

Edgar Filing: ATEC GROUP INC - Form 10-K

ATEC GROUP INC  
Form 10-K  
September 28, 2001

SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549  
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FORM 10-K  
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CURRENT REPORT

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended June 30, 2001

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-22710

ATEC GROUP, INC.  
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(Exact name of registrant as specified in its charter)

Delaware  
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13-3673965  
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(State or other jurisdiction of  
corporation or organization)

(IRS. Employer  
Identification Number)

69 Mall Drive, Commack, New York  
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11725  
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(Address of principal executive offices)

(Zip Code)

Issuer's telephone number, including area code (631) 543-2800  
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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

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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 amendment to this Form 10-K.

YES [X] NO [ ]

On September 20, 2001, the aggregate market value of the voting common equity of ATEC Group, Inc., held by non-affiliates of the Registrant \$2,647,304\* was based on the closing price of \$.45 for such common stock on said date as reported by the American Stock Exchange. On such date, there were 7,347,689 shares of common stock of the Registrant outstanding.

\* Excludes 1,464,792 shares of common stock beneficially owned by Surinder Rametra, Ashok Rametra, Praveen Bhutani, Stewart Benjamin, James Charles and David Reback, the officers and directors of the Company.

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### FORWARD-LOOKING STATEMENTS

### 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 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 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;
- o 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;
- o and uncertainties inherent in international operations and foreign currency fluctuations.

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.

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### PART I

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#### ITEM 1. BUSINESS

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##### GENERAL

ATEC Group, Inc. ("the Company" or "ATEC") is a one-stop provider for a full line of information technology products and services to businesses, professionals, government and educational institutions. We offer multiple solutions to our clients that we believe generate loyalty and improve our ability to seek higher margins. We have developed several core competencies, including system design, software development, networking, server-based computing, help desk, wireless telecommunications, voice over IP, e-commerce, web hosting, , ASP and Internet/Intranet solutions. Recently we entered the IT enabled services with an emphasis on call centers.

In furtherance of our efforts to provide end-to-end solutions to clients, we continue to commit resources to establish our PC manufacturing division, Nexar(R), which offers a line of branded computer products built with state-of-the-art technology, minimizing upgrade cost. Nexar provides unique 24 x 7 toll-free hardware and software support, including off-the-shelf software.

Our e-commerce website, [www.atecgroup.com](http://www.atecgroup.com), is designed to ensure our clients seamless access, security, speed and ease of use. It employs a unique and powerful search engine and database that was developed in-house and is continually being reengineered. We plan to market this search engine and e-commerce development capability as a new offering to our clients while continuing our own expansion into the e-commerce marketplace. [www.atecgroup.com](http://www.atecgroup.com) offers over 60,000 information technology (IT) products from major PC and peripheral manufacturers along with access to comprehensive technical specifications and availability on most of these products that allows buyers to shop, compare and procure all their IT product needs through one place, easily and quickly, making us a one-stop solution provider. The site also offers our Nexar PC line of products directly to end-users and corporate clients.

Most industry experts agree that e-business will dramatically impact traditional supply chains and distribution channels. E-marketers estimate e-business revenues to exceed \$3.5 trillion by the year 2002 and reach in excess of \$7.0 trillion by 2004, representing over 7% of all sales transactions worldwide. With that in mind, we continually aim to be a part of the e-business segment growth. However, we believe that existing relationships will not vanish overnight. Our goal is to continue to strengthen our presence in both the business-to-business (B2B) and business-to-consumer (B2C) segments of e-commerce, each of which is critical to strengthening our core business objective of providing a one-stop, value-added service and product solution.

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As the decision-making process that confronts organizations while planning, selecting and implementing information technology solutions has grown more complex, it became necessary for us to create an enterprise-focused team, our Technology Integration Services (TIS) division, to streamline and strengthen

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our core business. Our TIS trained support staff has opened new avenues for us such as turn-key server-based computing, storage networks and complete end-to-end solutions, including implementation, project management and program custom applications on platforms such as Citrix, Microsoft NT, Netware, Linux, Unix, Java and others.

### INDUSTRY

Complex computer information processing systems, the foundation on which business and organizations now function, are continuously being redesigned, modified and upgraded as new computer and telecommunications technologies are introduced. Until the mid-1980s, either mid-range or mainframe computer systems were used to manage an organization's mission-critical, transaction-oriented functions, such as banking, credit transactions, point-of-sale and airline reservations.

In the late 1980s, a new architecture for information processing called "client/server" computing emerged, fueled by the growing intelligence in desktop computers, expanding capabilities of software applications and growing capabilities of networks. A client/server system typically consists of multiple intelligent desktop client computers linked with high-performance server computers by a LAN/WAN providing flexibility and mobility to a wide range of applications. Most corporations today are seeking to reconfigure their existing mainframe/mid-range computers (sometimes referred to as "legacy systems") to operate in parallel with client/server networks. We believe that these two information system models, legacy systems and client/server systems, will continue to coexist, providing advantages for certain applications. Over the past several years, the increase in performance of personal computers and the development of a variety of effective business connectivity software programs have led to an industry shift away from mainframe computer systems to client/server systems.

The markets for information technology products and services are expected to continue to experience significant growth over the next few years. According to Data Quest Inc., a leading industry market research firm, the U.S. market for personal computers is expected to increase from \$80 billion in 1998 to \$103 billion in 2001, a compound growth rate of 9%. We believe that the leading factors driving the growth in the markets are the continued transition to distributed computing technologies, such as client/server.

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### BUSINESS STRATEGY

We as a value-added reseller, distribute products to major clients and other resellers, and provide services such as consulting, procurement, built-to-order, networking and hardware sales to our clients. We focus on servicing small and medium-size enterprises (SME), which often do not have the adequate IT personnel to procure, design, install or maintain complex systems to incorporate continuously evolving technologies.

Since 1998, the PC market underwent major changes as leading manufacturers such as IBM, Compaq, Toshiba, Apple and Hewlett-Packard shifted their focus away from the reseller channel towards direct marketing. Such actions by the major manufacturers significantly affected the distribution business due to the availability of products and competition on direct volume sales. In response, we changed our focus to exit low margin distribution sales and enter into complementary lines of business by:

- o Enhancing our existing value added/system integration services into a

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- Technical Integration Services (TIS) division as the strategic marketing arm to serve clients effectively;
- o Expanding into Internet and e-solutions with atecone.net and atecgroup.com, respectively;
- o Acquiring the intellectual properties of Nexar and establishing a PC manufacturing division;
- o Enhancing our software development capabilities through offshore alliances; and
- o Creating a consolidated new corporate structure to streamline administrative functions and stimulate future growth.

### MARKETING STRATEGY

Our marketing strategy is to educate business clients about our ability to provide a single source, end-to-end solution that reduces total cost of ownership. In an effort to create a unique identity and distinguish ourselves from the competition, we have committed our resources to assisting our clients in the implementation of the latest changes in the IT industry.

We are an authorized dealer for leading manufacturers such as Compaq, Gateway, Hewlett-Packard, Apple, Novell, Informix, Quest Communications, AMD, Citrix, Microsoft, 3 COM, Toshiba, Oracle, Sybase, Intel, Computer Associates and numerous others. We provide our clients with a variety of products from microcomputers to client/servers to peripherals. To market our products, we enjoy partnering relationships with major computer distributors, including Ingram Micro, Tech Data and others, which have multiple distribution sites and collectively carry more than \$1 billion in inventory at any given point. Through these two relationships, manufacturers on the one hand and distributors on the other, we offer our clients the best in information technology products while reducing our inventory cost.

To succeed in this competitive environment and to achieve greater client satisfaction, we offer our clients several distinct advantages:

- o A commitment to providing a single source, "end-to-end" solution to their individual data processing needs;

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- o Low cost overhead structures, including limited inventory, extensive use of warehousing of our allied distributors and automated management and operating functions, thereby enabling us to hold costs down;
- o Continual pursuit of new products and service offerings in response to market conditions, and
- o Responsive, expert service and support.

### PRODUCTS, SERVICES AND SOLUTIONS

We market a broad selection of products with a focus on microcomputers, client/servers and peripherals manufactured by major vendors. Our subsidiaries are authorized sales and service dealers for major IT manufacturers. The sales of products by major manufacturers such as Apple, Compaq, Toshiba, Gateway, Epson and Hewlett-Packard generated over 50% of our revenue for the year ended June 30, 2001. The agreements with these vendors are generally renewed periodically and permit termination by manufacturers without cause, generally upon 30 to 90 days notice. These provisions are standard in the computer reseller industry.

We evaluate product assortment based on technological advances,

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availability and marketability of the products. We continually seek to expand our product offerings in response to market conditions. Service and support is performed with an emphasis on achieving higher profit margins while ensuring quality service to our clients. We have excellent vendor/dealer relationships with major national distributors, enabling us to source our products from multi-distribution channels.

### PC Manufacturing

Nexar(R), a division of ATEC with patented technologies, is an innovative manufacturer of personal computers with a fundamentally different approach to personal computing. Nexar manufactures PCs that allow for customization of the system and enable end-users to affordably upgrade all major system components, including future processors and technology advances.

Nexar has developed three lines of personal computers with high-resolution, high-performance monitors, and is committed to continually developing and introducing new product lines to keep ahead of technology. The current product lines of Nexar are:

**Enable Series:** This series captures the true essence of the PC, powered by the latest class of processors, and is built to the rigorous standards of ISO 9002 specifications. Superior quality and performance are combined to create top value in the world of desktop computers. Enable is aimed at the cost-conscious consumer.

**Empower Series:** These systems are built to the client's specifications using widely accepted quality components and peripherals to ensure 100% compatibility. This line is the ideal solution for clients who demand to stay on the cutting edge of technology. The

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Empower line is aimed at corporate users who require value and the flexibility of standard options and components.

**Infinity Series:** This series incorporates Nexar's patented XPA technology, which uses standard components but allows for processor and memory upgrades across processor generations from within the same PC footprint.

Nexar offers its products through our extended sales and marketing group, national retail channels and directly through our web sites: [www.nexarusa.com](http://www.nexarusa.com) and [www.atecgroup.com](http://www.atecgroup.com).

### Global Distribution

Global Distribution "GD" has been operating in this marketplace for over 15 years. It enjoys direct relationships with a number of manufacturers that seek out in advance when they have product that fit the Global Distribution model. These manufactures include Cisco, IBM, Compaq, HP, NEC, Toshiba, View Sonic and many others.

Several studies highlight the fact that the majority of technology users never fully utilize the capabilities of their installed systems. For those times that IT professionals are seeking a less expensive way to implement a project, Global Distribution acquires Brand Name, New, Fully Warranted Late Life Cycle products that can be serviced by any authorized provider. These products are acquired in volume and at costs typically 30-50% below market.

Global Distribution is a B2B division of ATEC that offers a unique combination of price and delivery to other resellers, retailers and enterprise

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customers. Our low cost overhead structure - selective inventory, extensive use of warehousing facilities of allied vendors and distributors - ensures cost effective solutions.

### Technology Integration Service

The microcomputer industry is characterized by numerous hardware systems that utilize different and often incompatible standards for hardware and software applications. Further, as new technologies in PCs, telecommunication and wireless are introduced, organizations need to continually redesign, upgrade and modify their existing systems. In response to these growing IT requirements, we recognize the need to go beyond the traditional system integration approach (trouble shooting, networking, custom configuration of technology) and to create an enterprise focused team: its Technology Integration Services (TIS) division. The TIS group is focused on providing value-added solutions to allow customers to take advantage of the technology they need without many of the obstacles required to implement them. The services offered by TIS include:

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1. Technology fulfillment and management
2. Staff augmentation and outsourcing
3. Professional and network services-ATEC branded solutions
4. Server-based computing (Microsoft Terminal Server and Citrix Metaframe)
5. Software solutions
6. E-commerce, Internet access, ISP and Internet integration
7. End-user support
8. Special technology and markets

### Software Solutions

We offer both project management capabilities and technical expertise to deliver high-quality custom software to our clients. We provide a wide range of services, including analysis, design, coding, testing, deployment, implementation, training and maintenance.

### IT Enabled Services

In the global, digital economy, the biggest challenge faced by a business enterprise is to reach, retain, acquire and service customers in a shrinking world - thanks to the universal penetration of the Internet. Today's empowered customer, regardless of the industry, company, or product has 3 expectations:

- o Easy and immediate access to information,
- o Personalized service,
- o Prompt and efficient response and resolution of problems.

Businesses are tapping into global availability of skilled resources and technology to address these customer needs and achieving significant improvements in cost, quality and time to deliver these services.

IT-enabled services are parts of the value chain (business process and services), which are sourced from a geographic area different from the location of the end users. They are usually delivered over private or efficient public networks and are frequently offered cross-border rather than from within the same national borders of the end user.

McKinsey predicts that the global IT-enabled services opportunity is

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likely to grow to \$142 billion by 2008. Customer interaction services, financial processing, accounting services and data management services will account for almost 90 percent of the market. According to IDC, worldwide spending on customer relationship management services is expected to be about \$90 billion annually by 2003.

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ATEC's IT- enabled services include:

- o Customer Interaction Center
  - Customer Relationship Management
  - Call Center / Contact Center
  - Help Desk
  - Telemarketing
  - Market research
  
- o Software Development & Maintenance

A call center traditionally is defined as a physical location with telecom links for incoming and outgoing calls and trained agents to carry out sales and support activities.

In today's market environment, a call center is really much more than that. It leverages convergence technologies of the WWW, internet, computer, telephony and CRM software to provide an integrated customer contact center with the focus on meeting a customer's needs for easy access, personalized services and fast response and resolution of problems. It collects valuable data about the customers, which is used to further strengthen the customer relationship. It acts as the central point for all forms of interaction between the company and its customers - phone call, telemarketing, web site, email, fax, chat, on-line support etc.

ATEC's off-shore customer contact center combines data and voice communication along with trained consultants to provide a variety of customer interaction related functions such as marketing, selling, information dispensing, technical support, help desk etc. A dedicated line circuit connects the offshore contact center to ATEC's Commack headquarters.

We entered this market in April 2001.

### COMPETITION

The microcomputer market is very competitive, and as such we compete directly with major PC manufacturers, a variety of local and national distributors, super stores, retailers, mail order houses and other entities that offer computer products and services. We compete with these entities based on our commitment to provide a cost-effective, single source, "end-to-end" solution to our clients' IT needs. We attempt to competitively price hardware and software items with our wide range of customer support and services; however, we do not focus on pricing as our primary competitive strength. Rather, we believe that our principal strength is our ability to offer clients complete and cost-efficient solutions to their individual IT needs.

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### BACKLOG

We do not have a significant backlog, as we normally deliver and



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install the computer products purchased by our clients within a short time of the date of order.

### GOVERNMENTAL REGULATION AND CONTRACTS

We believe that we are in compliance with federal and state laws and regulations that are applicable to our operations. We are not a party to any government contract that represents a material portion of our revenue or that, if terminated or renegotiated, would have a material adverse effect on our business.

### PATENTS AND TRADEMARKS

#### Patented Technology

The U.S. Patent & Trademark Office awarded Nexar a patent for its advanced PC motherboard and chassis design. The patent addresses the Nexar PC's Inverted Socket Process Architecture and design that place the processor, system memory and cache sockets on the undercarriage of the motherboard and a "future ready" XPA design that incorporates a highly innovative split motherboard design. XPA is a substantial enhancement to our ISPA patent because it supports multiple processor architectures. The XPA design separates the most stable components of a PC from those components that are most susceptible to technology obsolescence, easily enabling resellers and users to adapt to rapidly changing technologies.

#### Trademark

On May 11, 1999, the U.S. Patent and Trademark Office granted us a trademark for Nexar. We currently use the Nexar mark on our line of computers. The registration is enforceable for ten (10) years.

### EMPLOYEES

As of September 14, 2001, there was an aggregate of approximately 106 employees, including 5 administrators, 20 staff persons, 13 managers, 35 full-time sales persons, 30 technical and 3 warehouse personnel. We have no collective bargaining agreements and believe that relations with our employees are good.

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### ITEM 2. PROPERTIES

Our headquarters and executive offices are located at 69 Mall Drive, Commack, New York. This location occupies approximately 23,175 square feet pursuant to a lease expiring in 2005, and provides for annual rental payments of approximately \$134,000, plus certain expenses. We also maintain a retail location and warehouse facility in Albany, New York, consisting of approximately 8,050 square feet. The Albany facility lease expires on June 30, 2003 and requires annual rental payments of \$108,192, plus all expenses and taxes attributable to the operation of the premises. The Albany facility is leased from a company controlled by Surinder and Ashok Rametra, officers and directors of ATEC. The New York City operations are located at 143 West 29th Street, New

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York, New York. This location occupies 7,000 square feet; 4,000 square feet is leased on a month-to-month basis and requires annual rental payments of \$48,000, plus certain expenses and 3,000 square feet with required annual payments of \$36,000 per year, plus other expenses under a lease expiring in 2002. Our Pinebrook, New Jersey facility occupies 5,328 square feet and requires annual payments of approximately \$41,026 per year, plus other expenses under a lease expiring in 2002. Our Syracuse facility occupies 1,300 square feet and requires annual rental payments of approximately \$16,000 per year, plus other expenses under a lease expiring in 2002.

We believe that our current facilities are suitable for our present and projected needs. We do not own any real property.

### ITEM 3. LEGAL PROCEEDINGS

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On August 23, 1999, a class-action lawsuit was filed in the United States District Court for the Eastern District of New York on behalf of all persons who purchased 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. Plaintiffs seek to recover damages on behalf of all class members.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

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During the last quarter of fiscal year 2001, we did not submit any matter to the vote of our shareholders.

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## PART II

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### ITEM 5. MARKET FOR COMMON STOCK AND RELATED STOCKHOLDER MATTERS

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#### PRICE RANGE OF COMMON STOCK

Our common stock is currently traded on the American Stock Exchange under the symbol "TEC." The following table sets forth the high and low bid prices for our common stock for the periods indicated as reported by the NASDAQ and AMEX. Such prices reflect inter-dealer prices, without retail mark-up, markdown or commissions and may not necessarily represent actual transactions.

#### COMMON STOCK

	High	Low
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1999

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	Quarter ended 9/30.....	\$4.000		\$2.000
	Quarter ended 12/31.....	3.250		1.750
2000				
	Quarter ended 3/31.....	7.000		2.380
	Quarter ended 6/30.....	4.940		2.125
	Quarter ended 9/30.....	2.313		1.625
	Quarter ended 12/31.....	2.000		.438
2001				
	Quarter ended 3/31.....	1.000		.370
	Quarter ended 6/30.....	.810		.380

On September 20, 2001, there were approximately 247 holders of record of our common stock, 17 holders of record of Series A preferred shares and 3 holders of record of the Units. The number of record holders does not include holders whose securities are held in street name.

We do not currently pay dividends on our common stock. It is management's intention not to declare or pay dividends on our common stock, but to retain earnings for the operation and expansion of our business.

The holders of our Series A preferred shares are entitled to certain dividend payments upon declaration by the Board of Directors. (See "Item 8-Financial Statements").

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### ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data as and for each of the five years in the period ended June 30, 2001, 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	2001	2000	1999	1998
Net Sales	\$ 53,051,120	\$ 71,937,680	\$ 107,435,617	\$ 187,150,614
Income or (Loss) from continuing operations	\$ (4,525,134)	\$ 296,953	\$ (4,299,228)	\$ 2,740,066
Income (Loss) per common share:				
Basic	\$ (.64)	\$ .04	\$ (.62)	\$ .45
Diluted	\$ (.64)	\$ .04	\$ (.62)	\$ .43
Balance Sheet Data				
Total Assets	\$ 11,109,198	\$ 16,490,517	\$ 16,004,995	\$ 26,634,164
Long-term obligations	Nil	Nil	Nil	Nil
Cash dividends per				

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common share	Nil	Nil	Nil	Nil
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Results for fiscal 2001 includes charges of \$325,000 related to the temporary control of the Company by Applied Digital Solutions and the settlement of litigation of \$625,000.

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.

All earnings per share reflect our one-for-five reverse stock split in November 1997.

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

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#### Background

We are a leading system integrator and provider of a full line of IT service products, as well as a single source, "end-to-end" solution provider for the computer needs of businesses, professionals, government agencies and educational institutions.

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#### RESULTS OF OPERATIONS

##### 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 significant drop in sales in our TIS division and a \$2.3 million decline in our former Y2K consulting group. 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 in our former Y2K consulting group.

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

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7,088,603 for 2001.

Fiscal 2000 compared to Fiscal 1999

Revenues for the fiscal year ended June 30, 2000 ("fiscal 2000") decreased to \$71.9 million from \$107.4 million for the prior year, a decrease of approximately 33%. This decrease is primarily attributable to our exit from the low margin wholesale business. Our revenues are generated by sales of computer hardware and software, and related support services. Gross profit for fiscal 2000 increased to \$11.6 million from \$11.1 million for 1999, a 5% increase due to the higher margin revenues. Gross margin for fiscal 2000 improved to 16.1% as compared to 10.3% for the prior year.

Fiscal 2000 operating expenses, exclusive of amortization of intangible assets, decreased to \$11.1 million as compared to \$12.7 million for the prior year.

Amortization of intangible assets decreased to \$187,000 for the year from \$443,000 in the comparable 1999 period. In 1999 we incurred one-time charges of \$3,000,000 of goodwill for prior acquisitions. We also earned \$63,000 of interest income and incurred \$11,000 of interest expense in fiscal 2000 due to our continued strong working capital position.

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The provision for income taxes for 2000 was \$102,000 as compared to a benefit of \$641,000 for 1999.

As a result of the above, we had net income of \$297,000 for fiscal 2000 compared to net loss of \$4,300,000 in fiscal 1999. For 2000, net income per share was \$.04 compared to a net loss of \$.62 per share in the prior year. Basic and diluted average shares outstanding were each approximately 7,200,000 for fiscal 2000.

### LIQUIDITY AND CAPITAL RESOURCES

The cash position was \$1,555,020 at June 30, 2001, an increase of \$1,454,413 as compared to June 30, 2000. Working capital at June 30, 2001, was \$5,253,000 as compared to working capital of \$9,342,000 at June 30, 2000. The major sources of cash were derived primarily from reductions of inventory on hand and accounts receivable (\$4,968,000). Cash used for investing activities totaled \$105,000. 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 lines of credit with two financial institutions in the aggregate amount of \$15,775,000. At June 30, 2001, our indebtedness to these institutions was \$1,024,000, or a decrease of \$1,149,600 compared to June 30, 2000. Substantially all tangible and intangible assets are pledged as collateral for these facilities. In September 2001 we eliminated the \$15,000,000 line and our assets are no longer pledged as collateral.

### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

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We presently do not use any derivative financial instruments to hedge

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our exposure to adverse fluctuations in interest rates, fluctuations in commodity prices or other market risks, nor do we invest in speculative financial instruments. Borrowings under our line of credit are at Prime plus a quarter percent, which is adjusted monthly. Our interest income is sensitive to changes in the general level of U.S. interest rates, particularly since the majority of our investments are in short-term instruments.

Due to the nature of ATEC's borrowings and short-term investments, we have concluded that there is no material risk exposure and, therefore, no quantitative tabular disclosures are required.

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### 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.

### ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

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NONE

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## PART III

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### ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

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#### MANAGEMENT

#### Directors and Officers

The following table sets forth the names and ages of all current directors and officers and the position held by them:

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Name	Age	Position
----	---	-----
Surinder Rametra	61	Chairman of the Board and Chief Executive Officer
Ashok Rametra	49	President, Secretary, Treasurer and Director
James J. Charles	58	Chief Financial Officer and Director
Praveen Bhutani	54	Director
David C. Reback	59	Director
Stewart Benjamin	37	Director

Directors are elected to serve until the next annual meeting of stockholders and until their successors have been elected and have qualified. Officers are appointed to serve until the meeting of the Board of Directors following the next annual meeting of stockholders and until their successors have been elected and qualified.

Surinder Rametra was appointed the Chief Executive Officer and Chairman of the Board in June 1994. Prior to June 1994 Mr. Rametra was president of one of our subsidiaries. Mr. Rametra received a Bachelor of Science Degree from the Punjab Engineering College, India, and a Masters of Science Degree in Engineering from the University of I.I.T., India in 1965 and 1969, respectively. In 1976, Mr. Rametra received a Masters of Business Administration Degree in Finance from New York University.

Ashok Rametra was appointed President in January 1999. Prior thereto he was the Secretary, Treasurer, Chief Financial Officer and a Director since June 1994. From June 1994 to March 1995 Mr. Rametra also served as our president. Prior to 1994, Mr. Rametra was the president of one of the Company's subsidiaries. Mr. Rametra received a Bachelor of Science

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Degree from St. Johns University in Accounting in 1980. Mr. Rametra is the brother of Surinder Rametra.

James J. Charles was appointed Chief Financial Officer in January 1999. Prior to his appointment, he was a financial consultant to several public companies (1994-1998), Chief Financial Officer of a printing company (1990-1994) and a partner in the firm of Ernst & Young (1966-1990). He was appointed a Director in September 2000.

Praveen Bhutani was appointed a Director in May 2001. Mr. Bhutani was the founder of Ultra Spec Cables, Inc. and The Options Group, Inc. He serves both companies as the Chief Executive Officer since 1992. Prior to 1992 he held various executive positions. Mr. Bhutani has Bachelor and Master degrees in finance from the Delhi College, Delhi, India.

Stewart Benjamin was appointed a Director in May 2001. Mr. Benjamin is a certified public accountant in the State of New York. From January 1996 to the present, Mr. Benjamin has been self-employed as a sole practitioner under the name of Stewart H. Benjamin, CPA, P.C. From 1985 through December 1995, Mr. Benjamin was employed as a staff accountant in both private industry and local

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public accounting firms. Mr. Benjamin received a Bachelor of Business Administration degree from Pace University in 1985.

David C. Reback was appointed a Director in November 1997. Since 1969, Mr. Reback has been a partner with Reback & Potash, LLP, a law firm specializing in litigation, appellate matters and real estate. Mr. Reback received a BA from Syracuse University, and in 1965 he received a Juris Doctor's degree from Syracuse University College of Law.

Based solely upon a review of Forms 3, 4 and 5 furnished during the most recent fiscal year, it is believed, except as discussed below, that there were no Section 16(a) reports filed untimely during the years ended June 30, 2000 and 1999.

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### ITEM 11. EXECUTIVE COMPENSATION

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The Summary Compensation Table for the years ended June 30, 2001, 2000 and 1999 is provided herein. This table provides compensation information on behalf of the existing officers and directors who earned in excess of \$100,000. There are no Option/SAR Grants, Aggregated Option/SAR Exercises or Fiscal Year-End Option/SAR Value Table for the years ended June 30, 2001, 2000 and/or 1999. There are no long-term incentive plan ("LTIP") awards, or stock option or stock appreciation rights except as discussed below.

#### SUMMARY COMPENSATION TABLE

For the Years Ended June 30, 2001, 2000 and 1999  
Annual Compensation Awards Payouts

Name	Position	Year Ended	Salary (\$)	Bonus (\$)	Compen- sation (\$)	Options/ SARs	LTIP Payou
----	-----	-----	-----	-----	-----	-----	-----
Surinder Rametra	CEO	6/30/01	\$108,915		8,464 (1)	NONE	NONE
		6/30/00	\$200,000		12,731 (3)	NONE	NONE
		6/30/99	\$202,733		15,262 (5)	NONE	NONE
Ashok Rametra	President	6/30/01	\$215,077	\$50,000	10,766 (2)	none	NONE
		6/30/00	\$200,000	\$25,000	12,779 (4)	NONE	NONE
		6/30/99	\$174,980		11,652 (6)	NONE	NONE



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(1)	Major Medical	\$3,531,	Leased Auto	\$4,933
(2)	Major Medical	\$3,058,	Leased Auto	\$7,708
(3)	Major Medical	\$3,941,	Leased Auto	\$8,790
(4)	Major Medical	\$5,611,	Leased Auto	\$7,168
(5)	Major Medical	\$6,472,	Leased auto	\$8,790
(6)	Major Medical	\$4,484,	Leased auto	\$7,168

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Year End Option Table. The following table sets forth certain information regarding the stock options held as of June 30, 2001, by the individuals named in the above Summary Compensation Table.

### AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION VALUE

Name	Shares Acquired on exercise (#)	Value Realized(\$)	Securities Underlying Unexercised Options at Fiscal Year End (#)		Value In at Exercis
			Exercisable	Unexercisable	
Surinder Rametra(1)	0	0	1,047,000	1,250,000	0
Ashok Rametra(2)	0	0	345,000	1,000,000	0

- (1) Represents options to acquire: (i) 7,000 shares at \$3.44 per share exercisable through August 8, 2007; (ii) 500,000 shares at \$5.50 per share exercisable through March 28, 2008; (iii) 250,000 shares at \$4.67 per share exercisable through September 27, 2008; (iv) 140,000 shares at \$4.26 per share exercisable through June 29, 2009; (v) 150,000 shares at \$1.993 per share exercisable through November 7, 2009 and (vi) 1,250,000 shares at \$.56 per share exercisable through April 23, 2011.
- (2) Represents options to acquire: (i) 10,000 shares at \$3.44 per share exercisable through August 8, 2007; (ii) 35,000 shares at 3.7125 per share exercisable through October 8, 2008; (iii) 100,000 shares at \$6.80 per share exercisable through December 14, 2008; (iv) 200,000 shares at \$1.993 per share exercisable through November 7, 2009 and (v) 1,000,000 shares at \$.563 per share excisable through November 14, 2010.
- (3) Computation based on \$.81, which was the June 30, 2001, closing price for our common stock.

Option Grant Table. The following table sets forth certain information regarding the stock options granted during the fiscal year ended June 30, 2000, by us to the individuals named in the above Summary Compensation Table.

### OPTION GRANTS IN LAST FISCAL YEAR

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Name	Granted (#)	% of Total Options Granted to Employees in Fiscal Year	Exercise Price \$ / Share	Expiration Date
Surinder Rametra	1,250,000	44%	\$.56	2011
Ashok Rametra	1,000,000	35%	\$.563	2010

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ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth as of September 20, 2000, certain information with respect to the beneficial ownership of the voting securities by (i) any person (including any "group" as that term is used in Section 13(d)(3) of the Securities Exchange Act known by ATEC to be the beneficial owner of more than 5% of our voting securities, (ii) each director, (iii) each executive officer named in the Summary Compensation table appearing herein, and (iv) all executive officers and directors as a group. The table also sets forth the respective general voting power of such persons taking into account the voting power of our common stock and preferred stock combined.

Name and Address of Beneficial Owner Outstanding	Amount and Nature of Beneficial Ownership of Common Stock	Percentage of Voting Stock Outstanding(1)
Ashok Rametra (2) 1762 Central Avenue Albany, NY 12205	1,261,242	12.4%
Surinder Rametra (3) 69 Mall Drive Commack, NY 11725	2,140,640	21%
James Charles (4) 69 Mall Drive Commack, NY 11725	305,000	3%
Praveen Bhutani 69 Mall Drive Commack, NY 11725	244,910	**
David Reback (5) 69 Mall Drive Commack, NY 11725	25,000	**
Stewart Benjamin 69 Mall Drive Commack, NY 11725	—	**
All directors and (2) (3) (4) (5) (6)	3,752,882	37%

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executive/officers as a group  
(5 persons)

-----  
\*\* Less than 1%

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- (1) Computed based upon a total of 7,347,689 shares of common stock, 8,371 shares of Series A preferred stock, 1,458 shares of Series B preferred stock, 309,600 shares of Series C preferred stock and options to acquire 2,533,000 shares of common stock. Each share of common stock and preferred stock possesses one vote per share. Accordingly, the foregoing represents an aggregate of 10,200,118 votes.
- (2) The foregoing figure reflects the ownership of 229,146 shares of common stock by Mr. Rametra and 387,096 common shares owned by Mr. Rametra's spouse and children. The foregoing amount also assumes the exercise by Mr. Rametra of options to acquire 645,000 shares of the common stock. Mr. Rametra disclaims beneficial ownership of shares of ATEC securities owned by other members of the Rametra family. Excludes non-vested options to purchase 1,000,000 shares of common stock.
- (3) The foregoing figure reflects the ownership of 382,640 shares of common stock by Mr. Rametra and 200,000 shares by Mr. Rametra's spouse and 11,000 shares jointly. In addition, the foregoing assumes the exercise by Mr. Rametra of options to acquire 1,547,000 shares of ATEC common stock. Mr. Rametra disclaims beneficial ownership of the shares of ATEC securities owned by other members of the Rametra family, including independent children. Excludes non-vested options to purchase 1,250,000 shares of common stock
- (4) The foregoing figure reflects ownership of 10,000 shares of common stock by Mr. Charles. The foregoing amount also assumes the exercise by Mr. Charles of options to acquire 295,000 shares of common stock. Excludes non-vested options to purchase 300,000 shares of common stock.
- (5) The foregoing figure reflects options for the purchase of 25,000 shares of common stock.

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

-----

Our Albany facility is leased from a company controlled by Surinder and Ashok Rametra, officers and directors of ATEC. Our lease with this company requires annual rental payments of approximately \$108,000 per year plus all expenses and taxes attributable to the operation of the premises. The Company has not been a party to any significant transactions in the last fiscal year.

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### PART IV

### ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

-----

- (a) (1) FINANCIAL STATEMENTS

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

Edgar Filing: ATEC GROUP INC - Form 10-K

Independent Auditor's Report  
Consolidated Balance Sheet as at June 30, 2001 and 2000  
Consolidated Statements of Operations for the years  
ended June 30, 2001, 2000 and 1999  
Consolidated Statements of Cash Flows for the years  
ended June 30, 2001, 2000 and 1999  
Consolidated Statements of Stockholders' Equity for  
the years ended June 30, 2001, 2000 and 1999  
Notes to 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.

(3) EXHIBITS

None.

(b) REPORTS ON FORM 8-K

November 2000  
May 2001

(c) EXHIBITS

See Exhibit Index.

(d) Not Applicable.

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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

-----  
James J. Charles, Chief  
Financial Officer and Director

Dated: September 28, 2001

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

September 28, 2001

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-----  
Surinder Rametra, Chairman of the Board and  
Chief Executive Officer (Principal Executive Officer)

/s/ ASHOK RAMETRA

September 28, 2001

-----  
Ashok Rametra, President, Secretary, Treasurer and  
Director

/s/ STEWART BENJAMIN

September 28, 2001

-----  
Stewart Benjamin, Director

/s/ DAVID REBACK

September 28, 2001

-----  
David Reback, Director

/s/ PRAVEEN BHUTANI

September 28, 2001

-----  
Praveen Bhutani, Director

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Exhibits

Number	Description
21.1	List of Subsidiaries

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ATEC GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2001

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ATEC GROUP, INC. AND SUBSIDIARIES

JUNE 30, 2001

I N D E X

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	Page No. -----
INDEPENDENT AUDITORS' REPORT .....	F-1
FINANCIAL STATEMENTS:	
Consolidated Balance Sheets as at June 30, 2001 and 2000 ....	F-2
Consolidated Statements of Operations For the Years Ended June 30, 2001, 2000 and 1999 .....	F-3
Consolidated Statements of Cash Flows For the Years Ended June 30, 2001, 2000 and 1999 .....	F-4 - F-5
Consolidated Statements of Stockholders' Equity For the Years Ended June 30, 2001, 2000 and 1999 .....	F-6
NOTES TO FINANCIAL STATEMENTS .....	F-7 - F-22

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

LEVENTHAL & CO., LLP

1515 Broadway

NEW YORK, N.Y. 10036-5788

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CERTIFIED PUBLIC ACCOUNTANTS

212-869-3333  
FAX 212-764-3080  
WWW.WSLCO.COM

INDEPENDENT AUDITORS' REPORT  
-----

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, 2001 and 2000, and the related consolidated statements of operations, cash flows, and stockholders' equity for each of the three years ended June 30, 2001. 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.

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, 2001 and 2000, and the consolidated results of their operations and their cash flows for each of the three years ended June 30, 2001, 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 17, 2001

ATEC GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

A S S E T S  
-----

June 30,	
2001	2000
-----	-----
-----	-----

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Current assets:		
Cash	\$ 1,555,020	\$ 100,607
Accounts receivable - net	5,114,302	10,037,462
Inventories	1,666,633	2,356,825
Deferred taxes	581,510	459,456
Other current assets	585,634	1,594,027
	-----	-----
Total current assets	9,503,099	14,548,377
Property and equipment - net	420,255	532,238
Goodwill - net	1,134,177	1,346,149
Other assets	51,667	63,753
	-----	-----
	\$ 11,109,198	\$ 16,490,517
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Revolving lines of credit	\$ 1,024,157	\$ 2,173,776
Accounts payable	2,177,391	2,518,721
Accrued expenses	555,785	283,360
Deferred income	139,357	-
Other current liabilities	353,589	230,489
	-----	-----
Total current liabilities	4,250,279	5,206,346
	-----	-----
Stockholders' equity:		
Preferred stocks	835,582	310,582
Common stock	73,477	73,477
Additional paid-in capital	11,864,674	11,823,086
Discount on preferred stocks	(742,740)	(278,640)
Deficit	(4,543,043)	(17,909)
	-----	-----
	7,487,950	11,910,596
Less: Treasury stock - at cost	629,031	626,425
	-----	-----
Total stockholders' equity	6,858,919	11,284,171
	-----	-----
	\$ 11,109,198	\$ 16,490,517
	=====	=====

See accompanying notes to financial statements.

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ATEC GROUP, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS

For the Years Ended June 30,

-----	-----	-----
2001	2000	1999
-----	-----	-----



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Net sales	\$ 53,051,120	\$ 71,937,680	\$ 107,435,617
Cost of sales	46,767,529	60,353,009	96,317,894
Gross profit	6,283,591	11,584,671	11,117,723
Operating expenses:			
Selling and administrative	10,489,929	10,824,623	12,679,751
Research and development	157,595	234,557	10,525
Amortization of goodwill	189,327	186,626	442,577
Total operating expenses	10,836,851	11,245,806	13,132,853
Income (loss) from operations	(4,553,260)	338,865	(2,015,130)
Other income (expense):			
Impairment of long-lived assets	(22,645)	-	(2,999,075)
Interest income	52,101	62,789	124,171
Interest expense	(1,512)	(11,467)	(37,630)
Other income (expense)	38,450	8,291	(12,895)
Total other income (expense)	66,394	59,613	(2,925,429)
Income (loss) before income taxes	(4,486,866)	398,478	(4,940,559)
Provision for (benefit from) income taxes	38,268	101,525	(641,331)
Net income (loss)	(\$ 4,525,134)	\$ 296,953	(\$ 4,299,228)
Earnings (loss) per common share:			
Basic	(\$ .64)	\$ .04	(\$ .62)
Diluted	(\$ .64)	\$ .04	(\$ .62)
Weighted average shares outstanding:			
Basic	7,088,603	7,177,432	6,885,069
Diluted	7,088,603	7,221,927	6,885,069

See accompanying notes to financial statements.

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ATEC GROUP, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended June 30,

2001

2000

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Cash flows from operating activities:			
Net income (loss)	(\$ 4,525,134)	\$ 296,953	(\$
<hr style="border-top: 1px dashed black;"/>			
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	228,665	274,877	
Amortization of goodwill	189,327	186,626	
Loss on abandonment of leasehold improvements	-	1,438	
Compensatory element of issuances of capital stock	-	5,250	
Loss on impairment of long-lived assets	22,645	-	
Provision for doubtful accounts	645,535	42,216	
Deferred income	139,357	-	
Deferred taxes	(122,054)	(208,166)	
Changes in assets and liabilities:			
Accounts receivable	4,277,625	(1,413,178)	
Inventories	690,192	(1,246,552)	
Other current assets	1,008,393	(188,694)	
Revolving lines of credit	(1,149,619)	239,242	
Accounts payable	(341,330)	808,958	
Accrued expenses	333,325	(386,378)	
Income taxes payable	-	-	
Other current liabilities	123,100	(2,279)	
<hr style="border-top: 1px dashed black;"/>			
Total adjustments	6,045,161	(1,886,640)	
<hr style="border-top: 1px dashed black;"/>			
Net cash provided by (used in) operating activities	1,520,027	(1,589,687)	
<hr style="border-top: 1px dashed black;"/>			
Cash flows from investing activities:			
Purchase of property and equipment	(116,682)	(58,274)	
Security deposits	12,086	(9,159)	
Addition to goodwill	-	(13,000)	
<hr style="border-top: 1px dashed black;"/>			
Net cash used in investing activities	(104,596)	(80,433)	
<hr style="border-top: 1px dashed black;"/>			
Cash flows from financing activities:			
Capital contribution	41,588	-	
Issuance of capital stock	-	58,750	
Purchase of treasury stock	(2,606)	(534,974)	
Repayments to related parties	-	-	
Bank overdraft	-	-	
<hr style="border-top: 1px dashed black;"/>			
Net cash provided by (used in) financing activities	38,982	(476,224)	
<hr style="border-top: 1px dashed black;"/>			
Net increase (decrease) in cash	1,454,413	(2,146,344)	
Cash at beginning of year	100,607	2,246,951	
<hr style="border-top: 1px dashed black;"/>			
Cash at end of year	\$ 1,555,020	\$ 100,607	\$
<hr style="border-top: 1px dashed black;"/>			

See accompanying notes to financial statements.

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ATEC GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

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	For the Years Ended June 30,		
	2001	2000	1999
Supplemental Disclosures of Cash Flow Information:			
Cash paid during the year for:			
Income taxes	\$ 88,510	\$ 50,170	\$ 1,466,801
Interest	\$ 1,512	\$ 11,467	\$ 37,630
Supplemental Schedules of Noncash Operating and Financing Transactions:			
Issuance of common stock for services	\$ -	\$ 5,250	\$ 24,000
Issuance of Preferred Stock Series J convertible in connection with settlement of a lawsuit	\$ 60,900	\$ -	\$ -

See accompanying notes to consolidated financial statements.

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ATEC GROUP, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
FOR THE YEARS ENDED JUNE 30, 2001, 2000 AND 1999

	Preferred Stock		Common Stock	
	Shares	Amount	Shares	Amount
Balance at July 1, 1998	374,029	\$ 346,507	6,700,664	\$ 67,006
Purchase of treasury stock	-	-	-	-
Shares issued for warrants exercised	-	-	206,943	2,070
Shares issued for options exercised	-	-	405,058	4,051
Shares issued in accordance with employment agreement	-	-	9,697	97

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Shares issued for conversion of Preferred Series A and C	(44,020)	(25,417)	4,601	46
Net loss for the year	-	-	-	-
Balance at June 30, 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

	Discount on Preferred Stocks	Retained Earnings (Deficit)	Treasury Stock	
			Shares	Amount
Balance at July 1, 1998	(\$ 309,105)	\$ 3,984,366	-	\$ -
Purchase of treasury stock	-	-	(18,000)	(91,451)
Shares issued for warrants exercised	-	-	-	-
Shares issued for options exercised	-	-	-	-
Shares issued in accordance with employment agreement	-	-	-	-
Shares issued for conversion of Preferred Series A and C	21,015	-	-	-
Net loss for the year	-	(4,299,228)	-	-
Balance at June 30, 1999	(288,090)	(314,862)	(18,000)	(91,451)

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Purchase of treasury stock	-	-	(239,945)	(534,974)
Shares issued for services	-	-	-	-
Shares issued for options exercised	-	-	-	-
Shares issued for conversion of Preferred Series A and C	9,450	-	-	-
Net income for the year	-	296,953	-	-
Balance at June 30, 2000	(278,640)	(17,909)	(257,945)	(626,425)
Purchase of treasury stock	-	-	(1,300)	(2,606)
Capital contribution	-	-	-	-
Issuance of convertible Preferred Stock Series J	(464,100)	-	-	-
Net loss for the year	-	(4,525,134)	-	-
Balance at June 30, 2001	(\$ 742,740)	(\$ 4,543,043)	(259,245)	(\$ 629,031)

See accompanying notes to financial statements.

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ATEC GROUP, INC. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2001, 2000, AND 1999

NOTE 1- GENERAL AND 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, PC manufacturing, E-commerce and internet access services for its customers.

(c) Basis of Presentation:

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in

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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.

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NOTE 1- GENERAL AND ACCOUNTING POLICIES: (Continued)

(d) Summary of Significant Accounting Policies:

(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 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:

The Company amortizes goodwill over its estimated period of benefit, ranging from five to fifteen years. The goodwill is periodically reviewed to evaluate the future economic benefits and/or potential impairments which may effect recorded values.

(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.

(5) Research and Development Costs:

Research and development costs are charged to expense as incurred.

(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

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periods in which the deferred tax asset or liability is expected to be settled or realized.

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NOTE 1- GENERAL AND ACCOUNTING POLICIES: (Continued)

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

(7) Concentrations of Credit Risk:

Financial instruments that potentially subject the Company to 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. The recoverability of goodwill is evaluated on a separate basis for each acquisition. Based on an evaluation of its goodwill at June 30, 2001 and 1999, the Company determined that \$22,645 and \$2,999,075, respectively, of goodwill, net of accumulated amortization, associated with the Company's prior acquisitions was impaired.

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NOTE 1- GENERAL AND ACCOUNTING POLICIES: (Continued)

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

(10) Earnings Per Share:

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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. For the years ended June 30, 2001 and 1999, diluted earnings per share are not presented as it is anti-dilutive. 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,		
	2001	2000	1999
	-----	-----	-----
Net income (loss) available to common stockholders	\$ (4,525,134)	\$ 296,953	\$ (4,299,228)
	=====	=====	=====
Weighted average shares outstanding - basic	7,088,603	7,177,432	6,885,069
Employee stock options	-	18,392	-
Acquisition options	-	17,945	-
Convertible preferred stock	-	8,158	-
	-----	-----	-----
Weighted average shares outstanding - diluted	7,088,603	7,221,927	6,885,069
	=====	=====	=====
Earnings (loss) per common share:			
Basic	(\$ .64)	\$ .04	(\$ .62)
	=====	=====	=====
Diluted	(\$ .64)	\$ .04	(\$ .62)
	=====	=====	=====

(11) New Accounting Pronouncements:

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 and will affect the Company's treatment of goodwill at the start of fiscal year 2002. 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 will adopt FASB No. 142 beginning July 1, 2001, at which time amortization of goodwill will cease. At this time, the Company has not determined the complete impact of these Statements. However, for the year ended June 30, 2001, the Company has recognized \$189,327 of goodwill amortization.



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NOTE 2 - ACQUISITIONS.

(a) Logix Solutions, Inc.:

On April 7, 1998, the Company, pursuant to the terms of a stock purchase agreement, acquired 90% of the issued and outstanding capital stock of Logix Solutions, Inc. ("Logix"), a Colorado corporation, which provides solutions to the Y2K problem. In consideration for the shares acquired, the Company issued the following securities:

1. 252,000 shares of common stock;
2. Options to purchase up to 548,700 shares of common stock exercisable at a price of \$4.74 per share, expiring on October 10, 1999;
3. Options to purchase up to 176,000 shares of common stock exercisable at a price of \$7.50 per share, expiring on October 10, 1999;
4. Options to purchase up to 252,000 shares of common stock exercisable at a price of \$10 per share, expiring on December 31, 2000;
5. \$400,000 in cash.

The acquisition was accounted for as a purchase and resulted in goodwill of \$1,307,748. The remaining unamortized goodwill of approximately \$1,140,000 was reserved due to impairment in fiscal 1999.

(b) 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.

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NOTE 3- EQUITY SECURITIES.

The Company's authorized and issued capital stock at June 30, 2001 and 2000 consists of the following:

	Shares Authorized -----	Shares Issued or Outstanding -----		Amount -----
June 30, 2001:				
-----				
Preferred Stocks:				
Series A cumulative convertible	29,233	8,371	\$	837
Series B convertible	12,704	1,458		145

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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	100,000,000	7,347,689	\$ 73,477
		=====	=====

June 30, 2000:

-----  
**Preferred Stocks:**

Series A cumulative convertible	29,233	8,371	\$ 837
Series B convertible	12,704	1,458	145
Series C convertible	350,000	309,600	309,600
		-----	-----
Total preferred		319,429	\$ 310,582
		=====	=====
Common stock	70,000,000	7,347,689	\$ 73,477
		=====	=====

(a) Common Stock:

The Company's Board of Directors approved the increase of the number of authorized shares of the Company's common stock to 100,000,000 shares. The par value of the common stock is \$.01.

(b) Treasury Stock:

From time to time, the Board of Directors authorizes a common stock buy-back program. During the years ended June 30, 2001 and 2000, the Company purchased 1,300 and 239,945 shares of the Company's common stock at a cost of \$2,606 and \$534,974, respectively.

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NOTE 3- EQUITY SECURITIES. (Continued)

(c) Preferred Stock:

At June 30, 2001 and 2000, ATEC had four and three authorized series of preferred stock, respectively; 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, 2001 and 2000 are described in detail in Note 3 above.

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, 2001, the A shareholders were due \$1,334 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

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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 five shares, respectively, for each share of common stock or approximately 29,200 shares.

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. All of the outstanding shares shall then be automatically converted to common stock.

(d) Warrants:

At June 30, 2001, ATEC had outstanding warrants entitling the holders to purchase common stock as follows:

Number of Shares	Exercise Price	Expiration Date
-----	-----	-----
18,000	3.75	July 22, 2002
60,000	3.75	July 22, 2002

The warrants are not valued in the financial statements as the amounts are immaterial.

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NOTE 3- EQUITY SECURITIES. (Continued)

(e) Options:

At June 30, 2001, there were 7,602,087 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:

	For the Years Ended June 30,					
	2001			2000		
	Shares	Weighted Average Exercise Price		Shares	Weighted Average Exercise Price	Sha
-----	-----	-----	-----	-----	-----	-----
Outstanding at beginning of year	2,527,614	\$ 4.39		2,602,072	\$ 5.26	6,786
Granted	6,218,500	1.05		789,500	2.26	826
Exercised	-	-		(18,000)	3.26	(405)
Expired	(314,027)	8.52		(765,700)	5.30	(70)

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Cancelled	(830,000)	.57	(80,258)	3.46	(4,536)
Outstanding at end of year	7,602,087	\$ 1.81	2,527,614	\$ 4.39	2,602
Exercisable at end of year	5,058,787	\$ 2.45	1,604,114	\$ 5.44	1,875

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

Range of Exercise Prices	Options Outstanding			Number Exercisable at June 30, 2001
	Number Outstanding at June 30, 2001	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	
\$ .40 - \$6.80	7,602,087	4.66	\$1.81	5,058,787

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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, 2001, 2000 and 1999, respectively. Additionally, the weighted average fair value of employee stock options granted in the years ended June 30, 2001, 2000 and 1999 was \$1.93, \$2.01 and \$.40, 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,		
	2001	2000	1999
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 \$1,155,001 (\$860,477 net of

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taxes), \$986,845 (\$735,200 net of taxes), and \$2,044,716 (\$1,318,533 net of taxes) for the years ended June 30, 2001, 2000 and 1999, respectively. The pro forma effect on diluted earnings per common share would have been a reduction of \$.12, \$.10 and \$.19 for the years ended June 30, 2001, 2000 and 1999, respectively. The pro forma effect on basic earnings per common share would have been a reduction of \$.12, \$.10 and \$.19 for the years ended June 30, 2001, 2000 and 1999, respectively.

### NOTE 5- OPERATING LEASES.

ATEC conducts its operations under various noncancellable operating leases expiring at various dates through 2005. Future minimum rent payments, net of annual sublease rental income of \$80,548 are as follows:

For the Year Ending June 30, -----	
2002	\$299,514
2003	219,769
2004	151,120
2005	143,395
	-----
Total minimum annual rental	\$813,798 =====

Total rent expense for the years ended June 30, 2001, 2000 and 1999 amounted to \$456,060, \$460,084 and \$404,350, respectively.

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### NOTE 6- REVOLVING LINES OF CREDIT.

At June 30, 2001, ATEC and its subsidiaries have agreements with two financial institutions, whereby certain inventory purchases are financed. The first line grants the Company terms and charges no interest for 40 days and thereafter at rates ranging from prime plus 1/4% to 6-1/2% per annum. Borrowings under this line may be up to \$15,000,000. The line is collateralized by all the assets of the Company. At June 30, 2001 and 2000, the borrowings under this line amounted to \$709,586 and \$2,087,375. The second line grants the Company terms and charges interest at the prime rate. Borrowings under this line may be up to \$775,000. This line is collateralized by the inventory, subject to a prior lien. At June 30, 2001 and 2000, the borrowings under this line amounted to \$314,571 and \$86,401.

### 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.

### NOTE 8 - INCOME TAXES.

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

	2001	2000	1999
	-----	-----	-----
Current tax provision (benefit):			
Federal	\$ 112,036	\$ 188,675	(\$ 362,696)
State	48,286	121,016	(64,594)
	-----	-----	-----
	160,322	309,691	(427,290)
	-----	-----	-----
Deferred tax provision (benefit):			
Federal	(100,085)	(170,696)	(175,514)
State	(21,969)	(37,470)	(38,527)
	-----	-----	-----
	(122,054)	(208,166)	(214,041)
	-----	-----	-----
Income tax provision (benefit)	\$ 38,268	\$ 101,525	(\$ 641,331)
	=====	=====	=====

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NOTE 8 - INCOME TAXES. (Continued)

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

	2001		2000		1999
	-----	%	-----	%	-----
	-----	-----	-----	-----	-----
Tax at statutory	(\$ 1,526,000)	(34.0)	\$ 135,483	34.0	(\$ 1,679,790)
State income tax, net of federal tax benefit	(114,000)	(2.5)	(56,023)	(14.0)	(78,608)
Effect of nondeductibility of:					
Amortization and impairment of goodwill	72,000	1.6	54,089	13.6	1,170,163
Tax expense and loss limitations	16,000	0.4	55,472	13.9	(8,257)
Effect of net operating loss carryforward	-	-	(72,519)	(18.2)	-
Valuation allowance for deferred tax assets	1,438,000	32.0	-	-	-
Other	152,268	3.4	(14,977)	(3.8)	(44,839)
	-----	-----	-----	-----	-----
	\$ 38,268	0.9	\$ 101,525	25.5	(\$ 641,331)
	=====	=====	=====	=====	=====

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

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authorities where the Company and its subsidiaries are subject to tax. The Company has deferred tax assets consisting of the following temporary differences.

	June 30,	
	2001	2000
Net operating loss carryforward	\$ 1,524,000	\$ 177,743
Allowance for bad debts	485,510	281,713
Total deferred tax assets	2,009,510	459,456
Less: Valuation allowance for deferred tax assets	1,438,000	-
Total	\$ 571,510	\$ 459,456

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### 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 CEO 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.

### NOTE 10- OTHER FINANCIAL INFORMATION.

#### (a) Accounts receivable - Net:

Accounts receivable, net at June 30, 2001 and 2000 consists of the following:

	2001	2000
Accounts receivable	\$ 6,357,064	\$ 10,634,689
Allowance for doubtful accounts, returns and discounts	(1,242,762)	(597,227)
	\$ 5,114,302	\$ 10,037,462

For the years ended June 30, 2001, 2000 and 1999, \$71,949, (\$14,783) and \$897,356, respectively, was recovered or charged to bad debt expense.

#### (b) Other Current Assets:

Other current assets consist of the following at June 30, 2001 and 2000:

2001	2000
------	------

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Receivables from suppliers	\$ 140,546	\$ 505,594
Prepaid expenses	242,811	134,167
Prepaid and refundable income taxes	167,930	639,077
Sundry loans	34,347	315,189
	-----	-----
	\$ 585,634	\$ 1,594,027
	=====	=====

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NOTE 10- OTHER FINANCIAL INFORMATION. (Continued)

(c) Goodwill - Net:

Goodwill, net at June 30, 2001 and 2000 consists of the following:

	2001	2000
	-----	-----
Cost	\$ 5,727,573	\$ 5,727,573
Less: Impairment	3,021,720	2,999,075
	-----	-----
	2,705,853	2,728,498
Less: Accumulated amortization	1,571,676	1,382,349
	-----	-----
	\$ 1,134,177	\$ 1,346,149
	=====	=====

Amortization charged to operations for the years ended June 30, 2001, 2000 and 1999 amounted to \$189,327, \$186,626 and \$442,577, respectively.

(d) Property and Equipment:

Property and equipment are carried at cost and consist of the following at June 30, 2001 and 2000:

	2001	2000
	-----	-----
Leasehold improvements	\$ 563,573	\$ 470,905
Furniture and fixtures	244,293	234,855
Office equipment	887,852	873,276
Automobiles	110,598	110,598
	-----	-----
	1,806,316	1,689,634
Less: Accumulated depreciation and amortization	1,386,061	1,157,396
	-----	-----
	\$ 420,255	\$ 532,238
	=====	=====

Depreciation and amortization charged to operations for the years ended June 30, 2001, 2000 and 1999 amounted to \$228,665, \$274,877 and \$254,982, respectively.

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NOTE 10- OTHER FINANCIAL INFORMATION. (Continued)



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(e) Other Current Liabilities:

Other current liabilities consist of the following at June 30, 2001 and 2000:

	2001	2000
	-----	-----
Payroll taxes payable	\$ 38,592	\$ 53,192
Sales tax payable	33,295	84,428
Customers with credit balances	281,702	92,869
	-----	-----
	\$ 353,589	\$ 230,489
	=====	=====

(f) Transactions with Major Customers and Suppliers:

In each of the three years ended June 30, 2001, 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, 2001, 2000 and 1999, two suppliers accounted for 45%, 55% and 65% of the Company's purchases, respectively. At June 30, 2001, these two suppliers accounted for 59% of accounts payable.

(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 amounting to approximately, \$45,000, \$-0- and \$47,000 for the years ended June 30, 2001, 2000 and 1999, respectively.

NOTE 11- RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS.

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

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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,

2001	2000	1999
-----	-----	-----

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Net sales:			
TIS	\$ 17,437,079	\$ 32,579,527	\$ 42,218,303
B to B	33,525,488	35,311,719	65,134,311
Software	-	2,330,065	2,539,703
Manufacturing	2,088,552	2,005,201	869,958
Elimination of intersegment revenues	-	(288,832)	(3,326,658)
	-----	-----	-----
	\$ 53,051,119	\$ 71,937,680	\$ 107,435,617
	=====	=====	=====
Net income (loss):			
TIS	\$ (2,403,235)	\$ (1,011,907)	\$ (1,202,830)
B to B	(332,780)	1,316,876	(1,537,103)
Software	(13,985)	337,216	(388,202)
Manufacturing	(1,385,735)	(207,959)	(192,275)
Corporate	(389,399)	(137,273)	(978,818)
	-----	-----	-----
	\$ (4,525,134)	\$ 296,953	\$ (4,299,228)
	=====	=====	=====
Depreciation:			
TIS	\$ 165,649	\$ 166,388	\$ 128,624
B to B	29,887	32,506	53,233
Software	-	21,350	35,106
Manufacturing	3,933	5,545	3,368
Corporate	29,196	49,088	34,651
	-----	-----	-----
	\$ 228,665	\$ 274,877	\$ 254,982
	=====	=====	=====
Capital additions:			
TIS	\$ 107,793	\$ 52,150	\$ 253,807
B to B	8,889	6,124	41,832
Software	-	-	400,000
Manufacturing	-	13,000	392,804
Corporate	-	-	141,596
	-----	-----	-----
	\$ 116,682	\$ 71,274	\$ 1,230,039
	=====	=====	=====
Identifiable assets:			
TIS	\$ 825,454	\$ 7,091,035	\$ 7,205,285
B to B	3,765,364	6,566,091	4,202,432
Software	943,240	112,461	1,153,567
Manufacturing	911,199	1,947,502	563,082
Corporate	4,663,941	773,428	2,880,629
	-----	-----	-----
	\$ 11,109,198	\$ 16,490,517	\$ 16,004,995
	=====	=====	=====

During the years ended June 30, 2001, 2000, and 1999, one customer accounted for -0-%, 81.6% and 27.6%, respectively of the software segment.

During the years ended June 30, 2001, 2000, and 1999, one customer accounted for 68.3%, 30.5% and 13.5%, respectively of the manufacturing segment.

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

	September 30, 2000 -----	December 31, 2000 -----	March 31, 2001 -----	Jun 2 -----
Net sales	\$ 14,948,683 =====	\$ 13,435,283 =====	\$ 14,096,629 =====	\$ 10, -----
Gross profit	\$ 2,190,346 =====	\$ 1,803,946 =====	\$ 1,306,619 =====	\$ =====
Net loss	\$ (254,838) =====	\$ (421,365) =====	\$ (1,136,289) =====	\$ (2, =====
Loss per share:				
Basic	(\$0.04) =====	(\$0.06) =====	(\$0.16) =====	(\$0. =====
Diluted	(\$0.04) =====	(\$0.06) =====	(\$0.16) =====	(\$0. =====

	September 30, 1999 -----	December 31, 1999 -----	March 31, 2000 -----	June 2 -----
Net sales	\$ 20,188,643 =====	\$ 17,531,550 =====	\$ 15,592,963 =====	\$ 18, =====
Gross profit	\$ 3,817,707 =====	\$ 3,088,381 =====	\$ 2,483,512 =====	\$ 2, =====
Net income (loss)	\$ 270,129 =====	\$ 136,251 =====	\$ 138,184 =====	\$ (, =====
Earnings (loss) per share:				
Basic	\$0.04 =====	\$0.02 =====	\$0.02 =====	(\$0. =====
Diluted	\$0.04 =====	\$0.02 =====	\$0.02 =====	(\$0. =====