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ATEC GROUP INC
Form 10-Q
February 12, 2003

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarter Ended December 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 December 31, 2003, there were 7,719,326 shares of the Registrant's Common Stock outstanding.

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ATEC GROUP, INC.

TABLE OF CONTENTS

PART I	Financial Information	Page
-----	-----	----
Item 1.	Financial Statements.....	1-9
Item 2.	Managements Discussion & Analysis of Financial Condition and Results of Operations.....	10-14
Item 3.	Quantitative and Qualitative Disclosures about Market.....	14
Item 4.	Controls and Procedures.....	14
Item 4.	Forward Looking Statements and Associated Risks.....	15
PART II	Other Information Required in Report	
-----	-----	
Item 1.	Legal Proceedings.....	16
Item 2.	Changes in Securities and use of Proceeds.....	16
Item 3.	Defaults Upon Senior Securities.....	16
Item 4.	Submission of Matters to a Vote of Security Holders.....	16
Item 5.	Other Information.....	16
Item 6.	Exhibits and Report on Form 8K.....	16
	Signatures Page.....	17
	Certifications.....	18-20
	Exhibits.....	21-24

i

PART 1

FINANCIAL INFORMATION

Item 1. Financial Statements.

ATEC GROUP, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

UNAUDITED
31-Dec-02

AUDITED
30-Jun-02

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ASSETS

Current Assets

Cash and cash equivalents	\$ 1,171,484	\$ 1,382,722
Accounts receivable, net	3,217,322	3,166,078
Inventories	587,313	602,792
Deferred taxes	401,493	401,493
Other current assets	594,485	858,682

Total current assets	5,972,097	6,411,767
----------------------	-----------	-----------

Property and equipment, net	213,531	290,040
Goodwill, net	864,961	864,961
Other assets	155,169	235,182

	\$ 7,205,758	\$ 7,801,950
--	--------------	--------------

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities

Revolving inventory line of credit	\$ 344,061	\$ 368,292
Accounts payable	922,922	1,114,071
Accrued expenses	262,717	585,795
Deferred income	--	26,976
Other current liabilities	321,021	654,182

Total liabilities	1,850,721	2,749,316
-------------------	-----------	-----------

Stockholders' equity

Preferred stocks	835,582	835,582
Common stock	74,415	73,435
Additional paid-in capital	12,177,016	11,815,397
Discount on preferred stock	(742,740)	(742,740)
Retained earnings (deficit)	(6,191,369)	(6,219,452)
Treasury stock at cost	(797,867)	(709,588)

Total stockholders' equity	5,355,037	5,052,634
----------------------------	-----------	-----------

	\$ 7,205,758	\$ 7,801,950
--	--------------	--------------

1

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

	2002	2001
Net sales	\$ 8,191,014	\$ 7,619,339
Cost of sales	7,475,660	6,561,655
Gross profit	715,354	1,057,684
Operating expenses		

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Selling and administrative	740,536	1,330,971
	-----	-----
Total operating expenses	740,536	1,330,971
	-----	-----
Loss from operations	(25,182)	(273,287)
	-----	-----
Other income (expense)		
Miscellaneous income	172	17,598
Interest income	8,325	10,042
Interest expensse	--	(268)
	-----	-----
Total other (expense) income	8,497	27,372
	-----	-----
Loss before provision for income taxes	(16,685)	(245,915)
Provision [benefit] for income taxes	--	(64,800)
	-----	-----
Net loss	\$ (16,685)	\$ (181,115)
	=====	=====
Net earnings (loss) per share-basic and diluted	\$ (0.00)	\$ (0.03)
	=====	=====
Weighted average number of shares-basic	7,860,378	7,021,644
	=====	=====
Weighted average number of shares-diluted	7,860,378	7,021,644
	=====	=====

2

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

	2002	2001
	-----	-----
Net sales	\$ 17,836,710	\$ 19,667,524
Cost of sales	15,356,764	16,275,349
	-----	-----
Gross profit	2,479,946	3,392,175
	-----	-----
Operating expenses		
Selling and administrative	2,476,070	3,517,870
	-----	-----
Total (loss) operating expenses	2,476,070	3,517,870
	-----	-----
Income (loss) from operations	3,876	(125,695)

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	-----	-----
Other income (expense)		
Miscellaneous income	12,212	17,598
Interest income	15,495	24,540
Interest expense	--	(268)
	-----	-----
Total other (expense) income	27,707	41,870
	-----	-----
Income (loss) before provision for income taxes	31,583	(83,825)
Provision [benefit] for income taxes	3,500	--
	-----	-----
Net income (loss)	\$ 28,083	\$ (83,825)
	=====	=====
Net earnings (loss) per share-basic and diluted	\$ 0.00	\$ (0.01)
	=====	=====
Weighted average number of shares-basic	7,841,567	7,055,044
	=====	=====
Weighted average number of shares-diluted	7,841,567	7,055,044
	=====	=====

3

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

	2002	2001
	-----	-----
Net cash provided by (used in) operating activities	\$ (95,167)	\$ 1,340,606
	-----	-----
Cash flows from investing activities:		
Purchase of Treasury Stock	(88,279)	(54,375)
Purchase of property and equipment	(3,561)	--
	-----	-----
Net cash (used in) provided by investing activities	(91,840)	(54,375)
	-----	-----
Cash flows from financing activities:		
Short term borrowings (repayments)	(24,231)	(631,343)
	-----	-----
Net cash (used in) provided by financing activities	(24,231)	(631,343)
	-----	-----
Net increase (decrease) in cash	(211,238)	654,888

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Cash and cash equivalents - Beginning of Period	1,382,722	1,555,020
	-----	-----
Cash and cash equivalents - End of period	\$ 1,171,484	\$ 2,209,908
	=====	=====

4

ATEC GROUP, INC UNAUDITED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY SIX MONTHS ENDING DECEMBER 31, 2002

	Common Shares Issued	Value Common Stock	Series Preferred Issued	Value Preferred Stock	Additio Paid Capit
	-----	-----	-----	-----	-----
Balance at June 30, 2002	7,304,971	\$ 73,435	424,429	\$ 835,582	\$11,815,
Contributed Capital					30,
Stock issued for services	980,000	\$ 980			361,
Costs related to Contributed Capital					(30,
Purchase of Treasury Stock					
Net income for the Six months Ended December 31, 2002					
	-----	-----	-----	-----	-----
Balance at December 31, 2002	8,284,971	\$ 74,415	424,429	\$ 835,582	\$12,177,
	=====	=====	=====	=====	=====

	Treasury Stock ----- Shares	Amount	Total Stockholders' Equity
	-----	-----	-----
Balance at June 30, 2002	(378,345)	(\$709,588)	\$ 5,052,634
Contributed Capital			30,082
Stock issued for services			362,599
Costs related to Contributed Capital			(30,082)
Purchase of Treasury Stock	(187,300)	(\$ 88,279)	(88,279)
Net income for the Six months Ended December 31, 2002			28,083
	-----	-----	-----
Balance at December 31, 2002	(565,645)	(\$797,867)	\$ 5,355,037
	=====	=====	=====

5

ATEC GROUP, INC. AND SUBSIDIARIES
FORM 10Q
QUARTER ENDED SEPTEMBER 30, 2002
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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1. Condensed Consolidated Financial Statements

The accompanying interim unaudited consolidated financial statements include the accounts of Atec Group, Inc. and its subsidiaries that are hereafter referred to as (the "Company"). All intercompany accounts and transactions have been eliminated in consolidation.

These financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles in the United States of America for complete financial statements. In the opinion of management, such interim statements reflect all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position and the results of operations and cash flows for the interim periods presented. The results of operations for these interim periods are not necessarily indicative of the results to be expected for the full year. These financial statements should be read in conjunction with the audited consolidated financial statements and footnotes included in the Company's report on Form 10-K, as amended, for the year ended June 30, 2002.

6

2. Equity Securities

Capital Stock

The Company's capital stock consists of the following:

December 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	8,284,971	\$ 74,361
		=====	=====

The 424,429 shares of preferred stock, which are outstanding, may be converted into approximately 134,000 shares of our common stock.

3. Computation of Earnings Per Share

Earnings per share are based on the weighted average number of common and common equivalent shares outstanding.

4. Goodwill

The Company adopted Financial Accounting Standard Board (FASB) number 142

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(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.

7

5. Income Taxes

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

	2002	2001
	-----	-----
Current tax provision (benefit)		
Federal	\$ 3,500	\$ --
State	--	--
	-----	-----
	3,500	--
	-----	-----
Deferred tax provision (benefit)		
Federal	--	55,100
State	--	9,700

		64,800

Income tax provision (benefit)	\$ --	\$ 64,800
	=====	=====

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

	December 31 2002	June 30 2002
	-----	-----
Net operating loss carry forward	\$ 1,879,341	\$ 1,879,341
Allowance for bad debts	109,489	134,836
	-----	-----
Total deferred tax assets	1,988,830	2,014,177
Less: Valuation allowance for deferred tax assets	1,587,337	1,612,684
	-----	-----
Total	\$ 401,493	\$ 401,493
	=====	=====

8

6. Segment Information

The Company is comprised of four business segments. These segments consist of the technology integration services (TIS), Business to Business (B to B), software and manufacturing divisions. Set forth below is net sales, net income (loss), capital expenditures, depreciation and identifiable assets of these segments.

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	FOR THREE MONTHS ENDING DECEMBER 31,		FOR SIX MONTHS ENDING DECEMBER 31,	
	2002	2001	2002	2001
	-----	-----	-----	-----
Net sales:				
TIS	\$ 4,834,037	\$ 2,911,395	\$ 9,471,420	\$ 7,492,247
B to B	3,356,977	4,493,711	8,365,290	11,689,460
Software		1,386		1,386
Manufacturing		212,847		484,431
	-----	-----	-----	-----
	\$ 8,191,014	\$ 7,619,339	\$ 17,836,710	\$ 19,667,524
	=====	=====	=====	=====
Net income (loss):				
TIS	\$ (150,650)	\$ (187,012)	\$ (272,184)	\$ (343,655)
B to B	149,426	455,199	527,007	1,284,698
Software		(20,636)		(44,351)
Manufacturing		(253,774)		(347,115)
Corporate	(15,461)	(174,892)	(226,740)	(633,402)
	-----	-----	-----	-----
	\$ (16,685)	\$ (181,115)	\$ 28,083	\$ (83,825)
	=====	=====	=====	=====
Depreciation:				
TIS	\$ 33,714	\$ 35,601	\$ 54,529	\$ 69,499
B to B	1,215	2,608	3,824	5,217
Software		--		--
Manufacturing		723		1,445
Corporate	4,573	4,078	21,716	10,875
	-----	-----	-----	-----
	\$ 39,502	\$ 43,010	\$ 80,069	\$ 87,036
	=====	=====	=====	=====
Identifiable assets:				
TIS	\$ 3,736,167	\$ 3,388,540	\$ 3,736,167	\$ 3,388,540
B to B	2,222,582	2,187,264	2,222,582	2,187,264
Software	3,853	3,853	3,853	3,853
Manufacturing		707,335		707,335
Corporate	1,243,156	2,610,795	1,243,156	2,610,795
	-----	-----	-----	-----
	\$ 7,205,758	\$ 8,897,787	\$ 7,205,758	\$ 8,897,787
	=====	=====	=====	=====

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,

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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.

On November 25, 2002, we:

1. entered into a Capital Stock Exchange Agreement with Interpharm, Inc., a manufacturer of generic pharmaceuticals, and all of the shareholders of Interpharm, pursuant to which, subject to approval from our stockholders, we plan to acquire all of the issued and outstanding stock of Interpharm (the "Acquisition"); and
2. entered into an Asset Purchase Agreement with Baar Group, an entity owned by most of our current management, whereby Baar Group agreed to purchase our assets and assume substantially all of our liabilities for a purchase price of \$4,278,184, subject to certain adjustments at closing (the "Management Buyout").

These transactions are described in greater detail in our amended Preliminary Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on February 11, 2003 (the "Proxy Statement").

The following discussion relates to our current business. For similar information related to the business of Interpharm, please see "Management's Discussions and Analysis of Financial Condition and Results of Operations" commencing on page 25 of the Proxy Statement.

Results of Operations

Three months ended December 31, 2002, compared to three months ended December 31, 2001.

Our revenues for the second quarter ended December 31, 2002 increased to \$8.2 million from \$7.6 million for the prior year, an increase of approximately 8%. Of this increase, \$1.9 million or 66% was attributable to hardware sales by our TIS divisions. Those increases were offset by a decline of \$1,100,000 or 25% in the B2B division and \$200,000 of manufacturing revenues as compared to 2001. Revenues are generated by our sales of computer hardware and software, and related support services. Gross margin for the period decreased to \$715,000 for the quarter ended December 31, 2002 from \$1.1 million for the comparable 2001 quarter, a 32% decrease. Gross margins as a percentage of revenues for the quarter were 9 % as compared to 14% for the prior year, due to lower margins on hardware sales.

Selling, general and administrative expenses for the three months ended, December 31, 2002 decreased to \$741,000 as compared to \$1.3 million for the comparable period in 2001. The decrease is primarily due to changes in accounting estimates for litigation claims and judgments against the Company for which the statute of limitations has expired totaling \$219,000; lower compensation expense, due to reduced headcount of approximately \$250,000, and; a reduction of approximately \$60,000 relating to the provision for doubtful accounts in the quarter ended December 31, 2002. The income tax benefit was \$0 for the 2002 quarter as compared to \$64,800 for 2001 quarter.

As a result of the above, our net loss was \$16,685 for the three months ended December 31, 2002 compared to net loss of \$181,115 for the 2001 quarter. For the

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December 31, 2002 quarter, net loss per share was \$.00 compared to net loss of \$.03 in the prior year. Average shares outstanding were 7,860,378 for 2002 and 7,021,644 for 2001.

Six Months Ending December 31, 2002 compared to December 31, 2001.

Our revenues for the six months ending December 31, 2002 decreased to \$17.8 million from \$19.7 million for the prior year, a decrease of approximately 9%. This decrease is attributable to a significant drop in sales of \$3.3 million in our B2B division offset by a \$2 million increase in sales in our TIS divisions and \$484,000 of manufacturing revenues in 2001. Revenues are generated by the Company's sales of computer hardware and software, and related support services. Gross margin for the period decreased to \$2.5 million for December 31, 2002 from \$3.4 for the comparable 2001 quarter. Gross margin as a percentage of revenues for the quarter were 14% as compared to 17% for the prior year, due to lower margins on hardware sales.

Selling, general and administrative expenses for the six months December 31, 2002 decreased \$1,100,000, or 30% to \$2.4 million as compared to \$3.5 million for the prior year. The decrease is primarily due to lower compensation expense of \$789,000 due to a reduction of 20 employees and the reversal of accruals of \$219,000 for estimates relating to old litigation for which the statute of limitations has expired. The income tax provision was \$3,500 for the 2002 period as compared to a benefit of \$0 for the prior year.

As a result of the above, our net income was \$28,083 for the six months ended December 31, 2002 compared to net loss of \$83,825 for the 2001 quarter. For the six months ended December 31, 2002, net income per share was \$.00 compared to net loss per share of \$.01 in the prior year. Average shares outstanding were 7,841,567 for 2002 and 7,055,044 for 2001.

Liquidity and capital resources.

Our cash position was \$1,171,484 at December 31, 2002, a decrease of \$211,238 as compared to June 30, 2002. Our working capital at December 31, 2002 was \$4,121,376 as compared to a working capital of \$3,662,451 at June 30, 2002. Net cash used by operating activities was \$95,167. Cash used for investing activities totaled \$91,840 for the purchase of Treasury Stock and fixed assets.

To accommodate our financial needs for inventory financing, IBM Credit granted us a credit line in the amount of \$750,000. At December 31, 2002, our indebtedness to IBM Credit was \$344,061, a decrease of \$24,231, as compared to June 30, 2002.

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 the 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 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.

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 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,

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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

12

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 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.

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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 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.

13

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 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.

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.

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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.

ITEM 4 - Controls and Procedures

ATEC management, including the Chief Executive Officer and Chief Financial Officer, have conducted an evaluation of the effectiveness of disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective in ensuring that all material information required to be filed in this quarterly report has been made known to them in a timely fashion. There have been no significant changes in internal controls, or in other factors that could significantly affect internal controls, subsequent to the date the Chief Executive Officer and Chief Financial Officer completed their evaluation.

14

FORWARD-LOOKING STATEMENTS AND ASSOCIATED RISK

Certain statements in this Report, and the documents incorporated by reference herein, constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors (collectively, "Factors") which may cause deviations in actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied. Such Factors related to our current business operations include but are not limited to:

- o risks associated with the uncertainty of future financial results;
- o additional financing requirements;
- o development of new products or mergers;
- o the continued ability to sustain integration of future acquisitions;
- o the ability to hire and retain key personnel;
- o the continued development of our technical, manufacturing, sales, marketing and management capabilities;
- o relationships with and dependence on third-party suppliers;
- o anticipated competition;
- o uncertainties relating to economic conditions;
- o uncertainties relating to government and regulatory policies; uncertainties relating to customer plans and commitments;
- o rapid technological developments and obsolescence in the industries in which the Company competes;
- o potential performance issues with suppliers and customers;
- o governmental export and import policies;
- o global trade policies;
- o worldwide political stability and economic growth; potential entry of new, well-capitalized competitors into the markets;
- o changes in the Corporate capital structure and cost of capital;

Whether and when we complete the Acquisition and/or the Management Buyout clearly will materially affect our forward-looking statements. For disclosure about material Factors related to Interpharm's business operations, see "Forward-Looking Statements" commencing on page 33 of the Proxy Statement.

The words "believe, expect, anticipate, intend and plan" and similar

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expressions identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statement was made.

15

Atec Group, Inc. and Subsidiaries
Other
Information
December 31, 2003

PART II OTHER INFORMATION

Item 1.- Legal Proceedings - None

Item 2.- Changes in Securities and use of Proceeds - None

Item 3.- Defaults Upon Senior Securities - None

Item 4.- Submission of Matters to a Vote of Security Holders - None

Item 5.- Other Information - On November 25, 2002, we:

1. entered into a Capital Stock Exchange Agreement with Interpharm, Inc., a manufacturer of generic pharmaceuticals, and all of the shareholders of Interpharm, pursuant to which, subject to approval from our stockholders, we plan to acquire all of the issued and outstanding stock of Interpharm (the "Acquisition"); and
2. entered into an Asset Purchase Agreement with Baar Group, an entity owned by most of our current management, whereby Baar Group agreed to purchase our assets and assume substantially all of our liabilities for a purchase price of \$4,278,184, subject to certain adjustments at closing (the "Management Buyout").

These transactions are described in greater detail in our amended Preliminary Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on February 11, 2003.

Item 6.- Exhibits and Report on Form 8K - On November 25 we filed a report that announced the proposed Acquisition of Interpharm, Inc. and Management Buyout.

16

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)

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Date: February 12, 2003

By: /s/ JAMES J. CHARLES

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

17

CERTIFICATION

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

1. I have reviewed this quarterly report on Form 10-Q of the Registrant;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this quarterly report;
4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the Registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Registrant's ability to record, process, summarize and report financial data and have identified for the Registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls; and

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6. The Registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

February 12, 2003

/s/ BALWINDER SINGH BATHLA

Chief Executive Officer

18

CERTIFICATION

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

1. I have reviewed this quarterly report on Form 10-Q of the Registrant;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this quarterly report;
4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the Registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Registrant's ability to record,

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process, summarize and report financial data and have identified for the Registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls; and

6. The Registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

February 12, 2003

/s/ JAMES J. CHARLES

Chief Financial Officer

19

CERTIFICATION

I, Ashok Rametra, President of ATEC Group, Inc. (the "Registrant"), certify that:

1. I have reviewed this quarterly report on Form 10-Q of the Registrant;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this quarterly report;
4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the Registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the Registrant's auditors and the audit committee

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of Registrant's board of directors (or persons performing the equivalent function):

- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Registrant's ability to record, process, summarize and report financial data and have identified for the Registrant's auditors any material weaknesses in internal controls; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls; and

6. The Registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

February 12, 2003

/s/ ASHOK RAMETRA

President

20

Exhibits

Number	Description
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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
99.3	Certification of President pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

21