, 2002 and 2001:

	2002	2001
	-----	-----

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Leasehold improvements	\$ 516,265	\$ 563,573
Furniture and fixtures	244,293	244,293
Office equipment	904,133	887,852
Automobiles	110,598	110,598
	-----	-----
	1,775,289	1,806,316
Less: Accumulated depreciation and amortization	1,485,249	1,386,061
	-----	-----
	\$ 290,040	\$ 420,255
	=====	=====

Depreciation and amortization charged to operations for the years ended June 30, 2002, 2001 and 2000 amounted to \$159,969, \$228,665 and \$274,877, respectively.

F-16

NOTE 10 - OTHER FINANCIAL INFORMATION. (Continued)

(e) Other Current Liabilities:

Other current liabilities consist of the following at June 30, 2002 and 2001:

	2002	2001
	-----	-----
Accrued compensation	\$ 370,000	\$ --
Payroll taxes payable	31,221	38,592
Sales tax payable	35,752	33,295
Customers with credit balances	217,209	281,702
	-----	-----
	\$ 654,182	\$ 353,589
	=====	=====

(f) Transactions with Major Customers and Suppliers:

In each of the three years ended June 30, 2002, the Company did not have sales to any one customer, which represented 10% or more of the Company's net sales during a fiscal year.

During the years ended June 30, 2002, 2001 and 2000, two suppliers accounted for 35%, 45% and 55% of the Company's purchases, respectively. At June 30, 2002 and 2001, these two suppliers accounted for 35% and 59% of accounts payable, respectively.

(g) Deferred Compensation Plan:

The Company has 401(k) deferred compensation plans to which the Company may make discretionary contributions. The Company expense for these plans amounted to approximately, \$20,000, \$45,000 and \$-0- for the years ended June 30, 2002, 2001 and 2000, respectively.

NOTE 11 - RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS.

The Financial Accounting Standards Board periodically issues new accounting standards in a continuing effort to improve the

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quality of financial information and to promote uniformity in its presentation. Management has reviewed all such pronouncements made in the last fiscal year and concluded that none have a material impact on the Company's presentation of its financial position, results of operations and cash flows.

F-17

### NOTE 12 - 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 these segments.

	For the Years Ended June 30,		
	2002	2001	2000
	-----	-----	-----
Net sales:			
TIS	\$ 17,433,683	\$ 17,437,079	\$ 32,579,527
B to B	20,845,797	33,525,488	35,311,719
Software	1,537	--	2,330,065
Manufacturing	751,026	2,088,552	2,005,201
Elimination of intersegment revenues	--	--	(288,832)
	-----	-----	-----
	\$ 39,032,043	\$ 53,051,119	\$ 71,937,680
	=====	=====	=====
Net income (loss):			
TIS	(\$ 650,241)	(\$ 2,403,235)	(\$ 1,011,907)
B to B	1,122,309	(332,780)	1,316,876
Software	(54,868)	(13,985)	337,216
Manufacturing	(725,685)	(1,385,735)	(207,959)
Corporate	(1,367,923)	(389,399)	(137,273)
	-----	-----	-----
	(\$ 1,676,408)	(\$ 4,525,134)	\$ 296,953
	=====	=====	=====
Depreciation:			
TIS	\$ 128,938	\$ 165,649	\$ 166,388
B to B	11,829	29,887	32,506
Software	--	--	21,350
Manufacturing	2,890	3,933	5,545
Corporate	16,312	29,196	49,088
	-----	-----	-----
	\$ 159,969	\$ 228,665	\$ 274,877
	=====	=====	=====
Capital additions:			
TIS	\$ 29,753	\$ 107,793	\$ 52,150
B to B	--	8,889	6,124
Software	--	--	--

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Manufacturing	--	--	13,000
Corporate	--	--	--
	-----	-----	-----
	\$ 29,753	\$ 116,682	\$ 71,274
	=====	=====	=====
Identifiable assets:			
TIS	\$ 3,993,979	\$ 825,454	\$ 7,091,035
B to B	2,201,472	3,765,364	6,566,091
Software	3,853	943,240	112,461
Manufacturing	5,535	911,199	1,947,502
Corporate	1,597,111	4,663,941	773,428
	-----	-----	-----
	\$ 7,801,950	\$ 11,109,198	\$ 16,490,517
	=====	=====	=====

During the years ended June 30, 2002, 2001, and 2000, one customer accounted for -0-%, -0-% and 81.6%, respectively of the software segment.

F-18

NOTE 13 - SUPPLEMENTAL FINANCIAL INFORMATION FOR THE THREE MONTHS ENDED (UNAUDITED):

	June 30, 2002	March 31, 2002	December 31, 2001	September 30, 2001
	-----	-----	-----	-----
Net sales	\$ 8,488,273	\$10,876,246	\$ 7,619,339	\$12,048,185
	=====	=====	=====	=====
Gross profit	\$ 818,123	\$ 1,221,057	\$ 1,057,684	\$ 2,334,491
	=====	=====	=====	=====
Net income (loss)	(\$1,129,809)	(\$ 462,774)	(\$ 181,115)	\$ 97,290
	=====	=====	=====	=====
Income (loss) per share:				
Basic	(\$ 0.15)	(\$ 0.07)	(\$ 0.03)	\$ 0.01
	=====	=====	=====	=====
Diluted	(\$ 0.15)	(\$ 0.07)	(\$ 0.03)	\$ 0.01
	=====	=====	=====	=====
	June 30, 2001	March 31, 2001	December 31, 2000	September 30, 2000
	-----	-----	-----	-----



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Net sales	\$10,570,525 =====	\$14,096,629 =====	\$13,435,293 =====	\$14,948,683 =====
Gross profit	\$ 982,680 =====	\$ 1,306,619 =====	\$ 1,803,946 =====	\$ 2,190,346 =====
Net income (loss)	(\$2,712,642) =====	(\$1,136,289) =====	(\$ 421,365) =====	(\$ 254,838) =====
Loss per share:				
Basic	(\$ 0.38) =====	(\$ 0.16) =====	(\$ 0.06) =====	(\$ 0.04) =====
Diluted	(\$ 0.38) =====	(\$ 0.16) =====	(\$ 0.06) =====	(\$ 0.04) =====

F-19

EXHIBITS

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Number -----	Description -----
23.1	Consent of Weinick Sanders Leventhal & Co LLP
99.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.