ATEC GROUP INC
Form 10-K
September 30, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

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

For the Fiscal Year Ended June 30, 2002

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period from_____ to _____

Commission File Number 0-22710

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

Delaware	13-3673965
(State or other jurisdiction of corporation or organization)	(IRS. Employer Identification Number)
69 Mall Drive, Commack, New York	11725
(Address of principal executive offices)	(Zip Code)

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

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

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirement for the past 90 days.

YES [X] NO [ ]

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

YES [X] NO [ ]

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

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

ii

ATEC GROUP, INC.
Form 10-K
Year Ended June 30, 2002
Table of Contents

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:

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

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

PART I

ITEM 1. BUSINESS

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, e-commerce, and Internet/Intranet solutions.

Our e-commerce website, 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. 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.

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.

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.

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, Dell, 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:

- Enhancing our existing value added/system integration services into a Technical Integration Services (TIS) division as the strategic marketing arm to serve clients effectively; and
- Creating a consolidated new corporate structure to streamline administrative functions.

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:

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

- Continual pursuit of new products and service offerings in response to market conditions, and
- 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, Toshiba, Gateway, Epson, and Hewlett-Packard/Compaq generated over 50% of our revenue for the year ended June 30, 2002. 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, 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.

Global Distribution

Global Distribution is a B2B division of ATEC that offers a unique combination of price and delivery to other resellers, retailers and enterprise customers. Our low cost overhead structure - selective inventory, extensive use of warehousing facilities of allied vendors and distributors - ensures cost effective solutions.

Global Distribution 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.

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.

Technology Integration Services

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: our 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:

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 and Internet integration
7. End-user support

8. Special technology and markets

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.

BACKLOG

We do not have a significant backlog, as we normally deliver and 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 us a patent for our advanced PC motherboard and chassis design. The patent addresses our Nexar Division PC's Inverted Socket Process Architecture and design that place the processor, system memory and cache sockets on the undercarriage of the motherboard.

Trademark

On May 11, 1999, the U.S. Patent and Trademark Office granted us a trademark for Nexar. The registration is enforceable for ten (10) years.

EMPLOYEES

As of September 16, 2002, there was an aggregate of approximately 57 employees, including 4 administrators, 19 staff persons, 6 managers, 12 full-time sales persons, 14 technical and 2 warehouse personnel. We have no collective bargaining agreements and believe that relations with our employees are good.

See Note 12 to the Consolidated financial statements contained elsewhere herein for our segment information.

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 $180,130, plus certain expenses. We are currently subletting approximately 18,500 square feet for $85,600 per annum. 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 York, New York. This location occupies 3,000 square feet and requires annual rental payments of $48,000, plus other expenses under a lease expiring in 2007. Our Pinebrook, New Jersey facility occupies 5,328 square feet and requires annual payments of approximately $48,500 per year, plus other expenses under a lease expiring in May 2007.

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

6

ITEM 3. LEGAL PROCEEDINGS

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. We have reached a settlement with the plaintiffs subject to court approval. This settlement will be paid by our insurance carrier.

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

During the last quarter of fiscal year 2002, we did not submit any matter to the vote of our stockholders.

7

PART II

ITEM 5. MARKET FOR COMMON STOCK AND RELATED STOCKHOLDER MATTERS

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
2000		
Quarter ended 9/30.........................	$ 2.313	$ 1.625
Quarter ended 12/31........................	2.000	0.438
2001		
Quarter ended 3/31.........................	1.000	0.370
Quarter ended 6/30.........................	0.810	0.380
Quarter ended 9/30.........................	0.840	0.370
Quarter ended 12/31........................	0.840	0.430
2002		
Quarter ended 3/31.........................	0.790	0.430
Quarter ended 6/30.........................	0.500	0.400

On September 16, 2002, there were approximately 260 holders of record of our common stock, 17 holders of record of Series A preferred shares, 294 holders of record of Series C 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").

ITEM 6. SELECTED FINANCIAL DATA

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

Operating Data	2002	2001	2000	1999	1998
Net Sales	$ 39,032,043	$ 53,051,120	$ 71,937,680	$107,435,617	$187,15
Income or (Loss) from continuing operations	$ (1,676,408)	$ (4,525,134)	$ 296,953	$ (4,299,228)	$ 2,74
Income (Loss) per common share:					
Basic	$ (.24)	$ (.64)	$ .04	$ (.62)	$
Diluted	$ (.24)	$ (.64)	$ .04	$ (.62)	$

Balance Sheet Data

Total Assets	$ 7,801,950	$ 11,109,198	$ 16,490,517	$ 16,004,995	$ 26,63
Long-term obligations	Nil	Nil	Nil	Nil	Nil
Cash dividends per common share	Nil	Nil	Nil	Nil	Nil

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

Results for fiscal 2001 include 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.

9

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

RESULTS OF OPERATIONS

General

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

Fiscal 2002 compared to Fiscal 2001

Revenues for the fiscal year ended June 30, 2002 ("fiscal 2002") decreased to $39.0 million from $53.1 million for the prior year, a decrease of approximately 27%. This decrease is primarily attributable to a significant drop in sales in our TIS division due to continued weakness in the PC industry. Gross profit for fiscal 2002 decreased to $5.4 million from $6.3 million for 2001, a 14% decrease due to the decreased revenues. Gross margin for fiscal 2002 was 14% as compared to 12% for the prior year.

Fiscal 2002 operating expenses decreased to $6.9 million as compared to $10.6 million (exclusive of amortization of intangible assets) for the prior year. The 3.5% decrease in operating expenses is related primarily to non-recurring charges of $950,000 in 2001 for the settlement of litigation of $625,000 and $325,000 related to the temporary control of the Company by Applied Digital Solutions. We also reduced our headcount and salary expense in 2002 by

$1,755,000.

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

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

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

Fiscal 2001 compared to Fiscal 2000

Revenues for the fiscal year ended June 30, 2001 ("fiscal 2001") decreased to $53.1 million from $71.9 million for the prior year, a decrease of approximately 26%. This decrease is primarily attributable to a 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 7,088,603 for 2001.

LIQUIDITY AND CAPITAL RESOURCES

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

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

Critical Accounting Policies

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America requires management to make judgments, assumptions and estimates that affect the amounts reported in the consolidated financial statements and accompanying notes. Note 1 to this consolidated financial statements in the Annual Report on Form 10-K for the fiscal year ended June 30, 2002 describes the significant accounting policies and methods used in the preparation of the consolidated

financial statements. Estimates are used for, but not limited to, the accounting for the allowance for doubtful accounts, inventory allowances, and goodwill impairments. Actual results could differ from these estimates. The following critical accounting policies are impacted significantly by judgments, assumptions and estimates used in the preparation of the consolidated financial statements.

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

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

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

Issues And Uncertainties

The following issues and uncertainties, among others, should be considered in evaluating the Companys 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, including independent sales representatives, in a very competitive labor market. Our ability to grow our service offerings has been somewhat limited by a shortage of qualified personnel, and we cannot assure you that we will be able to attract and retain such skilled personnel and representatives. The loss of a significant number of our existing technical personnel or sales representatives, difficulty in hiring or retaining additional technical personnel or sales representatives, or reclassification of our sales representatives as employees may have a material adverse effect on our business, results of operations and financial condition.

The computer industry is characterized by intense competition. We directly compete with local, regional and national systems integrators, value-added resellers and distributors as well as with certain computer manufacturers that market through direct sales forces and/or the Internet. The computer industry has recently experienced a significant amount of consolidation through mergers and acquisitions, and manufacturers of personal computers may increase competition by offering a range of services in addition to their current product and service offerings. In the future, we may face further competition from new market entrants and possible alliances between existing competitors. Moreover, additional suppliers and manufacturers may choose to market products directly to end users through a direct sales force and/or the Internet rather than or in addition to channel distribution, and may also choose to market services, such as repair and configuration services, directly to end-users. Some of our competitors have or may have, greater financial, marketing and other resources, and may offer a broader range of products and services, than us. As a result, they may be able to respond more quickly to new or emerging technologies or changes in customer requirements, benefit from greater purchasing economies, offer more aggressive hardware and service pricing or devote greater resources to the promotion of their products and services. We may not be able to compete successfully in the future with these or other current or potential competitors.

Our business is dependent upon our relationships with major manufacturers and distributors in the computer industry. Many aspects of our business are affected by our relationships with major manufacturers, including product availability, pricing and related terms, and reseller authorizations. The increasing demand for personal computers and ancillary equipment has resulted in significant product shortages from time to time, because manufacturers have been unable to produce sufficient quantities of certain products to meet demand. In addition, many manufacturers have adopted "just in time" manufacturing principles that can

reduce the immediate availability of a wide range of products at any one time. We cannot predict that manufacturers will maintain an adequate supply of these products to satisfy all the orders of our customers or that, during periods of increased demand, manufacturers will provide products to us, even if available, or at discounts previously offered to us. In addition, we cannot assure you that the pricing and related terms offered by major manufacturers will not adversely change in the future. Our failure to obtain an adequate supply of products, the loss of a major manufacturer, the deterioration of our relationship with a major manufacturer or our inability in the future to develop new relationships with other manufacturers may have a material adverse effect on our business, financial condition and results of operations. On May 3, 2002, the Hewlett-Packard Company and Compaq Computer Corporation merged. ATEC sells the products of both companies and we believe that we have strong relationships with both companies. While we do not believe that there will be a material adverse effect on our business, financial condition and results of operations as a result of this merger, there can be no assurance that such a material adverse effect will not occur.

The markets for our products and services are characterized by rapidly changing technology and frequent introduction of new hardware and software products and services. This may render many existing products and services noncompetitive, less profitable or obsolete. Our continued success will depend on our ability to keep pace with the technological developments of new products and services and to address increasingly sophisticated customer requirements. Our success will also depend upon our abilities to address the technical requirements of our customers arising from new generations of computer technologies, to obtain these new products from present or future suppliers and vendors at reasonable costs, to educate and train our employees as well as our customers with respect to these new products or services and to integrate effectively and efficiently these new products into both our internal systems and systems developed for our customers. We may not be successful in identifying, developing and marketing product and service developments or enhancements in response to these technological changes. Our failure to respond effectively to these technological changes may have a material adverse effect on our business, financial condition and results of operations.

Rapid product improvement and technological change characterize the computer industry. This results in relatively short product life cycles and rapid product obsolescence, which can place inventory at considerable valuation risk. Certain of our suppliers provide price protection to us, which is intended to reduce the risk of inventory devaluation due to price reductions on current products. Certain of our suppliers also provide stock balancing to us pursuant to which we are able to return unsold inventory to a supplier as a partial credit against payment for new products. There are often restrictions on the dollar amount of inventory that we can return at any one time. Price protection and stock balancing may not be available to us in the future, and, even if available, these measures may not provide complete protection against the risk of excess or obsolete inventories. Certain manufacturers have reduced the period for which they provide price protection and stock balancing rights. Although we maintain a sophisticated proprietary inventory management system, we cannot assure you that we will continue to successfully manage our existing and future inventory. Our failure to successfully manage our current or future inventory may have a material adverse effect on our business, financial conditions and results of operations.

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

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

ITEM 7A. QUANTITIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

We presently do not use any derivative financial instruments to hedge our exposure to adverse fluctuations in interest rates, fluctuations in commodity prices or other market risks, nor do we invest in speculative financial instruments. Borrowings under our line of credit are at Prime plus a quarter percent, which is adjusted monthly. Our interest income is sensitive to changes in the general level of U.S. interest rates, particularly since the majority of our investments are in short-term instruments.

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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.

NONE

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

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:

Name	Age	Position
Surinder Rametra	62	Chairman of the Board
Balwinder Singh Bathla	46	Chief Executive Officer and Director
Ashok Rametra	50	President, Secretary, Treasurer and Director
James J. Charles	59	Chief Financial Officer and Director
Praveen Bhutani	55	Director
David C. Reback	60	Director
Stewart Benjamin	38	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. He resigned as Chief Executive Officer in January 2002. Prior to June 1994 Mr. Rametra was president of one of our subsidiaries. Mr. Rametra received a Bachelor's degree in Mechanical Engineering from the Punjab Engineering College, India and a Master's degree in Industrial Engineering from the Indian Institute of Technology in 1965 and 1969 respectively. In 1976, Mr. Rametra received a Masters of Business Administration Degree in Finance from New York University.

Balwinder Singh Bathla was appointed as the Chief Executive Officer and Director of the Company in January 2002. Prior to 2002 he was the Chief Executive Officer of Advance Computer Management Group, Inc., a computer sales company. Prior to 1998, he was the

President and a Director of the Company.

Ashok Rametra was appointed President in January 1999. He has been the Company's Secretary, Treasurer 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 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 Caribbean Printing Industries, Inc., 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., a cable manufacturing company and The Options Group, Inc., a placement company. 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 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.

To our knowledge, based solely on a review of such materials as are required by the Securities and Exchange Commission, none of our officers, directors or beneficial holders of more than ten percent of our issued and outstanding shares of Common Stock has failed to timely file with the Securities and Exchange Commission any form or report required to be so filed pursuant to Section 16(a) of the Securities Exchange Act of 1934 during the fiscal year ended June 30, 2002.

ITEM 11. EXECUTIVE COMPENSATION

The Summary Compensation Table for the years ended June 30, 2002, 2001 and 2000 is provided herein. This table provides compensation information on behalf of the Chief Executive Officer and other officers 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, 2002, 2001 and/or 2000. 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, 2002, 2001 and 2000
Annual Compensation Awards Payouts

Name	Position	Year Ended	Salary($)	Bonus($)	Compen- sation($)	Options/ SARs	LTIP Payouts
Surinder Rametra	Chairman*	6/30/02	$159,615		14,367(1)		
		6/30/01	$108,915		8,464(2)	NONE	NONE
		6/30/00	$200,000		12,731(4)	NONE	NONE
Ashok Rametra	President	6/30/02	$181,731		10,772(5)		
		6/30/01	$215,077	$50,000	10,766(3)	NONE	NONE
		6/30/00	$200,000	$25,000	12,779(6)	NONE	NONE
Balwinder Singh Bathla	CEO*	6/30/02	$ 64,038		3,900(7)		

* Surinder Rametra was the Company's Chief Executive Officer during the fiscal years ended June 30, 2000 and 2001 and part of 2002. Mr. Bathla became Chief Executive Officer in January 2002.

(1) Major Medical $6,567, Leased Auto $7,800
(2) Major Medical $3,531, Leased Auto $4,933
(3) Major Medical $3,058, Leased Auto $7,708
(4) Major Medical $3,941, Leased Auto $8,790
(5) Major Medical $3,064, Leased Auto $7,708
(6) Major Medical $5,611, Leased Auto $7,168
(7) Leased auto $3,900

Year End Option Table. The following table sets forth certain information regarding the stock options held as of June 30, 2002, by the individuals named in the above Summary Compensation Table.

18

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-th at Fi
			Exercisable	Unexercisable	Exercisa
Surinder Rametra(1)	0	0	2,297,000	750,000	0
Ashok Rametra(2)	0	0	1,345,000	750,000	0
Balwinder Singh Bathla(3)	0	0	100,000	--	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 and 750,000 shares at $.50 per share exercisable through November 16, 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 and 750,000 shares at $.50 per share exercisable through November 16, 2011.

(3) Represents options to acquire 100,000 shares at $3.75 per share exercisable through December 19, 2006.

(4) Computation based on $.40, which was the June 28, 2002, 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, 2002, by us to the individuals named in the above Summary Compensation Table.

OPTION GRANTS IN LAST FISCAL YEAR

Name	Granted (#)	% of Total Options Granted to Employees in Fiscal Year	Exercise Price $ / Share	Expiration Date
Surinder Rametra	750,000	28%	$.50	2011
Ashok Rametra	750,000	28%	$.50	2011
Balwinder Singh Bathla				

19

EMPLOYMENT AGREEMENTS

Surinder Rametra, Balwinder Singh Bathla, and Ashok Rametra our executive officers, all have employment agreements that expire December 31, 2002, except for Mr. Balwinder Singh Bathla, whose agreement expires December 31, 2004. The agreements contain provisions for base compensation, termination of employment and change-in-control arrangements. The agreements provide annual compensation of $250,000 for Ashok Rametra and Balwinder Singh Bathla and $200,000 for Surinder Rametra. Changes to the annual compensation are determined each year by the compensation committee. In the event the Company is sold or a change in control occurs the Company may terminate these agreements at any time within 12 months following the transaction date provided that the employee receives compensation up to 18 months (in the case of Mr. Bathla 12 months compensation or the balance of the term of his agreement).

BOARD OF DIRECTORS COMPENSATION

All directors are entitled to reimbursement of reasonable travel and lodging expenses related to attending meetings of the board of directors and any committee on which they serve. On January 9, 2001, our stockholders approved that our non-employee directors receive up to $5,000 for attendance at each quarterly meeting of the board of directors plus up to $1,000 for attendance at each committee meeting. Non-employee directors are also eligible to participate in and receive stock options under the 2000 Plan. Directors who are employees receive no fees for attending meetings of the board of directors or any committee on which they serve.

During the fiscal year ended June 30, 2002 no director received any fees for attending meetings.

COMPENSATION COMMITTEE INTERLOCKS
AND INSIDER PARTICIPATION

In August 1994, the board of directors established a compensation committee, which is responsible for decisions regarding salaries, stock option grants and other matters regarding executive officers and key employees of ATEC. During fiscal 2002,Ashok Rametra, David C. Reback and Praveen Bhutani were members of the compensation committee. . In the opinion of the board of directors, Mr. Reback and Mr. Bhutani are independent of management and free of any relationship which would interfere with their exercise of independent judgment as a member of our compensation committee. Mr. Rametra is not independent based on his status as both an employee and executive officer of ATEC. See Item 13. "Certain Relationships and Related Transactions" for more information about Mr. Rametra's relationship with the Company.

REPORT OF THE COMPENSATION COMMITTEE

This report outlines the framework used for making compensation decisions. Management's compensation philosophy and the criteria used for making compensation decisions in fiscal 2002 regarding the Chief Executive Officer and the other named executive officers is set below.

Framework for Compensation Decisions.

The board of directors has overall responsibility for compensation and benefit programs. The board of directors created the compensation committee in August 1994 to facilitate its fulfillment of this responsibility. The committee administers ATEC's salary program and recommends to the board of directors grants of stock options under our stock option plans. The committee specifically reviews and recommends for board approval all decisions relating to the compensation of the Chief Executive Officer and other named executive officers.

Philosophy of Management Compensation.

ATEC has an aggressive goal to significantly improve stockholder value by being an industry growth leader. The committee recognizes that the compensation program must enable ATEC to attract, retain, and motivate key employees who are committed to creating stockholder value.

Criteria Used for Making Compensation Decisions in Fiscal 2002.

This section describes the criteria used by the board of directors and the compensation committee regarding compensation decisions in fiscal 2002 affecting the Chief Executive Officer and other executive officers named in the summary compensation table above. Before the establishment of the compensation committee, salaries were based on individual employment agreements and any bonuses were reflective of an individual's performance during the year and that individual's current compensation compared to competitive market practices.

Base Salary.

In fiscal 2002, the committee reviewed and compared various executive compensation programs established by competitors in ATEC's industry to determine whether compensation levels for ATEC's executive officers were consistent with competitive practice for companies in the same line of business. The committee reviewed base salaries, bonuses and whether executive officers were granted stock options at these comparable companies. The committee believed that these levels should serve as a barometer of the compensation levels to which executive compensation should be compared. Based on these comparisons, the committee recommended and the board of directors approved the base salary for each of the executive officers named in the summary compensation table effective July 1, 2001 and for Mr. B. Singh Bathla effective January 1, 2002.

Bonuses.

In fiscal 2002, no bonuses were awarded.

Stock Options.

In fiscal 2002, the committee recommended, and the board of directors approved, grants of incentive stock options to each of the executive officers named in the summary compensation table above.

The committee believes that our compensation practices and plans bring ATEC's executives into line with current market conditions for pay and benefits in its industry and supports ATEC's mission and strategies going forward.

Ashok Rametra
David Reback
Praveen Bhutani

PERFORMANCE GRAPH

Total Return To Shareholder's
(Dividends reinvested monthly)

ANNUAL RETURN PERCENTAGE
Years Ending

Company / Index	Jun98	Jun99	Jun00	Jun01	Jun02
ATEC GROUP INC	142.20	-47.46	-45.16	-61.88	-50.62
S&P SMALLCAP 600	19.46	-2.31	14.39	11.12	0.27
S&P 600 COMPUTER HARDWARE	-43.51	22.12	-52.56	-31.04	3.55

INDEXED RETURNS
Years Ending

Company / Index	Base Period Jun97	Jun98	Jun99	Jun00	Jun01	Jun02

ATEC GROUP INC	100	242.20	127.26	69.79	26.60	13.14
S&P SMALLCAP 600	100	119.46	116.70	133.49	148.32	148.73
S&P 600 COMPUTER HARDWARE	100	56.49	68.99	32.73	22.57	23.37

TOTAL SHAREHOLDER RETURNS

[GRAPHIC OMITTED]

23

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth as of September 20, 2002, 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)
Balwinder Singh Bathla(2) 69 Mall Drive Commack, NY 11725	425,000	3.0%
Ashok Rametra(3) 1762 Central Avenue Albany, NY 12205	2,272,242	16.5%
Surinder Rametra(4) 69 Mall Drive Commack, NY 11725	3,408,040	25%
James Charles(5) 69 Mall Drive Commack, NY 11725	605,000	3%
Praveen Bhutani(7) 69 Mall Drive Commack, NY 11725	254,910	2%
David Reback(6) 69 Mall Drive	36,000	**

Commack, NY 11725		
Stewart Benjamin(8) 69 Mall Drive Commack, NY 11725	10,000	**

24

All directors and (2)(3)(4)(5)(6)(7)(8) executive/officers as a group (7 persons)	7,011,192	49%

** Less than 1%

(1) Computed based upon a total of 8,347,689 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 5,192,000 shares of common stock. Each share of common stock and preferred stock possesses one vote per share. Accordingly, the foregoing represents an aggregate of 13,859,118 votes.

(2) The foregoing figure reflects the ownership of 325,000 shares of common stock by Mr. Bathla and options to acquire 100,000 shares of common stock.

(3) The foregoing figure reflects the ownership of 240,146 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 1,645,000 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 750,000 shares of common stock.

(4) The foregoing figure reflects the ownership of 400,040 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 2,797,000 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 750,000 shares of common stock

(5) 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 595,000 shares of common stock. Excludes non-vested options to purchase 200,000 shares of common stock.

(6) The foregoing figure reflects ownership of 1,000 shares of common stock and options for the purchase of 35,000 shares of common stock.

(7) The foregoing figure reflects ownership of 244,910 shares of common stock by Mr. Bhutani. The foregoing also assumes the exercise of options to acquire 10,000 shares of common stock.

(8) The foregoing figures reflect options for the purchase of 10,000 shares of common stock.

25

The following table gives information about the Company's common stock that may be issued upon the exercise of options, warrants and rights under all of the Company's equity compensation plans as of June 30, 2002. The table includes the following plans: 1997 Stock Option Plan; and 2001 Flexible Stock Plan.

Plan Category	Number of Securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-av exercise pr outstand options, wa and righ
	(a)	(b)
Equity compensation plans approved by security holders:		
1997 Stock Option Plan	2,332,203	$ 3.6
2001 Flexible Stock Plan	6,311,200	$ 0.5
Total	8,643,403	$ 4.2

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.

In April 2001, the Company entered the IT enabled services market. The Company had no revenue from this division. In April 2002 we sold the division to ITES, LLC, a company controlled by our Chairman, Surinder Rametra for 10% of its pre-tax profits for a period of three years ending December 31, 2004 not to exceed $100,000. At June 30, 2002 the company had revenues of $2,652 and a loss of $37,000.

In March 2002, we paid $223,606 to Advance Computer Management Group (ACM), a company owned and controlled by our Chief Executive Officer Balwinder Singh Bathla. The payments were for the purchase of fixed assets and inventory of $30,558, expenses paid by ACM for Mr. Bathla, $25,807 and $167,241 to purchase notes and over advances on commissions for former ACM employees who entered into sales consulting agreements with us. The notes of

$119,444 are guaranteed by ACM.

Our Chief Executive Officer, Balwinder Singh Bathla, President, Ashok Rametra and two non-executive officers , Arvin Gulati and Rajnish Rametra, invested $25,000 each in a company controlled by Mr. Sonu Sodhi who is a stockholder of ATEC and has a sales consulting agreement with us. Rajnish Rametra is the brother of Ashok Rametra and Surinder Rametra, our Chairman.

PART IV

ITEM 14. CONTROLS AND PROCEDURES

Not Applicable.

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

(a) (1) FINANCIAL STATEMENTS

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

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

(2) OTHER SCHEDULES

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

(3) EXHIBITS

See c below.

(b) REPORTS ON FORM 8-K

None

(c) EXHIBITS

Number Description

*3.1	Certificate of Incorporation of the Company
*3.2	Certificate of Amendment of Certificate of Incorporation, filed October21, 1992
*3.3	By-laws of the Company
*3.4	Certificate of Amendment of Certificate of Incorporation, filed December 22, 1992
*3.5	Form of Certificate of Powers, Designations, Preferences and Rights of the Series A 10% Cumulative Convertible Preferred Stock
*4.7	Form of Common Stock Certificate
*4.9	Form of Preferred Stock Certificate
21.1	List of Subsidiaries
23.1	Consent of Weinick Sanders Leventhal & Co LLP
99.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Incorporated by reference from Registration Statement on Form SB-2 (registration no. 33-54356) filed by the Company with the Securities and Exchange Commission on November 9, 1992.

(d) Not Applicable.

29

SIGNATURES

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
(Principal Financial and Accounting Officer)
and a Director

Dated: September 26, 2002

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 26, 2002

Surinder Rametra, Chairman of the Board

/s/ BALWINDER SINGH BATHLA Chief Executive Officer (Principal Executive Officer)	September 26, 2002
/s/ ASHOK RAMETRA Ashok Rametra, President, Secretary, Treasurer and Director	September 26, 2002
/s/ STEWART BENJAMIN Stewart Benjamin, Director	September 26, 2002
/s/ DAVID REBACK David Reback, Director	September 26, 2002

30

CERTIFICATIONS

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

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

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

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

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

/s/ BALWINDER SINGH BATHLA
Balwinder Singh Bathla
Chief Executive Officer
September 26, 2002

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

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

(2) Based on my knowledge, this annual report does not contain any

untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report; and

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

/s/ JAMES J. CHARLES

James J. Charles
Chief Financial Officer
September 26, 2002

31

Exhibits

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

32

ATEC GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2002

ATEC GROUP, INC. AND SUBSIDIARIES

JUNE 30, 2002

I N D E X

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.

WSL WEINICK SANDERS LEVENTHAL & CO. LLP

1375 BROADWAY
NEW YORK, N.Y. 10018-7010

CERTIFIED PUBLIC ACCOUNTANTS

212-869-3333
FAX: 212-764-3060
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, 2002 and 2001, and the related consolidated statements of operations, cash flows, and stockholders' equity for each of the three years ended June 30, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

/s/ WEINICK SANDERS LEVENTHAL & CO., LLP

New York, N. Y.
August 14, 2002

ATEC GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

A S S E T S

	June 30, 2002	June 30, 2001
Current assets:		

Cash	$ 1,382,722	$ 1,555,020
Accounts receivable - net	3,166,078	5,114,302
Inventories	602,792	1,666,633
Deferred taxes	401,493	581,510
Other current assets	858,682	585,634
Total current assets	6,411,767	9,503,099
Property and equipment - net	290,040	420,255
Goodwill - net	864,961	1,134,177
Other assets	235,182	51,667
	$ 7,801,950	$ 11,109,198

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Revolving lines of credit	$ 368,292	$ 1,024,157
Accounts payable	1,114,071	2,177,391
Accrued expenses	585,795	555,785
Deferred income	26,976	139,357
Other current liabilities	654,182	353,589
Total current liabilities	2,749,316	4,250,279
Stockholders' equity:		
Preferred stocks	835,582	835,582
Common stock	73,435	73,477
Additional paid-in capital	11,815,397	11,864,674
Discount on preferred stocks	(742,740)	(742,740)
Deficit	(6,219,452)	(4,543,043)
	5,762,222	7,487,950
Less: Treasury stock - at cost	709,588	629,031
Total stockholders' equity	5,052,634	6,858,919
	$ 7,801,950	$ 11,109,198

See accompanying notes to financial statements.

F-2

ATEC GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Years Ended June 30,		
	2002	2001	2000
Net sales	$ 39,032,043	$ 53,051,120	$ 71,937,680
Cost of sales	33,600,688	46,767,529	60,353,009
Gross profit	5,431,355	6,283,591	11,584,671
Operating expenses:			
Selling and administrative	6,886,953	10,489,929	10,824,623
Research and development	--	157,595	234,557
Amortization of goodwill	--	189,327	186,626
Total operating expenses	6,886,953	10,836,851	11,245,806
Income (loss) from operations	(1,455,598)	(4,553,260)	338,865
Other income (expense):			
Impairment of long-lived assets	(219,896)	(22,645)	--
Interest income	40,755	52,101	62,789
Interest expense	--	(1,512)	(11,467)
Other income	22,009	38,450	8,291
Total other income (expense)	(157,132)	66,394	59,613
Income (loss) before income taxes	(1,612,730)	(4,486,866)	398,478
Provision for income taxes	63,678	38,268	101,525
Net income (loss)	($ 1,676,408)	($ 4,525,134)	$ 296,953
Earnings (loss) per common share:			
Basic	($ .24)	($ .64)	$ .04
Diluted	($ .24)	($ .64)	$ .04
Weighted average shares outstanding:			
Basic	6,988,054	7,088,603	7,177,432
Diluted	6,988,054	7,088,603	7,221,927

See accompanying notes to financial statements.

F-3

ATEC GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended June 30,		
	2002	2001	2000
Cash flows from operating activities:			
Net income (loss)	($1,676,408)	($4,525,134)	$ 296,95
Adjustments to reconcile net income (loss) in net cash provided by (used in) operating activities:			
Depreciation and amortization	159,969	228,665	274,87
Amortization of goodwill	--	189,327	186,62
Loss on abandonment of leasehold improvements	--	--	1,43
Compensatory element of issuances of capital stock	--	--	5,25
Loss on impairment of long-lived assets	219,896	22,645	-
Provision for doubtful accounts	75,308	645,535	42,21
Deferred income	(112,381)	139,357	-
Deferred taxes	--	(122,054)	(208,16
Changes in assets and liabilities:			
Accounts receivable	1,872,916	4,277,625	(1,413,17
Inventories	1,063,841	690,192	(1,246,55
Deferred taxes	180,017	--	-
Other current assets	(273,048)	1,008,393	(188,69
Other assets	(183,515)	--	-
Revolving lines of credit	(655,865)	(1,149,619)	239,24
Accounts payable	(1,063,320)	(341,330)	808,95
Accrued expenses	30,010	333,325	(386,37
Other current liabilities	300,592	123,100	(2,27
Total adjustments	1,614,420	6,045,161	(1,886,64
Net cash provided by (used in) operating activities	(61,988)	1,520,027	(1,589,68
Cash flows from investing activities:			
Purchase of property and equipment	(29,753)	(116,682)	(58,27
Security deposits	--	12,086	(9,15
Addition to goodwill	--	--	(13,00
Net cash used in investing activities	(29,753)	(104,596)	(80,43
Cash flows from financing activities:			
Capital contribution	--	41,588	-
Issuance of capital stock	--	--	58,75
Purchase of treasury stock	(80,557)	(2,606)	(534,97
Net cash provided by (used in) financing activities	(80,557)	38,982	(476,22
Net increase (decrease) in cash	(172,298)	1,454,413	(2,146,34

Cash at beginning of year	1,555,020	100,607	2,246,95
Cash at end of year	$ 1,382,722	$ 1,555,020	$ 100,60
Supplemental Disclosures of Cash Flow Information:			
Cash paid during the year for:			
Income taxes	$ 7,721	$ 88,510	$ 50,17
Interest	$ --	$ 1,512	$ 11,46
Supplemental Schedules of Noncash Operating Operating and Financial Transactions:			
Issuance of common stock for services	$ --	$ --	$ 5,25
Issuance of Preferred Stock Series J convertible in connection with settlement of a lawsuit	$ --	$ 60,900	$ -
Retirement of common stock	$ 49,319	$ --	$ -

See accompanying notes to financial statements.

ATEC GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED JUNE 30, 2002, 2001 AND 2000

	Preferred Stock		Common Stock		Additional Paid-In Capital	Discount on Preferred Stocks	Deficit	
	Shares	Amount	Shares	Amount				
Balance at July 1, 1999	330,009	$ 321,090	7,326,963	$ 73,270	$ 11,758,235	($ 288,090)	($ 314,862)	
Purchase of treasury stock	--	--	--	--	--	--	--	(
Shares issued for services	--	--	2,500	25	5,225	--	--	

Shares issued for options exercised	--	--	18,000	180	58,570	--	--
Shares issued for conversion of Preferred Series A and C	(10,580)	(10,508)	226	2	1,056	9,450	--
Net income for the year	--	--	--	--	--	--	296,953
Balance at June 30, 2000	319,429	310,582	7,347,689	73,477	11,823,086	(278,640)	(17,909)
Purchase of treasury stock	--	--	--	--	--	--	--
Capital contribution	--	--	--	--	41,588	--	--
Issuance of convertible Preferred Stock Series J	105,000	525,000	--	--	--	(464,100)	--
Net loss for the year	--	--	--	--	--	--	(4,525,134)
Balance at June 30, 2001	424,429	835,582	7,347,689	73,477	11,864,674	(742,740)	(4,543,043)
Purchase of treasury stock	--	--	--	--	--	--	--
Capital contribution	--	--	--	--	30,082	--	--
Cost related to capital contribution	--	--	--	--	(30,082)	--	--
Net loss for the year	--	--	--	--	--	--	(1,676,408)
Retirement							

of common stock	--	--	(42,718)	(42)	(49,277)	--	--	
Balance at June 30, 2002	424,429	$ 835,582	7,304,971	$ 73,435	$ 11,815,397	($ 742,740)	($ 6,219,451)	(

See accompanying notes to financial statements.

F-5

ATEC GROUP, INC. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2002, 2001, AND 2000

NOTE 1 - SUMMARY OF SIGNIFICANT AND CRITICAL ACCOUNTING POLICIES:

(a) Organization and Presentation of Financial Statements:

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

(b) Principal Business Activity:

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

(c) Basis of Presentation:

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

(d) Summary of Significant Accounting Policies:

(1) Inventories:

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

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

(2) Property and Equipment:

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

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

(3) Goodwill:

In June 2001, the Financial Accounting Standards Board issued Statement NO. 141, ACCOUNTING FOR BUSINESS COMBINATIONS, and Statement NO. 142, GOODWILL AND OTHER INTANGIBLE ASSETS. These Statements modify accounting for business combinations after June 30, 2001. SFAS No. 141 prohibits pooling-of-interests accounting for acquisitions. SFAS No. 142 requires that goodwill existing at the date of adoption be reviewed for possible impairment and the impairment tests be periodically repeated, with impaired assets written-down to fair value. Additionally, existing goodwill must be assessed and classified consistent with the Statements' criteria. The Company has adopted FASB No. 142 beginning July 1, 2001, upon which the amortization of goodwill ceased. For the years ended June 30, 2001 and 2000, the Company recognized $189,327 and $186,626 of goodwill amortization, respectively.

(4) Revenue Recognition:

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

(5) Research and Development Costs:

Research and development costs are charged to expense as incurred.

(6) Income Taxes:

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

NOTE 1 - SUMMARY OF SIGNIFICANT AND CRITICAL 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, 2002 and 2001, the Company determined that $219,896 and $22,645, respectively, of goodwill, net of accumulated amortization, associated with the Company's prior acquisitions was impaired.

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

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

(10) Earnings Per Share:

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

	For the Years Ended June 30,		
	2002	2001	2000
Net income (loss) available to common stockholders	($1,676,408)	($4,525,134)	$ 296,953
Weighted average shares outstanding - basic	6,988,054	7,088,603	7,177,432
Employee stock options	--	--	18,392
Acquisition options	--	--	17,945
Convertible preferred stock	--	--	8,158
Weighted average shares outstanding - diluted	6,988,054	7,088,603	7,221,927
Earnings (loss) per common share:			
Basic	($ .24)	($ .64)	$ .04
Diluted	($ .24)	($ .64)	$ .04

NOTE 2 - ACQUISITIONS.

Nexar Technologies, Inc.:

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

NOTE 3 - EQUITY SECURITIES.

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

	Shares Authorized	Shares Issued or Outstanding	Amount
June 30, 2002:			
Preferred Stocks:			
Series A cumulative convertible	29,233	8,371	$ 837
Series B convertible	12,704	1,458	145
Series C convertible	350,000	309,600	309,600
Series J convertible	105,000	105,000	525,000
Total preferred		424,429	$ 835,582
Common stock	70,000,000	7,304,971	$ 73,435
June 30, 2001:			
Preferred Stocks:			
Series A cumulative convertible	29,233	8,371	$ 837
Series B convertible	12,704	1,458	145
Series C convertible	350,000	309,600	309,600
Series J convertible	105,000	105,000	525,000
Total preferred		424,429	$ 835,582
Common stock	70,000,000	7,347,689	$ 73,477

(a) Treasury Stock:

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

(b) Preferred Stock:

At June 30, 2002 and 2001, ATEC had four authorized series of preferred stock; Series A Cumulative Convertible (par value $.10), Series B Convertible (par value $.10), Series C Convertible (par value

$1) and Series J Convertible (par value $.01) (hereinafter referred to as the "A", "B", "C" and "J" shares, respectively). The authorized and issued shares for each of the Series at June 30, 2002 and 2001 are described in detail in Note 3 above.

NOTE 3 - EQUITY SECURITIES. (Continued)

(b) Preferred Stock: (Continued)

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

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

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

(c) Options:

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

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

	2002		2001		2000	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weight Averag Exerci Price
Outstanding at						

beginning of year	7,602,087	$ 1.81	2,527,614	$ 4.39	2,602,072	$ 5
Granted	2,686,300	.48	6,218,500	1.05	789,500	2
Exercised	--	--	--	--	(18,000)	3
Expired	(79,100)	3.17	(314,027)	8.52	(765,700)	5
Cancelled	(1,610,988)	1.91	(830,000)	.57	(80,258)	3
Outstanding at end of year	8,598,299	$ 1.36	7,602,087	$ 1.81	2,527,614	$ 4
Exercisable at end of year	4,344,032	$ 2.19	5,058,787	$ 2.45	1,604,114	$ 5

NOTE 3 - EQUITY SECURITIES. (Continued)

(c) Options: (Continued)

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

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

NOTE 4 - ACCOUNTING FOR STOCK - BASED COMPENSATION.

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

	For the Years Ended June 30,		
	2002	2001	2000
Expected term:			
All stock options	10 years	10 years	10 years
Interest rate	4.00%	5.00%	5.00%

Volatility	85.00%	93.27%	78.40%
Dividends	None	None	None

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

F-12

NOTE 5 - OPERATING LEASES.

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

For the Years Ending June 30,	
2003	$276,374
2004	213,168
2005	209,939
2006	57,094
2007	50,012
Total minimum annual rentals	$806,587

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

NOTE 6 - REVOLVING LINES OF CREDIT.

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

NOTE 7 - LITIGATION.

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

F-13

NOTE 8 - INCOME TAXES.

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

	2002	2001	2000
Current tax provision (benefit):			
Federal	$ --	$ 112,036	$ 188,675
State	63,678	48,286	121,016
	63,678	160,322	309,691
Deferred tax provision (benefit):			
Federal	--	(100,085)	(170,696)
State	--	(21,969)	(37,470)
	--	(122,054)	(208,166)
Income tax provision (benefit)	$ 63,678	$ 38,268	$ 101,525

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

	2002		2001		2000
		%		%	
Tax at statutory	($ 548,000)	(34.0)	($1,526,000)	(34.0)	$ 135,483
State income tax, net of federal tax benefit	63,678	3.9	(114,000)	(2.5)	(56,023)
Effect of nondeductability of:					
Amortization and impairment					

of goodwill	74,460	4.6	72,000	1.6	54,089
Tax expense and loss limitations	--	--	16,000	0.4	55,472
Effect of NOL carryforward	--	--	--	--	(72,519)
Valuation allowance for deferred tax assets	473,540	29.4	1,438,000	32.0	--
Other	--	--	152,268	3.4	(14,977)
	$ 63,678	3.9	$ 38,268	0.9	$ 101,525

NOTE 8 - INCOME TAXES. (Continued)

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

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

NOTE 9 - RELATED PARTY TRANSACTIONS.

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

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

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

NOTE 10 - OTHER FINANCIAL INFORMATION.

(a) Accounts receivable - Net:

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

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

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

NOTE 10 - OTHER FINANCIAL INFORMATION. (Continued)

(b) Other Current Assets:

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

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

(c) Goodwill - Net:

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

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

	$ 864,961	$1,134,177

Amortization charged to operations for the years ended June 30, 2002, 2001 and 2000 amounted to $-0-, $189,327 and $186,626, respectively.

(d) Property and Equipment:

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

	2002	2001
Leasehold improvements	$ 516,265	$ 563,573
Furniture and fixtures	244,293	244,293
Office equipment	904,133	887,852
Automobiles	110,598	110,598
	1,775,289	1,806,316
Less: Accumulated depreciation and amortization	1,485,249	1,386,061
	$ 290,040	$ 420,255

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

NOTE 10 - OTHER FINANCIAL INFORMATION. (Continued)

(e) Other Current Liabilities:

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

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

(f) Transactions with Major Customers and Suppliers:

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

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

(g) Deferred Compensation Plan:

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

NOTE 11 - RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS.

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

NOTE 12 - SEGMENT INFORMATION.

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

	For the Years Ended June 30,		
	2002	2001	2000
Net sales:			
TIS	$ 17,433,683	$ 17,437,079	$ 32,579,527
B to B	20,845,797	33,525,488	35,311,719
Software	1,537	--	2,330,065
Manufacturing	751,026	2,088,552	2,005,201
Elimination of intersegment revenues	--	--	(288,832)
	$ 39,032,043	$ 53,051,119	$ 71,937,680
Net income (loss):			

TIS	($ 650,241)	($ 2,403,235)	($ 1,011,907)
B to B	1,122,309	(332,780)	1,316,876
Software	(54,868)	(13,985)	337,216
Manufacturing	(725,685)	(1,385,735)	(207,959)
Corporate	(1,367,923)	(389,399)	(137,273)
	($ 1,676,408)	($ 4,525,134)	$ 296,953
Depreciation:			
TIS	$ 128,938	$ 165,649	$ 166,388
B to B	11,829	29,887	32,506
Software	--	--	21,350
Manufacturing	2,890	3,933	5,545
Corporate	16,312	29,196	49,088
	$ 159,969	$ 228,665	$ 274,877
Capital additions:			
TIS	$ 29,753	$ 107,793	$ 52,150
B to B	--	8,889	6,124
Software	--	--	--
Manufacturing	--	--	13,000
Corporate	--	--	--
	$ 29,753	$ 116,682	$ 71,274
Identifiable assets:			
TIS	$ 3,993,979	$ 825,454	$ 7,091,035
B to B	2,201,472	3,765,364	6,566,091
Software	3,853	943,240	112,461
Manufacturing	5,535	911,199	1,947,502
Corporate	1,597,111	4,663,941	773,428
	$ 7,801,950	$ 11,109,198	$ 16,490,517

During the years ended June 30, 2002, 2001, and 2000, one customer accounted for -0-%, 81.6% and 27.6%, respectively of the software segment.

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

	June 30, 2002	March 31, 2002	December 31, 2001	September 30, 2001

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

	June 30, 2001	March 31, 2001	December 31, 2000	September 30, 2000
Net sales	$ 10,570,525	$ 14,096,629	$ 13,435,293	$ 14,948,683
Gross profit	$ 982,680	$ 1,306,619	$ 1,803,946	$ 2,190,346
Net income (loss)	($ 2,712,642)	($ 1,136,289)	($ 421,365)	($ 254,838)
Loss per share:				
Basic	($ 0.38)	($ 0.16)	($ 0.06)	($ 0.04)
Diluted	($ 0.38)	($ 0.16)	($ 0.06)	($ 0.04)