EMTEC INC/NJ
Form 10-K
July 14, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

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

For the fiscal year ended March 31, 2005

OR

£ 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: 0-32789

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

Delaware	**87-0273300**
(State of incorporation or organization)	(I.R.S. Employer Identification No.)

572 Whitehead Road, Bldg#1
Trenton, New Jersey 08619
(Address of principal executive offices, including zip code)

(609)-528-8500
(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, $0.01 par value

Title of class
Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes S No £

Indicate by check mark if disclosure of delinquent filers 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. £

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). £Yes S No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of September 30, 2004 was approximately $4,040,696 computed by reference to the closing price of the common stock for that date.

As of July 11, 2005, there were outstanding 7,566,888 shares of the registrant s common stock.

EMTEC, INC.
2005 FORM 10-K ANNUAL REPORT

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References in this Annual Report to we, us, or our are to Emtec, Inc. and its subsidiaries, unless the context specifies or requires otherwise.

Cautionary Statement Regarding Forward-Looking Statements

You should carefully review the information contained in this Annual Report and in other reports or documents that we file from time to time with the Securities and Exchange Commission (the SEC). In this Annual Report, we state our beliefs of future events and of our future financial performance. In some cases, you can identify those so-called forward-looking statements by words such as may, will, should, expects, plans, anticipates, believes, estimates, predicts, potential, or continue or the negative of those words and other comparable words. You aware that those statements are only our predictions. Actual events or results may differ materially. In evaluating those statements, you should specifically consider various factors, including the risks discussed in this Annual Report for the year ended March 31, 2005 and other reports or documents that we file from time to time with the SEC. Those factors may cause our actual results to differ materially from any of our forward-looking statements. All forward-looking statements attributable to us or a person acting on our behalf are expressly qualified in their entirety by this cautionary statement.

Assumptions relating to budgeting, marketing, and other management decisions are subjective in many respects and thus susceptible to interpretations and periodic revisions based on actual experience and business developments, the impact of which may cause us to alter our marketing, capital expenditure, or other budgets, which may in turn affect our business, financial position, results of operations, and cash flows.

PART I

Item 1. Business

Introduction

Emtec (OTC: ETEC) is a systems integrator focused on providing technology solutions that enable its customers to effectively use and manage their data to grow their businesses. Our areas of specialization in information technology (IT) services include enterprise computing, data communications, data access, network design, enterprise backup and storage consolidation, managed services and staff augmentation. Emtec s solutions are crafted to enable our customers to become more efficient and effective, thereby giving them a competitive advantage. To date, the most significant portion of our revenues has been derived from our activities as a reseller of IT products, such as workstations, servers, microcomputers, application software and networking and communications equipment. However, we are actively endeavoring to increase the portion of our revenues that are derived from IT services. We anticipate that an increasing percentage of our future revenues will be derived from such business.

Named to the *VARBusiness* 500 list of top network integrators, value added resellers, and consultants in the U.S. every year since 1995, we combine extensive experience in systems integration with premier technology elements to provide our customers with sophisticated, streamlined, truly comprehensive solutions.

Over the past two decades, we have built strong relationships with leading manufacturers, such as Cisco, HP, IBM, Microsoft, Sun Microsystems, Dell, and Veritas, thereby enabling us to provide cutting-edge, scalable, reliable and secure solutions. This, along with our background in information technology, positions us as a premier, single-source provider of information systems, and network solutions.

Our customers are primarily Fortune 2000 companies, state and local government, local school districts, and other large and mid-sized companies located principally in the New York/New Jersey Metropolitan area and the Southeastern United States. We service our customer base from leased facilities in New Jersey, New York, Georgia, and Florida.

Prior to January 17, 2001, we were engaged in the oil and gas exploration and development business under the name American Geological Enterprises, Inc. At that time our principal asset, other than cash, was a 5.49% working interest in a geothermal power unit. On January 17, 2001, we completed a merger with Emtec, Inc., a privately held New Jersey corporation (Emtec-NJ), which since 1980 had been engaged in the business of providing IT products and services to the computer industry. Upon the merger we retained all of our assets, subject to liabilities, and assumed all of the assets and liabilities of Emtec-NJ. In March 2005, we disposed of our geothermal investment through an assignment of our 5.49% working interest in the Roosevelt Hot Spring geothermal power unit as well as some other minor oil and gas rights to Energy Minerals, Inc., a Nevada corporation for $150,000 in cash.

Our executive offices are located at 572 Whitehead Road, Building#1, Trenton, New Jersey; telephone: (609) 528-8500. Our website is located at *www.emtecinc.com*. We have made available free of charge through our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after such material was electronically filed with, or furnished to, the Securities and Exchange Commission. The information on our website is not part of this Annual Report.

Recent Development

On July 14, 2005, we announced that we had entered into a definitive agreement to merge with DARR Westwood Technology Corporation, the parent company of Westwood Computer Corporation.

Westwood Computer Corporation, headquartered in Springfield, New Jersey and established in 1964, is a privately held information technology company and a leading supplier of information technology products and services to the Federal Government. It has been recognized as one of the top 20 General Services Administration vendors in the IT industry during each of the past eight years and was named in data compiled by the GSA as the ninth largest such vendor for the Federal Government s 2004 fiscal year. Westwood Computer has additional locations in New York and Virginia, as well as five regional offices in the South and Western United States.

Upon the effectiveness of the merger, which is expected to occur within the next several weeks, DARR Westwood s shareholders will acquire approximately 55% of our then issued and outstanding shares of common stock and our board of directors will be comprised solely of DARR Westwood s designees, thereby resulting in a change in our control. Dinesh Desai, Chairman of Westwood Computer Corporation, will become our Chairman and CEO. John Howlett and Ron Seitz, currently our CEO and our COO, respectively, will remain in our employ as our President, Northeast and as our President, Southeast, respectively.

The combined companies will continue to operate under our current name. Westwood Computer s revenues for the 12 months ended August 31, 2004 were $129.87 million. Our revenues for our fiscal year ended March 31, 2005 were $112.70 million.

Completion of the merger is subject, among other matters, to regulatory filings and the expiration of a subsequent 10 day waiting period. Subject to the receipt of institutional financing, which is also a condition to the completion of the merger, we will initiate within 30 days thereafter a self-tender offer to repurchase up to 2,864,584 shares of our then issued and outstanding shares of common stock having an aggregate purchase price of up to $5.5 million at a price of $1.92 per share.

Our shareholders and other interested parties are urged to read our offer to purchase and other relevant documents filed with the SEC when they become available because they will contain important information. Our shareholders will be able to obtain such documents free of charge at the SEC s website: www.sec.gov or from us at 572 Whitehead Road, Bldg. #1, Trenton, New Jersey 08619, Attn: Secretary.

Industry Background

The broad market in which we compete is the provision of IT services. This marketplace consists of traditional IT services such as hardware and software procurement, life-cycle services, and network consulting, as well as new and innovative Internet services such as web enablement, remote network monitoring, help desk services, and information security.

As the market for IT products has matured over the past several years, price competition has intensified. That factor, combined with abbreviated product lifecycles, has forced IT product manufacturers to pursue lower cost manufacturing and distribution strategies. Resellers who were able to serve the needs of corporate end users requiring diverse brands of products and related IT services were initial beneficiaries of this heightened competition. More recently, however, continuing competition and manufacturers renewed efforts to improve their cost structures have led to both consolidations and business failures among resellers. Manufacturers have shifted from exclusive distribution partners to open sourcing and some have begun direct selling efforts with a view toward capturing market share from resellers.

At the same time that the market for IT products is consolidating, the market for IT services is expanding. Many companies have become increasingly dependent on the use of IT as a competitive tool in today s business environment. The need to distribute and access data on a real-time basis throughout an organization and between organizations has led to the rapid growth in network computing infrastructures that connect numerous and geographically dispersed end users through local and wide area networks. This growth has been driven by the emergence of industry standard hardware, software, and communications tools, as well as the significant improvement in the performance, capacity, and utility of such network-based equipment and applications.

The decision-making process that confronts companies when planning, selecting, and implementing IT infrastructure and services continues to grow more complex. Organizations are continually faced with technology obsolescence and must design new networks, upgrade, and migrate to new systems. As a result of the rapid changes in IT products and the risks associated with the commitment of large capital expenditures for products and services whose features and perceived benefits are not within the day-to-day expertise of operating management, many businesses increasingly are outsourcing some or all of their network management and support functions and are seeking the expertise of independent providers of IT products and services.

Our Strategy

Our primary business objective is to become a leading single-source provider of high quality and innovative IT products, services, and support. We believe that by working with a single-source provider, business organizations will be able to adapt more quickly to technological changes and reduce their overall IT costs. To this end, we are pursuing the following strategies:

Pursuing Strategic Acquisitions

We are seeking to expand our service offerings, to add to or enhance our base of technical or sales personnel, and to nurture and expand client relationships by means of acquisitions of companies whose businesses complement our businesses and, in particular, our IT consulting services. We intend to focus on companies with management teams who are willing to commit to long-term participation in our organization and who share our vision of continued growth.

On January 9, 2002, we acquired substantially all of the assets of Devise Associates, Inc., an information technology consulting and managed services subsidiary of McLeodUSA, Inc. located in New York City.

On August 12, 2002, we acquired certain assets of Acentra Technologies, Inc., including the assumption of the State of New Jersey computer supply and services contract, for a net purchase price of $165,607 in cash.

On August 31, 2002, we acquired all of the customer contracts and certain assets of Turnkey Computer Systems, Inc. of Clifton, NJ.

Capitalizing on Existing Relationships

We have invested in training and committed resources to obtain company certifications from key industry manufacturers, and have entered into written agreements with most of these manufacturers, such as Sun, IBM, HP, Dell, CISCO, Microsoft, Novell and Citrix. These agreements grant us a nonexclusive right to purchase the manufacturer s hardware and license its software for our internal business use and for commercial integration and resale. Typically, our agreements with such manufacturers, such as those with Sun, IBM, CISCO, Microsoft, Novell and Citrix, provide for a one-year term, renewable by the parties for successive one-year terms and are terminable by either party on prior written notice ranging from 30 to 45 days. They generally do not contain financial terms for resale of the manufacturer s products, which terms are separately governed by purchase orders.

Moreover, we believe that our history of satisfying the IT product requirements of our larger customers is facilitating the marketing of our broad range of services to this important segment of our clientele.

Our Business

IT Services

Enterprise Computing Solutions: We offer a full spectrum of IT product acquisition and support services needed to support client/server environments, including product sourcing, network design and implementation, technical support, server consolidation, and clustering and load balancing for high availability.

Managed Services and Staff Augmentation Solutions: We manage and support customers networks through the utilization of outsourced help desk and network monitoring services as well as through our own on-site engineering resources. This allows organizations to focus the majority of their efforts on their businesses - not on managing their IT infrastructures.

Data Communications Solutions: We offer Local Area Network/ Wide Area Network and data wireless connectivity, voice over IP and structured cabling solutions that are designed to enhance communication capabilities, while decreasing costs.

Data Access Solutions: We enable on-demand access to information from anywhere over any network; our mobility, messaging, and management solutions provide secure data access, increased business productivity, and reduced IT costs for any organization.

Lifecycle Management Services: Our lifecycle management services are designed to provide customers with continuous availability of service and support throughout the lifecycle of their IT investments, including the full spectrum of IT product acquisition and support services needed to support server environments. Our services include:

- Evaluation and prioritization of business objectives to determine the best course of action for our customers;
- Consultation with customers to identify the right IT products and services for their needs;
- Leveraging our vendor relationships to quickly source the right combination of products;
- Providing logistical support needed to deploy a major technology roll out;
- Offering assistance to reduce the overall operating cost of maintaining current technology through a private label lease program; and
- Providing continuous support to enable a client to improve end-user satisfaction, minimize downtime, and lower the total cost of ownership.

K-12 Specialized Services for Student and Faculty Needs: We integrate top-quality curriculum software and computer products into the classroom. We have significant experience in building local area networks that link many campuses together. We also provide district-wide support and sustain Internet access to educational resources worldwide. We tailor our array of services to make the best use of limited funds.

Manufacturers Support Services Contracts: We offer manufacturer support service contracts that provide our clients with extended technical support, onsite hardware service and access to new software releases at a fixed price. Most of the revenue from this portion of our business comes from selling Sun Microsystems contracts.

Our IT services activities accounted for approximately 13.4%, 18.0%, and 17.5% of our total revenues for fiscal years 2005, 2004 and 2003, respectively.

IT Reseller

IT Reseller: We are an authorized reseller of the products of many leading IT manufacturers, such as 3Com, CISCO, HP, IBM, Intel, Microsoft, NEC, Veritas, Novell, Dell, and Sun. Such products include workstations, servers, networking and communications equipment, enterprise computing products, and application software. Our business depends in large part upon our ongoing access to well established aggregators, in particular GE Access, Ingram Micro, Inc. and Tech Data Corp. as well as directly with Dell Computers to enable us to acquire IT products at competitive prices and on reasonable terms for resale to our customers.

Through our alliances with GE Access, Ingram, Tech Data and Dell Computers, we provide our customers with competitive pricing and value-added services such as electronic product ordering, product configuration, testing, warehousing, and delivery. Our relationships with our aggregators and Dell Computers allow us to minimize inventory risk by ordering products primarily on an as-needed basis. We believe that in most cases our ability to acquire products on a cost-plus basis affords us the opportunity to avail ourselves of prices lower than those that could be obtained independently from manufacturers or other vendors. We utilize electronic ordering and pricing systems that provide real-time status checks on the aggregators inventories and maintain electronic data interchange links to other suppliers. Our sales team is thereby able to schedule shipments more accurately and to provide electronically-generated client price lists.

We have not entered into any long-term supply contracts with any of our suppliers, as we purchase computers, computer systems, components, and parts on a purchase order basis. Our agreements with GE Access, Ingram, Tech Data and Dell, who collectively supplied approximately 99.8%, 93.5%, and 84.7% of our resale products in the fiscal years 2005, 2004, and 2003, respectively, may be terminated by such companies at any time upon 30 days prior written notice.

We receive manufacturer rebates resulting from certain equipment sales. In addition, we receive volume discounts and other incentives from various suppliers. Our accounting policy is to reduce cost of revenues of procurement services for rebates, discounts, and other incentives received from these suppliers. Except for products in transit or products awaiting configuration at our facility, we generally do not maintain large inventory balances. Our primary vendors limit price protection to that provided by the manufacturer (generally less than 30 days) and they restrict product returns, other than defective returns, to a percentage (the percentage varies depending on the vendor and when the return is made) of products purchased. Those returns must occur during a defined period, at the lower of the invoiced price or the current price, subject to the specific manufacturer s requirements and restrictions.

Our IT reseller activities accounted for approximately for 86.6% 82.0%, and 82.5% of our total revenues for the fiscal years ended March 31, 2005, 2004, and 2003, respectively.

Marketing

Our marketing efforts are focused on:

Broadening our public image as an IT service provider;

Promoting our offerings to current customers, prospects, partners, and investors;

Maintaining a constant flow of marketing communications to increase and maintain our market presence;

Driving prospects to our web site; and

Increasing overall inquiries and sales from all sources.

Our marketing division is charged with sales lead generation. Through diverse efforts that include seminars, tradeshows, direct mail, telemarketing, a bi-monthly newsletter, and through our website we create multiple and frequent touches of our prospective customers. The primary goal to increase the number of face to face meeting opportunities between our account team and prospective clients, and to drive additional opportunities through our sales pipeline.

Customers

Our targeted customers are primarily Fortune 2000 companies, state and local governments, local school districts, and other large and mid-sized companies located principally in the New York/New Jersey Metropolitan area and the Southeastern United States. Although we have over 150 customers, our three largest customers, Gwinnett County School System (Georgia), State of New Jersey, and Duval County School System, accounted, respectively, for approximately 24.2%, 15.2% and 10.6% of our revenues for the year ended March 31, 2005. These same three customers accounted, respectively, for approximately

16.0%, 31.0% and 10.8% of our revenues in fiscal year 2004 and approximately 22.7%, 17.3% and 10.5% of our revenues in fiscal year 2003. The State of New Jersey computer supply and service contract was acquired in the August 12, 2002 asset acquisition from Acentra Technologies. The State of New Jersey contract is subject to annual renewals. In June 2005, the State of New Jersey extended the contract terms through June 2006. An additional seven customers, General Electric, Cingular Wireless, Cox Communications, Bell South, Tiffany & Co., MBNA America, and The Bank of New York, collectively accounted for 30.3% of our revenues for the year ended March 31, 2005. We anticipate that these customer concentrations will continue for the foreseeable future. The loss of any one of these customers may cause results of operations to vary materially from those anticipated.

Intellectual Property

We rely upon a combination of nondisclosure and other contractual arrangements and trade secret, copyright, and trademark laws to protect our proprietary rights and the proprietary rights of third parties from whom we license intellectual property. We enter into confidentiality agreements with our employees and limit distribution of proprietary information.

Our business also includes the development of custom software applications in connection with specific client engagements. Ownership of such software is generally assigned to our client.

Competition

The IT services industry is highly competitive. Our competitors include:

- established computer product manufacturers (some of which supply products to us);
- distributors;
- computer resellers;
- systems integrators; and
- other IT service providers.

Many computer product manufacturers also sell to customers through their direct sales organizations and certain of them have announced their intention to enhance such direct sales efforts. Many of our current and potential competitors have longer operating histories and financial, sales, marketing, technical, and other resources substantially greater than we do. As a result, our competitors may be able to adapt more quickly to changes in client needs or to devote greater resources than we can to the sales of IT products and the provision of IT services. Such competitors could also attempt to increase their presence in our markets by forming strategic alliances with our other competitors or with our customers, offering new or improved products and services to our customers or increasing their efforts to gain and retain market share through competitive pricing. Although, we have contracts with the State of New Jersey, Gwinnett County School System, Duval County School System and Tiffany & Co., we have no ongoing written commitments from any customers to purchase products, and all product sales are made on a purchase-order basis.

We are also in direct competition with local, regional, and national distributors of microcomputer products and related services as well as with various IT consulting companies. These competitors run the gamut from new dot com consulting companies to the established consulting arms of nationwide accounting and auditing firms. Several of these competitors offer most of the same basic products as we do. We also encounter competition from microcomputer suppliers that sell their products through direct sales forces, rather than through resellers such as ourselves, and from manufacturers and distributors that emphasize mail order and telemarketing sales.

Depending on the customer, the principal areas of competition may include price, pre-sale and post-sale technical support and service, availability of inventory, and breadth of product line. We have an insignificant market share of sales in the microcomputer industry and of the service markets that we serve. Most of our competitors at the regional and national levels are substantially larger, have more personnel, have materially greater financial and marketing resources, and operate within a larger geographic area than we do.

Employees

As of July 5, 2005, we employed 153 individuals, including 29 sales, marketing and related support personnel, 79 service and support employees, 19 operations and administration personnel, and 14 employees in accounting, finance, and human resources. We believe that our ability to recruit and retain highly skilled technical and other management personnel will be critical to our ability to execute our business model and growth strategy. We have 12 employees in our Cabling Department who are covered by a collective bargaining agreement with the International Brotherhood of Electrical Workers (IBEW). We believe that our relations with our employees are good.

Item 2. Properties

We lease space in seven locations. Our corporate headquarters and principal operational facilities are currently located in Trenton, New Jersey. The following table contains certain information about each of our leased facilities:

Address	Size (in square feet)	Monthly Rent	Expiration Date
572 Whitehead Road, Bldg. #1 Trenton, NJ 08619	16,000	$ 11,600	May 31, 2006
354 North Avenue East Cranford, NJ 07016	1,500	$ 3,000	May 31, 2007
500 Satellite Blvd. Suwanee, GA 30024	21,284	$ 12,416	November 30, 2009
7843 Bayberry Road, Jacksonville, FL 32256	3,340	$ 2,218	February 28, 2006
880 Third Avenue, 12th floor New York, NY 10022	7,635	$ 24,777	June 30, 2008(1)
116 West 23rd Street Suite 500 New York, NY 10011	N/A	$ 2,730	February 29, 2006
572 Whitehead Road, Bldg. #5 Trenton, NJ 08619	9,582	$ 4,432	November 14, 2003(2)

(1) We assumed this lease on January 9, 2002 in connection with our acquisition of Devise Associates, Inc. We have sub-leased this office space though June 30, 2008 for an approximate monthly rental payment of $15,700.

(2) This space is strictly a warehouse facility, currently on a month to month lease term.

We believe these facilities will satisfy our anticipated needs for the foreseeable future.

Item 3. Legal Proceedings

In March 2002, Logical Business Solutions, Inc., one of our competitors, instituted an action in the Circuit Court, Fourth Judicial Circuit, in Duval County, Florida, against us and Cheryl Pullen, one of our employees, alleging that we wrongfully interfered with its contractual relationship with one of its customers. The amount of damages was not specified. The litigation is currently in the discovery stage. We believe that the claim is without merit and intend to vigorously defend against the claim.

In addition we are subject to legal proceedings that arise in the ordinary course of business, but we do not believe these claims will have a material impact on our financial position or results of operations.

Item 4. Submission of Matters to a Vote of Security Holders

Our Annual Meeting of Shareholders (the Meeting) was held on March 7, 2005. There were present at the Meeting in person or by proxy shareholders holding an aggregate of 5,938,809 shares of Common Stock of a total number of 7,380,498 shares of Common Stock issued, outstanding and entitled to vote at the Meeting. The results of the vote taken at the Meeting with respect to the election of one director to Class A of the Board of Directors to serve for a three year term and the election of one director to Class B of the Board of Directors to serve for a one year term were as follows:

Nominee	For	Withhold
R. Frank Jerd Class A	5,925,446	13,363
George F. Raymond Class B	5,925,446	13,363

PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is quoted on the OTC Bulletin Board under the symbol ETEC. The following table sets forth the high and low closing prices of our common stock for the periods indicated:

Three Months Ended	High	Low
March 31, 2005	$ 3.04	$ 1.32
December 31, 2004	2.80	.85
September 30, 2004	1.15	.88
June 30, 2004	1.35	.95
March 31, 2004	1.45	.80
December 31, 2003	1.20	.80
September 30, 2003	.96	.37
June 30, 2003	.52	.22

The above quotations represent prices between dealers and do not include retail mark-ups, markdowns or commissions. They do not necessarily represent actual transactions.

On November 7, 2004, we granted stock options to our non-employee directors to purchase an aggregate of 60,000 shares of common stock. The grants of stock options were not registered under the Securities Act of 1933 because such grants either did not involve an offer or sale for purposes of Section 2(a)(3) of the Securities Act of 1933, in reliance on the fact that the stock options were granted for no consideration, or were offered and sold in transactions not involving a public offering, exempt from registration under the Securities Act of 1933 pursuant to Section 4(2).

As of July 10, 2005, there were 631 record holders of our common stock, although we believe that beneficial holders approximate 850.

We have never declared any dividends on our common stock and we have no intention to do so in the foreseeable future.

Item 6. Selected Financial Data

The following selected consolidated financial data below should be read in conjunction with our consolidated financial statements including the accompanying notes and Management s Discussion and Analysis of Financial Condition and Results of Operations, both elsewhere in this Report. The data as of March 31, 2005 and 2004 and for each of the three years ended March 31, 2005 have been derived from, and should be read in conjunction with, our audited consolidated financial statements and accompanying notes, which are contained elsewhere in this Report. The data as of March 31, 2003, 2002, and 2001 and for each of the two years ended March 31, 2002 have been derived from our audited financial statements, which are not contained in this Report.

	YEAR ENDED MARCH 31,				
	2005	2004	2003	2002	2001
Net revenues	$112,699,998	$100,171,308	$92,084,126	$62,468,218	$88,279,232
Income (loss) from continuing operations	$2,613,530	$620,105	($ 265,989)	$166,691	($1,261,910)
Net Income (loss)	$2,869,860	$642,988	($ 211,471)	$216,972	($1,321,474)
Income (loss) per common share from continuing operations (basic)	$0.35	$0.08	($0.04)	$0.02	($0.22)
Income (loss) per common share from continuing operations (diluted)	$0.34	$0.08	($0.04)	$0.02	($0.22)
Net Income (loss) per common share (basic)	$0.39	$0.09	($0.03)	$0.03	($0.23)
Net Income (loss) per common share (diluted)	$0.37	$0.09	($0.03)	$0.03	($0.23)

	AT MARCH 31,				
	2005	2004	2003	2002	2001
Total assets	$30,204,457	$18,908,612	$22,334,584	$11,388,473	$18,699,032

Emtec had no long-term debt obligations or outstanding preferred stock during the five years ended March 31, 2005. In addition, no dividends were paid to common stockholders during the same period.

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

Reference is made to the Risk Factors below for a discussion of important factors that could cause actual results to differ from expectations and any of our forward-looking statements contained herein. In addition, the following discussion should be read in conjunction with our audited consolidated financial statements as of March 31, 2005 and 2004 and for the fiscal years ended March 31, 2005, and 2004 and 2003.

Critical Accounting Policies

Emtec s financial statements are prepared in accordance with accounting principles that are generally accepted in the United States. The methods, estimates, and judgments we use in applying our most critical accounting policies have a significant impact on the results we report in our financial statements. The Securities and Exchange Commission has defined critical accounting policies as policies that involve critical accounting estimates that require (i) management to make assumptions that are highly uncertain at the time the estimate is made, and (ii) different estimates that could have been reasonably used for the current period, or changes in the estimates that are reasonably likely to occur from period to period, which would have a material impact on the presentation of our financial condition, changes in financial condition or in result of operations. Based on this definition, our most critical policies include: revenue recognition, allowance for doubtful accounts, inventory valuation reserve, the assessment of recoverability of long-lived assets, the assessment of recoverability of goodwill and intangible assets, and valuation of deferred tax assets.

Revenue Recognition

We recognize revenues when the earning process is complete, evidenced by an agreement between us and the customer, there has been delivery and acceptance, collectibility is probable, and pricing is fixed and determinable. Procurement services revenue represents sales of computer hardware and pre-packaged software. These arrangements often include software installations, configurations, and imaging, along with delivery and set-up of hardware. We follow the criteria contained in EITF 00-21 and SAB 104 in recognizing revenue associated with these transactions. We perform all software installations, configurations and imaging services at our locations prior to the delivery of the product. Some customer arrangements include set-up services performed at customer locations where our personnel perform the routine tasks of removing the equipment from boxes, and setting up the equipment at customer workstations by plugging in all necessary connections, etc. This service is usually done on the same day as delivery. Revenue is recognized at date of delivery, except as follows:

In some instances, the set-up service is performed after date of delivery. We recognize revenue for the hardware component at date of delivery when the amount of revenue allocable to this component is not contingent upon the completion of set-up services and therefore, our customer has agreed that the transaction is complete as to the hardware component. In instances where our customer does not accept delivery until set-up services are completed, we defer all revenue in the transaction until customer acceptance occurs.

There are occasions when a customer requests a transaction on a bill & hold basis. We follow the SAB 104 criteria and recognize revenue prior to date of physical delivery only when all the criteria are met as follows:

Risks of ownership have passed to our customer

The customer has made a fixed commitment, in writing.

A fixed delivery schedule is established

We have not retained any specific performance obligations.

We segregate the customer s ordered goods from our general inventory and the order is complete and ready for shipment.

We do not modify our normal billing and credit terms for such customers. Our customer is invoiced at the date of revenue recognition when all of the above criteria have been met.

We have experienced minimal customer returns. Since all eligible products must be returned to us within 30 days from the date of the invoice, we reduce the procurement services revenue and cost of procurement services in each accounting period based on the actual returns that occurred in the next 30 days after the close of the accounting period.

Service and consulting contracts include time billings based upon billable hours charged to the customers, fixed price short-term projects, hardware maintenance contracts, and manufacturer support service contracts. These contracts generally are task specific and do not involve multiple deliverables. Revenues from time billings are recognized as services are delivered. Revenues from short-term fixed price projects are recognized using the percentage of completion method, whenever reliable estimates of progress toward completion are available. Revenues from hardware maintenance contracts are recognized ratably over the contract period. Net revenues from manufacturer support service contracts where the manufacturer is responsible for fulfilling the service requirements of the customer are recognized immediately on their contract sale date. Manufacturer support service contracts contain cancellation privileges that allow our customers to terminate a contract with 90 days written notice. In this event, the customer is entitled to a pro-rated refund based on the remaining term of the contract and we would owe the manufacturer a pro-rated refund of the cost of the contract. However, we have experienced no customer cancellations of any significance during our most recent 3-year history and do not expect cancellations of any significance in the future.

Trade Receivables

We maintain allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. We base our estimates on the aging of our accounts receivable balances and our historical write-off experience, net of recoveries. If the financial condition of our customers were to deteriorate, additional allowances may be required. We believe the accounting estimate related to the allowance for doubtful accounts is a critical accounting estimate because changes in it can significantly affect net income. Allowance for doubtful accounts was $588,415 and $363,402 as of March 31, 2005, and 2004, respectively.

Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market. Cost is based on standard costs generated principally by the most recent purchase prices. We provide an inventory reserve for obsolescence and deterioration based on management s review of the current status of the excess inventory, its age, and net realizable value based upon assumptions about future demand and market condition. At March 31, 2005, and 2004, inventory reserve was $433,667 and $722,551, respectively. We disposed of $427,520 of old and obsolete inventory during this year which was charged against the inventory reserve.

Property and Equipment

We estimate the useful lives of property and equipment in order to determine the amount of depreciation and amortization expense to be recorded during any reporting period. The majority of our equipment is depreciated over three years. The estimated useful lives are based on the historical experience with similar assets as well as taking into account anticipated technological or other changes. If technological changes were to occur more rapidly than anticipated or in a different form than anticipated, the useful lives assigned to these assets may need to be accelerated, resulting in the recognition of increased depreciation and amortization expense in future periods. We evaluate the recoverability of our long-lived assets (other than intangibles and deferred tax assets) in accordance with Statement of Financial Accounting Standard No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, (SFAS No. 144). Long-lived assets are reviewed for impairment under SFAS No. 144 whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. SFAS No. 144 requires recognition of impairment of long-lived assets in the event that the net book value of such assets exceeds the future undiscounted net cash flows attributable to such assets. Impairment, if any, is recognized in the period of identification to the extent the carrying amount of an asset exceeds the fair value of such asset. Property and equipment along with their components are as follows:

	Original Cost		Estimated Life
	March 2005	March 2004	(Years)
Computer equipment	$ 3,831,311	$ 3,643,052	3
Furniture and fixtures	357,845	357,845	5
Leasehold improvements	267,307	244,847	5
Vehicles	80,984	80,984	2
Total Property and Equipment	$ 4,537,447	$ 4,326,728	
Less: accumulated depreciation and amortization	(4,200,279)	(3,939,655)	
Net book value	$ 337,168	$ 387,073	

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We invested $687,000 for the purchase of computer hardware, software and consulting services for our Network Operations Center to enhance our offerings in Managed Services during fiscal year ended March 31, 2003. We originally intended to depreciate these assets over 36 months based on the original projections of the future undiscounted net cash flows. We performed an impairment test of these assets as of December 31, 2003, and March 31, 2004. We compared our original projections of the future undiscounted cash flows with actual performance, and reviewed our current sales pipeline. Based on these impairment tests, we recorded impairment charges of $223,858, and $239,057 for December 31, 2003 and March 31, 2004, respectively. Total impairment charges of $462,915 were classified as general and administrative expense during the twelve months ended March 31, 2004. The net book value of these assets after the impairment charge was $0.

Intangible Assets

We have adopted Statement of Financial Accounting Standards No. 141 Business Combinations and No. 142 Goodwill and Other Intangible Assets . As a result, amortization of goodwill was discontinued. Based on the impairment tests performed during the fiscal year ended March 31, 2005 , we found no impairment of the remaining goodwill. The next annual impairment test shall be performed during the fourth quarter of the fiscal year 2006.

We were assigned a contract to supply computer hardware and services to the State of New Jersey in the August 12, 2002 acquisition of Acentra Technologies, Inc. This contract was valued at $100,000 in the acquisition. Amortization expense of $9,091 and $54,545 was expensed in fiscal years ended March 31, 2005 and 2004, based upon then contract term scheduled to end in May 2004. The contract is subject to annual renewals. In May of 2004, the State of New Jersey extended the contract term through December 2004. Currently, the contract is extended through June 30, 2006. The net carrying value for this contract amounted to $ 0 and $ 9,091 at March 31, 2005 and 2004, respectively.

Income Taxes

Income taxes are accounted for under an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in our financial statements or tax returns. In estimating future tax consequences, we generally consider all expected future events other than the enactment of changes in tax laws or rates. A valuation allowance is recognized if, on weight of available evidence, it is more likely than not that some portion or all the deferred tax assets will not be realized. Income tax expense, as a percentage of income before taxes, increased to 27.5% for the year ended March 31, 2005 as compared to 16.4% for the year ended March 31, 2004. This increase is a result of the utilization of approximately $850,000 of federal tax loss carryovers during the year ended March 31, 2004. The Company had previously recorded significant valuation allowances for deferred tax assets, which effectively reduced the income tax expense percentage during the year ended March 31, 2004. The income tax expense of 27.5% of pre-tax income for 2005 was below the expected tax expense at U.S. statutory income tax rates due to a 2005 change in the valuation allowance estimate to reduce the beginning valuation allowance of $435,271 to zero. The change in estimate was a result of our fiscal 2005 operating results that caused us to believe that it is more likely than not that we will realize our deferred tax assets in future periods.

Results of Operations

The following discussion and analysis provides information that management believes is relevant to an assessment and understanding of our Results of Operations for the fiscal years ended March 31, 2005, and 2004.

CONSOLIDATED STATEMENTS OF OPERATIONS
Years Ended March 31,

	2005	2004	Change	%
Revenues				
Procurement services	$ 97,605,588	$ 82,184,744	$ 15,420,844	18.8%
Service and consulting	15,094,410	17,986,564	$ (2,892,154)	-16.1%
Total Revenues	112,699,998	100,171,308	$ 12,528,690	12.5%
Cost of Revenues				
Procurement services	85,879,341	74,282,388	$ 11,596,953	15.6%
Service and consulting	10,467,370	11,497,465	$ (1,030,095)	-9.0%
Total Cost of Revenues	96,346,711	85,779,853	$ 10,566,858	12.3%
Percent of revenues	85.5%	85.6%		
Gross Profit				
Procurement services	11,726,247	7,902,356	$ 3,823,891	48.4%
Service and consulting	4,627,040	6,489,099	$ (1,862,059)	-28.7%
Total Gross Profit	16,353,287	14,391,455	$ 1,961,832	13.6%
Percent of revenue	14.5%	14.4%		
Operating Expenses				
Sales, General & Administrative Expenses	12,532,580	13,321,726	$ (789,146)	-5.9%
Interest Expense	217,860	328,296	$ (110,436)	-33.6%
Loss on impairment, Goodwill			$	N/M
Total Operating Expenses	12,750,440	13,650,022	$ (899,582)	-6.6%
Percent of revenue	11.3%	13.6%		
Income(Loss) From Continuing Operations Before Income Taxes	3,602,847	741,433	$ 2,861,414	385.9%
Income Tax Expense (Benefit)	989,317	121,328	$ 867,989	715.4%
Income(Loss) From Continuing Operations	2,613,530	620,105	$ 1,993,425	321.5%
Income From Discontinued Geothermal Operations, net of tax	48,052	22,883	$ 25,169	110.0%
Gain on the Sale of the Geothermal Investment, net of tax	208,278		$ 208,278	N/M
Net Income (Loss)	$ 2,869,860	$ 642,988	$ 2,226,872	346.3%

CONSOLIDATED STATEMENTS OF OPERATIONS

Net Income (Loss) Per Share - Basic	$ 0.39	$ 0.09
Net Income (Loss) Per Share - Diluted	$ 0.37	$ 0.09

N/M = not meaningful

Comparison of Years Ended March 31, 2005 and 2004

Total Revenues

Total revenues, which include services and consulting revenues, and procurement revenues, increased by 12.5% or $12.53 million, to $112.70 million for the year ended March 31, 2005, compared to $100.17 million for the year ended March 31, 2004. This increase is primarily attributable to computer roll-out projects for various school districts in Georgia, and Florida as well as recent sales growth in our commercial customer base. Total revenues associated with our commercial customers and revenue associated with computer roll-out projects increased by approximately $27.00 million as compared with the prior year, this increase was off-set partially by approximately $14.60 million decrease in computer roll-out projects for the various state agencies in the State of New Jersey.

Procurement revenues increased by 18.8%, or $15.42 million, to $97.61 million for the year ended March 31, 2005. This change is primarily attributable to reasons discussed above.

Services and consulting revenue decreased by 16.1%, or $2.89 million, to $15.09 million for the year ended March 31, 2005 compared to $17.99 million for the year ended March 31, 2004. This decrease in services and consulting revenue is mainly due to overall decrease in our installation services associated with computer roll-out projects for the various state agencies in the State of New Jersey, and decrease in our manufacturers support service contract revenue. The decrease in manufacturers support service contract is mainly due to the non-renewal of an annual maintenance contract by one of our major commercial customers.

During the first quarter of our fiscal year ending March 31, 2006, our contract with the State of New Jersey was extended through June 30, 2006, and we expect our revenues from commercial customer base will continue to grow, and to continue to roll-out computers to school districts in GA and FL.

Our three largest customers, Gwinnett County School System (Georgia), State of New Jersey, and Duval County School System, accounted, respectively, for approximately 24.2%, 15.2% and 10.6% of our revenues for the year ended March 31, 2005. These same three customers accounted, respectively, for approximately 16.0%, 31.0% and 10.8% of our revenues in fiscal year 2004 and approximately 22.7%, 17.3% and 10.5% of our revenues in fiscal year 2003. We anticipate that these customer concentrations will continue for the foreseeable future. The loss of any one of these customers may cause results of operations to vary materially from those anticipated.

Gross Profit

Aggregate gross profit increased by 13.6%, or $1.96 million, to $16.35 million for the year ended March 31, 2005. This increase is mainly attributable to computer roll-out projects for various school districts in Georgia and Florida, and sales growth in our commercial customer base. Measured as a percentage of total revenues, our overall gross profit margin increased to 14.5% of total revenues for the year ended March 31, 2005 from 14.4% for the year ended March 31, 2004.

Gross profit for product sales increased by 48.4%, or $3.82 million, to $11.73 million for the year ended March 31, 2005 as compared with $7.90 million for the year ended March 31, 2004. This increase is primarily attributable to computer roll-out projects for various school districts in Georgia, and Florida as well as recent sales growth in our commercial customer base as discussed in the revenue section above. Measured as a percentage of procurement revenues, our gross profit margin increased to 12.0% of procurement revenue for the year ended March 31, 2005 from 9.6% for the year ended March 31, 2004. This percentage increase is primarily attributable to greater selling efforts and favorable price drops and other incentives offered by manufacturers. We can not predict that price drops like these are going to repeat in the future.

Gross profit for service and consulting revenue decreased by 28.7%, or $1.86 million, to $4.63 million for the year ended March 31, 2005 as compared with $6.49 million for the year ended March 31, 2004. This decrease is mainly due to an over-all decrease in IT spending particularly with various state agencies in the State of New Jersey, a non-renewal of manufacturers support service contract sold to one customer in the prior year as discussed in the revenue section and our inability to attract new major customers. Measured as a percentage of service and consulting revenue, our gross margin attributable to service and consulting revenue decreased to 30.7% of service and consulting revenue for the year ended March 31, 2005 from 36.1% for the year ended March 31, 2004. Even though our billing rates (total revenue generated divided by total billable hours available during the period) and utilization rates (billable hours divided by paid hours) of engineers were higher during this year, this decrease was mainly due to the non-renewal of a manufacturers support service contract sold to one customer in the prior year as discussed in the revenue section.

We must continue to manage billing rates and utilization rates effectively to remain competitive.

Sales, General, and Administrative Expenses

Sales, general and administrative expenses decreased by 5.9%, or $789,146, to $12.53 million for the year ended March 31, 2005. This decrease includes a one-time charge of $470,000 associated with the sub-lease of our New York office located at 880 3rd Avenue. This charge is a present value of the difference between obligations to the landlord minus the expected future rental income to be received from the sub-tenant through June 30, 2008. Without this one time charge of $470,000, our sales, general and administrative expenses would have decreased by 9.5%, or $1.26 million, to $12.06 million for the year ended March 31, 2005 as compared with $13.32 million for the year ended March 31, 2004. This decrease is primarily attributable to our continuous focus on cost containment measures and the following:

Elimination of non-productive sales staff;

Eliminated duplication of non-essential administrative support services.

Consolidation of our operations, administrative and inventory warehousing functions from Mt. Laurel, NJ and Cranford, NJ to Trenton, NJ.

Lower bonus accrual charged to sales expense due to lower earning share in connection with the earning share agreements with prior three owners of Acentra Technologies, Inc. and Turnkey Computer Systems, Inc. These earning share agreements expired on August 31, 2004.

Lower depreciation expense in the current fiscal year due to write-down of NOC and Help Desk assets during fiscal 2004.

We estimate our cash flow will be improved by approximately $165,000 annually, and our net rent expense will be reduced by approximately $300,000 annually attributable to the sub-lease of our former NYC office.

In spite of our vigorous cost containment efforts, various factors, such as retention of employees, costs associated with marketing and selling activities, compliance costs associated with new Securities and

Exchange Commission rules, and insurance markets may increase our sales, general and administrative expenses and this could have a negative impact on fiscal year 2006.

Interest expense

Interest expense decreased by 33.6%, or $110,436, to $217,860 for the year ended March 31, 2005 as compared with $328,296 for the year ended March 31, 2004. This decrease is primarily attributable to a lower balance on our line of credit, lower days sales outstanding, and lower interest charged by the lender during the year than prior year**.**

Income Taxes

Income tax expense, as a percentage of income before income taxes, increased for the year ended March 31, 2005 to 27.5% or $989,317, as compared to 16.4% or $121,328 for the year ended March 31, 2004. This increase is primarily a result the $3.09 million increase in income before income taxes for the year ended March 31, 2005 compared to the year ended March 31, 2004 and the utilization of federal tax loss carryovers during the year ended March 31, 2004. We had previously recorded significant valuation allowances for deferred tax assets, which effectively reduced the income tax expense percentage during both years below the expected income tax expense at U.S. statutory rates.

Net Income

For the year ended March 31, 2005, net income was $2.87 million compared to net income of $642,988 for the comparable period in 2004, an increase of 346.3%.

As discussed, the increase in net income is mainly attributable to computer roll-out projects for various school districts in Georgia and Florida, and revenue growth in our commercial customer base as well as continuous cost containment efforts undertaken by us. The reported income from continuing operations before income taxes for the year ended March 31, 2005 includes a one-time charge of $470,000 associated with the sub-lease of our New York office. Without this one-time charge, our income from continuing operations before income taxes for the year ended March 31, 2005 would have been approximately $4.07 million, compared to a income from continuing operations before taxes of $741,433 for the year ended March 31, 2004, an increase of 449.3%.

Comparison of Years Ended March 31, 2004 and 2003

The following discussion and analysis provides information that management believes is relevant to an assessment and understanding of our Results of Operations for the fiscal years ended March 31, 2004, and 2003.

EMTEC, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
Years Ended March 31,

	2004	2003	Change	%
Revenues				
Procurement services	$ 82,184,744	$ 75,943,230	$ 6,241,514	8.2%
Service and consulting	17,986,564	16,140,896	$ 1,845,668	11.4%
Total Revenues	100,171,308	92,084,126	$ 8,087,182	8.8%
Cost of Revenues				
Procurement services	74,282,388	67,525,430	$ 6,756,958	10.0%
Service and consulting	11,497,465	11,915,844	$ (418,379)	-3.5%
Total Cost of Revenues	85,779,853	79,441,274	$ 6,338,579	8.0%
Percent of revenues	85.6%	86.3%		
Gross Profit				
Procurement services	7,902,356	8,417,800	$ (515,444)	-6.1%
Service and consulting	6,489,099	4,225,052	$ 2,264,047	