EMTEC INC/NJ
Form 10-Q
November 14, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2003

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.)

817 East Gate Drive
Mount Laurel, New Jersey 08054
(Address of principal executive offices, including zip code)

(856) 235-2121
(Registrant's telephone number, including area code)

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 [X] No [_]

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

As of October 31, 2003, there were outstanding 7,080,498 shares of the registrant's common stock.

EMTEC, INC.
FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2003

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

EMTEC, INC.

CONSOLIDATED BALANCE SHEETS

	September 30, 2003 (unaudited)	March 31, 2003
Assets		

Current Assets		
Cash and cash equivalents	$ 132,602	$ 1,792,101
Receivables:		
Trade, net	15,254,489	14,553,124
Others	280,655	476,682
Inventories	1,589,010	2,881,868
Prepaid expenses	483,015	462,827
Deferred tax assets	34,954	34,954
Total Current Assets	17,774,725	20,201,556
Property and equipment, net	923,660	1,190,851
Investment in geothermal power unit, less accumulated amortization of $358,258 and $337,478	590,739	611,519
Deferred tax assets	73,325	105,201
Intangible assets	147,415	176,632
Other assets	48,412	48,825
Total Assets	$ 19,558,276	$ 22,334,584

The accompanying notes are integral parts of these consolidated financial statements.

EMTEC, INC.

CONSOLIDATED BALANCE SHEETS

	September 30, 2003 (unaudited)	March 31, 2003
Liabilities and Shareholders' Equity		
Current Liabilities		
Line of credit	$ 4,727,482	$ 8,203,290
Accounts payable	9,063,990	8,199,792
Customer deposits	190,000	488,127
Accrued liabilities	1,637,936	1,474,907
Deferred revenues	1,093,696	1,321,013

Total Current Liabilities	16,713,104	19,687,129
Deferred revenue	735,798	757,023
Deferred tax liability	51,945	51,945
Total Liabilities	17,500,847	20,496,097
Shareholders' Equity		
Common stock, $.01 par value; 25,000,000 shares authorized; 7,080,498 shares issued and outstanding	70,805	70,805
Additional paid-in capital	2,210,805	2,210,805
Accumulated deficit	(224,181)	(443,123)
Total Shareholders' Equity	2,057,429	1,838,487
Total Liabilities and Shareholders' Equity	$ 19,558,276	$ 22,334,584

The accompanying notes are integral parts of these consolidated financial statements.

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EMTEC, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2003	2002	2003	2002
Revenues:				
Procurement services	$ 21,907,100	$ 20,734,704	$ 45,637,829	$ 36,715,
Service and consulting	3,862,066	3,694,482	8,564,092	7,205,
Geothermal	45,388	37,003	92,973	82,
Total Revenues	25,814,554	24,466,189	54,294,894	44,003,

Cost of Revenues:				
Procurement services	19,749,338	18,327,198	41,440,831	32,388,
Service and consulting	2,754,636	2,937,204	5,822,416	5,279,
Geothermal	12,598	18,031	30,082	35,
Total Cost of Revenues	22,516,572	21,282,433	47,293,329	37,704,
Gross Profit:				
Procurement services	2,157,762	2,407,506	4,196,998	4,326,
Service and consulting	1,107,430	757,278	2,741,676	1,925,
Geothermal	32,790	18,972	62,891	46,
Total Gross Profit	3,297,982	3,183,756	7,001,565	6,299,
Operating Expenses:				
Selling, general and administrative	3,379,569	3,030,999	6,584,814	6,004,
Interest	73,386	20,431	172,552	47,
E-Business costs	-	-	-	
Total Operating Expenses	3,452,955	3,051,430	6,757,366	6,052,
(Loss) Income From Continuing Operations Before Income Tax Expense	(154,973)	132,326	244,199	246,
Income tax (benefit)expense	(16,025)	9,870	25,256	9,
Net (Loss) Income	$ (138,948)	$ 122,456	$ 218,943	$ 236,
(Loss) Income Per Share From Continuing Operations {Basic And Diluted}	$ (.02)	$ .02	$ .03	$
Net (Loss) Income Per Share {Basic And Diluted}	$ (.02)	$ .02	$ .03	$
Weighted Average Number Of Shares Outstanding {Basic}	7,080,498	7,080,498	7,080,498	7,080,
Weighted Average Number Of Shares Outstanding {Diluted}	7,486,765	7,080,498	7,439,898	7,080,

The accompanying notes are integral parts of these consolidated financial statements.

EMTEC, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	Six Months Ended:	
	September 30, 2003	September 30, 2002
Cash Flows From Operating Activities		
Net income for the six months	$ 218,943	$ 236,826
Adjustments to Reconcile Net Income To Net Cash Used In Operating Activities		
Depreciation and amortization	387,683	272,752
Deferred income tax	31,876	9,870
Changes In Operating Assets and Liabilities		
Increase in receivables	(505,338)	(7,499,810)
Decrease in inventories	1,292,858	257,438
Increase in prepaid expenses	(20,188)	(175,436)
Decrease in other assets	413	-
Increase in accounts payable	864,197	2,729,235
(Decrease) Increase in customer deposits	(298,127)	124,913
Increase in accrued liabilities	163,028	505,739
(Decrease) Increase in deferred revenue	(227,316)	242,476
Net Cash Provided By (Used In) Operating Activities	1,908,029	(3,295,997)
Cash Flows From Investing Activities		
Purchases of equipment	(91,720)	(792,144)
Additional investment in Geothermal Unit	-	(20,956)
Dispose of other assets	-	2,185
Net Cash Used In Investing Activities	(91,720)	(810,915)
Cash Flows From Financing Activities		
Net (decrease) increase in line of credit	(3,475,808)	2,691,795
Decrease in due to related parties	-	(19,000)
Net Cash (Used In) Provided By Financing Activities	(3,475,808)	2,672,795
Net Decrease in Cash and Cash Equivalents	(1,659,499)	(1,434,117)
Beginning Cash and Cash Equivalents	1,792,101	1,552,666
Ending Cash and Cash Equivalents	$ 132,602	$ 118,549

The accompanying notes are integral parts of these
consolidated financial statements.

EMTEC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2003 AND 2002
(unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and note disclosures required by generally accepted accounting principles in the United States. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Quarterly results are not necessarily indicative of results for the full year. For further information, refer to the annual financial statements and notes thereto included in the Company's Form 10-K.

2. Stock-Based Compensation

The Company did not change to the fair value based method of accounting for stock-based employees' compensation. Accordingly, the adoption of SFAS No. 148 did not affect the Company's financial condition or results of operations. However, SFAS No. 148 requires that information be provided as if the Company had accounted for employee stock options under the fair value method of this statement, including disclosing pro forma information regarding net income (loss) and earnings (loss) per share. The Company accounts for stock-based compensation in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees," as permitted by SFAS No. 123. Compensation expense for stock options is measured as the excess, if any, of the quoted market price of the Company's stock at the date of the grant over the amount the employee must pay to acquire the stock. No compensation cost has been recognized for any option grants in the accompanying consolidated statements of operations since the price of the options was set at the quoted market price of Company stock at dates of grant. The weighted average fair value of all of the employee options was estimated on the date of grant using the Black-Scholes model. Had the Company applied the fair value recognition provisions of SFAS No. 123 to stock-based compensation, the Company's net income (loss) and basic and diluted earnings (loss) per share would have been changed from the "as reported" amounts to the "pro forma" amounts as follows:

	Three Months Ended	Six Months Ended

	September 30,		September 30,	
	2003	2002	2003	2002
Pro Forma:				
Net (Loss) Income	$ (139,850)	$ 103,736	$ 217,140	$ 218,106
Net (Loss) Income Per Share {Basic and Diluted}	$ (.02)	$ .01	$ .03	$ .03

Option activity is summarized in the following table:

Options outstanding - July 1, 2003	451,428
Activity for the three months ended September 30, 2003:	
Options granted	
Options exercised	
Options forfeited or expired	-
Options outstanding - September 30, 2003	451,428

3. Line of Credit

On November 21, 2001, the Company entered into a $10.0 million revolving credit facility with Fleet Capital Corporation, formerly Summit Business Capital Corporation ("Fleet") under which the Company may borrow on 85% of its eligible trade receivables. Interest on outstanding loans under the revolving credit facility with Fleet is charged monthly at a fluctuating rate per annum equal to 0.25% above the prime rate and, at the Company's option, interest on up to 50% of the outstanding loans may be charged at libor plus 2.75%. The Fleet revolving credit facility is collateralized by a lien upon and security interest in substantially all of the Company assets. Since current credit facilities with two of the Company's primary trade vendors (GE Access and Ingram Micro.) were also collateralized by substantially all of the Company's assets, Fleet, GE Access and Ingram Micro have entered into intercreditor agreements, which provide that as regards to these vendors, debt obligations to Fleet are accorded priority. On November 21, 2001, the Company also entered into a Wholesale Financing Security Agreement with IBM. This credit facility, which is collateralized by a $750,000 letter of credit from Fleet in favor of IBM, affords the Company up to a like amount of credit to purchase products floored by IBM Global Financing. On January 9, 2002, Fleet issued a $250,000 letter of credit in favor of the Company's landlord for the Company's New York City office, as a security deposit for the building lease. On July 1, 2003, Fleet

also issued a $250,000 letter of credit in favor of Selective Insurance Corporation, as collateral for the performance bond issued to The City of Philadelphia, one of the Company's customers. The maximum credit facility is reduced by the outstanding letters of credit.

At September 30, 2003, the Company had a $4,727,482 outstanding balance under the credit facility and unused line of $4,022,518.

On October 17, 2003, the Company and Fleet executed an amendment to loan and security agreement under which the Company may borrow on 80% of its eligible trade receivables up to $10 million. Interest on outstanding loans is charged monthly at a fluctuating rate per annum equal to 2.00% above the prime rate. The lending agreement contains financial covenants that require the Company to maintain a maximum leverage ratio, a minimum debt ratio, and a minimum EBITDA(earnings before interest, taxes, depreciation and amortization expense). Fleet also waived all existing events of defaults through June 30, 2003. As of September 30, 2003 the Company is in compliance with all its amended financial covenants.

4. Trade Receivables

The Company provides an allowance for losses on trade receivables based on a review of the current status of existing receivables and management's evaluation of periodic aging of the accounts. Trade accounts receivable consists of the following:

	September 30, 2003	March 31, 2003
Trade Receivable	$ 15,544,882	$ 14,793,971
Allowance for doubtful accounts	(290,393)	(240,847)
Trade Receivable, net	$ 15,254,489	$ 14,553,124

5. Inventory

Inventories are stated at lower of cost (first-in, first-out) or market. Cost is based on standard costs generated principally by the most recent purchase price. The Company provides an inventory reserve for obsolescence and deterioration based on management's review of product sales. Inventory is recorded on the balance sheet net of allowances for inventory valuation of $552,671 and $471,203 at September 30, 2003 and March 31, 2003, respectively.

6. Acquisitions

On August 31, 2002, the Company acquired all of the customer contracts and certain assets of Turnkey Computer Systems, Inc. of Clifton, NJ. The purchase price will be paid over a two-year period and will be based on an earning share derived from the customer contracts transferred from Turnkey to Emtec. Earnings share for a given period shall mean 50% of earnings for that period, provided, that, if for that period earnings is less than $120,000, then the earnings share for that period shall be the earnings in excess of $60,000. The Company and Turnkey are finalizing earning share for the twelve months ended August 31, 2003.The Company has adequately accrued and charged the potential earning share payout to the current period's earnings.

On August 12, 2002, the Company acquired certain assets of Acentra Technologies, Inc., including the assignment of the State of New Jersey computer supply and services contract. The Company paid a net purchase price of $165,607 in cash to be allocated under the purchase method as follows:

Assignment of State of NJ Contract	$ 100,000
Inventory	326,798
Equipment	22,715
Advance payment amount from customers	(283,906)
Net Purchase Price	$ 165,607

7. Major Customers

Two major customers accounted for approximately 46%, and 32% of the Company's net sales for the three months ended September 30, 2003 and 2002, respectively. The same two major customers accounted for approximated 51%, and 28% of the Company's net sales for the six months ended September 30, 2003 and 2002, respectively.

While the Company believes its relationship with these customers will continue, there can be no assurance that sales to these customers will continue at all or at the same level.

8. Segment Information

Summarized financial information relating to the Company's operating segments are as follows:

For the three months ended September 30:	2003	2002

Revenues		
Information Technology	$ 25,769,166	$ 24,429,186
Geothermal	45,388	37,003
Total Revenues	$ 25,814,554	$ 24,466,189
Operating Profit/(Loss)		
Information Technology	$ (172,314)	$ 124,029
Geothermal	17,341	8,297
Net Segment Operating Income/(Loss)	$ (154,973)	$ 132,326
Income Tax (Benefit) Expense	(16,025)	9,870
Net (Loss) Income	$ (138,948)	$ 122,456

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For the six months ended September 30:	2003	2002
Revenues		
Information Technology	$ 54,201,921	$ 43,921,057
Geothermal	92,973	82,352
Total Revenues	$ 54,294,894	$ 44,003,409
Operating Profit/(Loss)		
Information Technology	$ 209,201	$ 220,183
Geothermal	34,998	26,513
Net Segment Operating Income	$ 244,199	$ 246,696
Income Tax Expense	25,256	9,870
Net Income	$ 218,948	$ 236,826

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with, and is qualified in its entirety by, the unaudited financial statements, including the notes thereto, appearing elsewhere in this quarterly report on Form 10-Q.

Critical Accounting Policies

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. 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.

o Revenue Recognition

We recognize revenues based upon Staff Accounting Bulletin #101 (SAB 101). SAB 101 states that revenue recognition cannot occur until the earnings 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. If significant obligations remain after delivery, revenue is deferred until such obligations are fulfilled. Procurement services represent sales of computer hardware and prepackaged software. Revenue from consulting and support service contracts is recognized ratably over the contract or service period. 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 date. These contracts contain cancellation privileges that allow our customer 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. We believe that net revenue reporting for manufacturer support service contracts is more appropriate. Thus starting the fiscal year ended March 31, 2003, we have adopted net revenue reporting for manufacturer support service

contracts and to conform to the current presentation, have reclassified contract costs from prior periods as an offset to revenue.

o 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.

o 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.

o 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 shortened, resulting in the recognition of increased depreciation and amortization in future periods. We review for impairment when events or circumstances indicate that the carrying amounts may not be recoverable over the remaining lives of the assets. In assessing impairments, we follow the provisions of Statement of Financial Accounting Standard No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets," utilizing cash flows which takes into account management's estimates of future operations.

o Goodwill and 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. We performed the initial goodwill impairment test as of April 1, 2002 and another impairment test as of March 31, 2003. Based on the impairment test performed as of March 31, 2003, the goodwill of $254,894 associated with the acquisition of Devise Associates, Inc., was determined to be fully impaired and charged to earnings in fiscal year ended

March 31, 2003. This determination was based upon the operating and cash flow losses of this business unit since the January 9, 2002 acquisition date and budgeted fiscal 2004 operating and cash flow losses for this business unit. We found no impairment of the remaining goodwill of $112,996 as of March 31, 2003.

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 $27,272 was expensed in the six months ended September 30, 2003 based upon the current contract term that ends at May 2004. The contract is subject to annual renewals. The net carrying value for this contract amounted to $36,363 at September 30, 2003.

o 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 Emtec's financial statements or tax returns. In estimating future tax consequences, Emtec generally considers 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. We continue to be conservative in accounting for income taxes by recording significant valuation allowances for deferred tax assets due to the high degree of uncertainty that exists regarding future operating results.

Results of Operations

Three Months Ended September 30, 2003 Compared to Three Months Ended September 30, 2002.

Total Revenues

Total revenues for our IT business, which includes services and consulting revenue, and procurement revenues, increased by 5.49% or $1.34 million, to $25.77 million for the quarter ended September 30, 2003, compared to $24.43 million for the quarter ended September 30, 2002. This increase is primarily attributable to acquisitions of Acentra Technologies, Inc. in August 2002 and Turnkey Computer Systems, Inc. in August 2002. IT revenue associated with these acquisitions equaled $3.02 million for the quarter ended September 30, 2003. Without these acquisitions, revenues associated with our IT business would have decreased by 6.88% or $1.68 million for the quarter ended September 30, 2003. This decrease is mainly due to an over all decrease in our customers IT spending and a slow-down in the economy.

Services and consulting revenue increased by 4.54%, or $167,584, to $3.86 million for the quarter ended September 30, 2003 compared to $3.69 million

for the quarter ended September 30, 2002. This increase is also attributable to acquisitions of Acentra Technologies Inc., and Turnkey Computer Systems, Inc. Services and consulting revenue associated with these acquisitions equaled $902,076 for the quarter ended September 30, 2003. Without these acquisitions, services and consulting revenue would have decreased by 19.88% or $734,492, to $2.96 million for the quarter ended September 30, 2003. This decrease is also due to an over all decrease in our customers IT spending and a slow-down in the economy.

Procurement revenues also increased by 5.65%, or $1.17 million, to $21.91 million for the quarter ended September 30, 2003. This increase is the net result of the acquisitions of Acentra Technologies, Inc. and Turnkey Computer Systems, Inc. of approximately $2.12 million

recorded in the quarter ended September 30, 2003. Without these acquisitions, procurement revenue would have decreased by 4.57%, or $947,604 for the quarter ended September 30, 2003.

Geothermal Revenues increased by 22.66%, or $8,385 to $45,388 for the quarter ended September 30, 2003. This increase is mainly attributable to higher production of steam during this quarter.

Gross Profit

Our aggregate gross profit for IT business increased by 3.17%, or $100,408, to $3.26 million for the quarter ended September 30, 2003. This increase is mainly attributable to a 5.49% increase in our IT revenues. Measured as a percentage of our total revenues for IT business, our overall gross profit margin decreased to 12.67% of total revenues for the quarter ended September 30, 2003 from 12.95% for the quarter ended September 30, 2002. This decrease is mainly due to lower gross profit margin from our procurement revenues.

Gross profit for product sales decreased by 10.37%, or $249,744, to $2.16 million for the quarter ended September 30, 2003 as compared with $2.41 million for the quarter ended September 30, 2002. Also, measured as a percentage of procurement revenues, our gross profit margin decreased to 9.85% of procurement revenue for the quarter ended September 30, 2003 from 11.61% for the quarter ended September 30, 2002. Both of these decreases are mainly due to continued downward pricing pressure on product sales.

Gross profit for service and consulting increased by 46.24%, or $350,152, to $1.11 million for the quarter ended September 30, 2003 as compared with $757,278 for the quarter ended September 30, 2002. Measured as a percentage of services and consulting revenues, our gross margin attributable to services and consulting revenue also increased to 28.67% of services and consulting revenue for the quarter ended September 30, 2003 from 20.50% for the quarter ended September 30, 2002. These increases are mainly attributable to higher 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 during this quarter.

The geothermal gross profit of $32,790 for the quarter ended September 30, 2003 increased by 72.83%, or $13,818 attributable to higher production of steam coupled with lower operating expenses for the quarter.

Sales, General, and Administrative Expenses

Sales, general and administrative expenses increased by 11.50%, or $348,571, to $3.38 million for the quarter ended September 30, 2003. Without the acquisitions of Acentra Technologies, Inc. and Turnkey Computer Systems, Inc., our sales, general and administrative expenses would have decreased by approximately 16.84 %, or $510,000, to $2.52 million for the quarter ended September 30, 2003 compared with $3.03 million for the quarter ended September 30, 2002. This decrease is mainly attributable to the following:

1. Elimination of non-productive sales staff;

2. Reduction in sales commission compensation plans; and

3. Eliminated duplication of non-essential administrative support services.

Interest expense

Interest expense increased by 259.19%, or $52,955, to $73,386 the quarter ended September 30, 2003 as compared with $20,431 for the quarter ended September 30, 2002. This increase is mainly due to a higher balance on our line of credit, and higher days sales outstanding during the period.

Income Taxes

Income tax benefit for the three months ended September 30, 2003 was $16,025, as compared with an expense of $9,870 for the three months ended September 30, 2002.

Net Loss

For the three months ended September 30, 2003, net loss was $138,948 compared to income of $122,456 for the comparable period in 2002, a decrease of 213%.

As discussed, the principal reasons for the loss was the decline in revenue without the acquisitions of Acentra Technologies, Inc. and Turnkey Computer Systems, Inc., and as a result of gross margin dollars, offset somewhat by the cost containment measures undertaken by the Company.

Six Months Ended September 30, 2003 Compared to Six Months Ended September 30, 2002.

Total Revenues

Total revenues for our IT business, which includes services and consulting revenue, and procurement revenues, increased by 23.41% or $10.28 million, to $54.20 million for the six months ended September 30, 2003, compared to $43.92 million for the six months ended September 30, 2002. This increase is primarily attributable to acquisitions of Acentra Technologies, Inc. in August 2002 and Turnkey Computer Systems, Inc. in August 2002. IT revenue associated with these acquisitions equaled $13.45 million for the six months ended September 30, 2003. Without these acquisitions, revenues associated with our IT business would have decreased by 7.22% or $3.17 million for the six months ended September 30, 2003. This decrease is mainly due to an over all decrease in our customers IT spending and a slow-down in the economy.

Services and consulting revenue increased by 18.85%, or $1.36 million, to $8.56 million for the six months ended September 30, 2003 compared to $7.20 million for the six months ended September 30, 2002. This increase is also attributable to acquisitions of Acentra Technologies Inc., and Turnkey Computer Systems, Inc. Services and consulting revenue associated with these acquisitions equaled $2.93 million for the six months ended September 30, 2003. Without these acquisitions, services and consulting revenue would have decreased by 21.81% or $1.57 million, to $5.63 million for the six months ended September 30, 2003. This

decrease is mainly due to a decrease in our manufacturers support services contracts revenues. Net revenues associated with manufacturers support services contracts revenue decreased by 53.45%, or $593,199, to $516,525 for the six months ended September 30, 2003 compared to $1.11 million for the six months ended September 30, 2002. This decrease in manufacturers support services contracts revenue is mainly due to a sale that occurred in May 2002 of $580,000 to one customer, which may be renewed in December 2003. The remaining decrease of almost a $1.0 million in services and consulting revenue is also due to an over all decrease in our customers IT spending and a slow-down in the economy.

Procurement revenues also increased by 24.30%, or $8.92 million, to $45.64 million for the six months ended September 30, 2003. This increase is the net result of the acquisitions of Acentra Technologies, Inc. and Turnkey Computer Systems, Inc. of approximately $10.52 million recorded in for the six months ended September 30, 2003. Without these acquisitions, procurement revenue would have decreased by 4.35%, or $1.60 million for the six months ended September 30, 2003.

Geothermal Revenues increased by 12.90%, or $10,621 to $92,973 for the six months ended September 30, 2003. This increase is mainly attributable to higher production of steam during this period.

Gross Profit

Our aggregate gross profit for IT business increased by 10.98%, or $686,336, to $6.94 million for the six months ended September 30, 2003. This increase is mainly attributable to a 24.30% increase in our IT revenues.

Measured as a percentage of our total revenues for IT business, our overall gross profit margin decreased to 12.80% of total revenues for the six months ended September 30, 2003 from 14.24% for the six months ended September 30, 2002. This decrease is mainly due to lower gross profit margin from our procurement revenues.

Gross profit for product sales decreased by 2.99%, or $129,393, to $4.20 million for the six months ended September 30, 2003 as compared with $4.33 million for the six months ended September 30, 2002. Also, measured as a percentage of procurement revenues, our gross profit margin decreased to 9.20% of procurement revenue for the six months ended September 30, 2003 from 11.78% for the six months ended September 30, 2002. This decrease is mainly due to continued downward pricing pressure on product sales.

Gross profit for service and consulting increased by 42.35%, or $815,729, to $2.74 million for the six months ended September 30, 2003 as compared with $1.92 million for the six months ended September 30, 2002. This increase is mainly attributable to an 18.85% increase in services and consulting revenues. Measured as a percentage of services and consulting revenues, our gross margin attributable to services and consulting revenue increased to 32.01% of services and consulting revenue for the six months ended September 30, 2003 from 26.73% for the six months ended September 30, 2002. This increase is attributable to higher 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 during this period.

The geothermal gross profit of $62.891 for the six months ended September 30, 2003 increased by 34.60%, or $16,168 attributable to higher production of steam coupled with lower operating expenses for the period.

Sales, General, and Administrative Expenses

Sales, general and administrative expenses increased by 9.66%, or $580,017, to $6.58 million for the six months ended September 30, 2003. Without the acquisitions of Acentra Technologies, Inc. and Turnkey Computer Systems, Inc., our sales, general and administrative expenses would have decreased by approximately 22.98 %, or $1.38 million, to $4.62 million for the six months ended September 30, 2003 compared with $6.00 million for the six months ended September 30, 2002. This decrease is mainly attributable to the following:

1. Elimination of non-productive sales staff.

2. Reduction in sales commission compensation plans. and

3. Eliminated duplication of non-essential administrative support services.

Interest expense

Interest expense increased by 262.76%, or $124,985, to $175,552 for the

six months ended September 30, 2003 as compared with $47,567 for the six months ended September 30, 2002. This increase is mainly due to a higher balance on our line of credit, and higher days sales outstanding during the period.

Income Taxes

Income tax expense for the six months ended September 30, 2003 was $25,256. For the six months ended September 30, 2003, we recognized a deferred income tax expense of $31,876 that is partially offset by an income tax refund of $6,620.

Factors That May Affect Future Results

Our future operating results may be affected by a number of factors, including uncertainties relative to national economic conditions, especially as such factors affect interest rates, business insurance industry factors, our ability to successfully increase business, and effectively manage expense margins.

Since our inception, we have funded our operations primarily from borrowings under our credit facility. We are in compliance with the covenants contained in our loan and security agreement at September 30, 2003. Although we expect to remain in compliance with the financial covenants, no assurance can be given.

We must continue to effectively manage expenses in relation to revenues by directing new business development towards markets that complement or improve our existing service

lines. Management must also continue to emphasize operating efficiencies through cost containment strategies, reengineering efforts, and improved service delivery techniques. The most significant cost relating to the services component of our business is personnel expense, which consists of salaries, benefits, and payroll related expenses. Thus, the financial performance of our service business is based primarily upon billing margins (billable hourly rates less the costs to us of service personnel on an hourly basis) and utilization rates (billable hours divided by paid hours). The future success of the services component of our business will depend in large part upon our ability to maintain high utilization rates at profitable billing margins. The competition for quality technical personnel has continued to intensify, resulting in increased personnel costs. This intense competition has caused our billing margins to be lower than they might otherwise have been. Our utilization rates for service personnel likely will also be adversely affected during periods of rapid and concentrated hiring.

Emtec is a system integrator focused on providing technology solutions that enables our customers to effectively use and manage their data to grow their business. Our areas of specialization in IT services include remote network monitoring, help desk, network design, enterprise backup and storage consolidation, and network security. While we have offered IT services to our

customers since 1983, our major emphasis on IT consulting and services began in 1995. We also started focusing on our new managed services and network security during the fiscal year 2002. We have invested approximately $710,000 for the purchase of computer hardware, software, and consulting services for our Network Operations Center to enhance our offerings in Managed Services. Currently our recurring managed services revenues equal approximately $35,000 a month. We have limited experience in developing, marketing, or providing these services. We cannot assure that we will be able to successfully market such services to either new or existing customers, that our services will achieve market acceptance, or that we will be able to effectively hire, integrate, and manage additional technical personnel to enable us to perform these services to our customers' expectations This industry has been characterized by rapid technological advances that have resulted in frequent introductions of new products, product enhancements and aggressive pricing practices, which also impacts pricing of service activities. Our operating results could be adversely affected by industry-wide pricing pressures, the ability to recruit, train and retain personnel integral to our operations and the presence of competitors with greater financial and other resources. Also, our operating results could also be adversely impacted should our company be unable to effectively achieve the revenue growth necessary to provide profitable operating margins in various operations. Our plan for growth includes marketing efforts, acquisitions that expand market share. There can be no assurances these efforts will be successful, or if successful the timing thereof.

Liquidity and Capital Resources

Cash and cash equivalents at September 30, 2003 of $132,602 represented a decrease of $1,659,499 from $1,792,101 at March 31, 2003. We are a net borrower; consequently, we believe our cash and cash equivalents balance must be viewed along with the available balance on our line of credit.

Since our inception, we have funded our operations primarily from borrowings under our credit facility. On November 21, 2001, we entered into a $10.0 million revolving credit facility

with Fleet Capital Corporation, formerly Summit Business Capital Corporation ("Fleet"). Interest on outstanding loans under our revolving credit facility with Fleet is charged monthly at a fluctuating rate per annum equal to 0.25% above the Prime Rate and, at our option, interest on up to 50% of the outstanding loans may be charged at LIBOR plus 2.75%. Our Fleet revolving credit facility is collateralized by a lien upon and security interest in substantially all of our assets. As our current credit facilities with two of our primary trade vendors, GE Access and Ingram Micro, were also collateralized by substantially all of our assets, we, Fleet, GE Access and Ingram Micro, have entered into intercreditor agreements, which provide that as regards to these vendors, our obligations to Fleet are accorded priority. On November 21, 2001, we also entered into a Wholesale Financing Security Agreement with IBM. This credit facility, which is collateralized by a $750,000 letter of credit from Fleet in favor of IBM, affords us up to a like amount of credit to purchase products floored by IBM Global Financing. On January 9, 2002, Fleet issued a

$250,000 letter of credit in favor of Vandergrand Properties Co., L.P., our landlord for our New York City office, as a security deposit for the building lease. On July 1, 2003, Fleet also issued a $250,000 letter of credit in favor of Selective Insurance Corporation, as collateral for the performance bond issued to The City of Philadelphia, one of our customers. The maximum credit facility is reduced by the outstanding letters of credit.

At September 30, 2003, the Company had a $4,727,482 outstanding balance under the credit facility and unused line of $4,022,518

On October 17, 2003, the Company and Fleet executed an amendment to the loan and security agreement under which the Company may borrow on 80% of its eligible trade receivables up to $10 million through November 20, 2004. Interest on outstanding loans is charged monthly at a fluctuating rate per annum equal to 2.00% above the prime rate. The Company also paid an amendment fee of $50,000. This amended loan and security agreement waived all existing events of defaults through June 30, 2003. The lending agreement contains financial covenants that require the Company to maintain a maximum leverage ratio, a minimum debt ratio, and a minimum EBITDA. As of September 30, 2003 the Company was in compliance with all its financial covenants.

The following table quantifies Emtec's compliance with its financial covenants with Fleet.

COVENANTS	REQUIRED	ACTUAL AS OF 9/30/2003
Leverage Ratio	Not to exceed 11.0 : 1.0	9.40 : 1.0
Debt Service Coverage Ratio	Not to be less than 0.90 : 1.0	1.98 : 1.0
EBITDA - Not to be less than	August 2003 $(74,438)	$ 28,265
	September 2003 $(200,852)	$ (97,858)

At September 30, 2003, our credit facilities with our primary trade vendors, GE Access, Ingram Micro, and Tech Data were as follows: 1) Our credit Line with GE Access was $4.0 million, no interest charged, with an outstanding principal balance of $3.70 million. 2) Our credit line with Ingram Micro was $2.5 million, at an 18% APR interest rate after 30 days from the date of the invoice, with an outstanding principal balance of $1.96 million. 3) Our credit line with Tech Data was $2.0 million, no interest charged, with an outstanding balance of $1.81 million. Under these credit lines, we are obligated to pay each invoice within 30 days from the date of such invoice.

Capital expenditures of $91,720 during six months ended September 30,

2003, were primarily for the purchase of computer equipment for internal use and leasehold improvements.

Emtec has no arrangements or other relationships with unconsolidated entities or other persons that are reasonably likely to materially affect liquidity or the availability of or requirements for capital resources.

We believe that our available funds, together with existing and anticipated credit facilities, as discussed above, will be adequate to satisfy our current and planned operations through March 31, 2004.

Recently Issued Accounting Standards

In June 2001, the FASB issued two new statements: SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other intangible Assets."

Effective April 1, 2002, Emtec adopted SFAS No. 141 that requires business combinations entered into after June 30, 2001 to be accounted for using the purchase method of accounting. Specifically identifiable intangible assets, other than goodwill, are to be amortized over their estimated useful economic life.

SFAS No. 142 requires that goodwill not be amortized, but should be tested for impairment at least annually. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001 and applies to goodwill and other intangible assets, regardless of when those assets were initially recognized. Effective April 1, 2002, Emtec adopted SFAS No. 142 and in connection with its adoption, discontinued the amortization of goodwill and reviewed the estimated useful lives of previously recorded identifiable intangible assets. Emtec follows the two-step process prescribed in SFAS 142 to test its goodwill for impairment. The first step is a screen for potential impairment, while the second step measures the amount of the impairment, if any. Under the guidelines of SFAS No. 142, Emtec is required to perform an impairment test at least on an annual basis. Emtec performed its initial goodwill impairment test as of April 1, 2002 and another impairment test as of March 31, 2003. Based on the impairment test performed on March 31, 2003 the goodwill of $254,894 associated with the acquisitions of Devise Associates, Inc. was impaired.

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144 ("SFAS 144"), "Accounting for the Impairment or Disposal of

Long-Lived Assets." SFAS 144 addresses the financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS 144 supersedes SFAS 121 but retains the fundamental provisions of SFAS 121 for (I) recognition/measurement of impairment of long-lived assets to be held and used and (II) measurement of long-lived assets to be disposed of by sale. SFAS 144 also supersedes the accounting and reporting provisions of Accounting Principles Board's No. 30 ("APB 30"). "Reporting the Results of Operations- Reporting the

Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, "for segments of a business to be disposed of but retains APB 30's requirement to report discontinued operations separately from continuing operations and extends that reporting to a component of an entity that either has been disposed of or is classified as held for sale. SFAS 144 is effective for fiscal years beginning after December 15, 2001. Emtec adopted the provisions of SFAS 144 effective April 1, 2002.

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Item 3. Quantitative and Qualitative Information About Market Risk

We do not engage in trading market risk sensitive instruments and do not purchase hedging instruments or "other than trading" instruments that are likely to expose us to market risk, whether interest rate, foreign currency exchange, commodity price or equity price risk. We have issued no debt instruments, entered into no forward or future contracts, purchased no options and entered into no swaps. Our primary market risk exposures are those of interest rate fluctuations. A change in interest rates would affect the rate at which we could borrow funds under our revolving credit facility. Our balance on the line of credit at September 30, 2003 was approximately $4.7 million. Assuming no material increase or decrease in such balance, a one percent change in the interest rate would change our interest expense by approximately $47,000 annually.

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Item 4. Controls and Procedures

Our management carried out an evaluation, with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of September 30, 2003. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the rules and forms of the Securities and Exchange Commission.

There has not been any change in our internal control over financial reporting in connection with the evaluation required by Rule 15d-15(d) under the Exchange Act that occurred during the quarter ended September 30, 2003 that has

materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

Exhibit 10.1 - Amendment to Loan and Security Agreement, dated October 17, 2003, by and between Fleet Capital Corporation and Registrant.

Exhibit 31 - Rule 13a-14(a)/15-d-14(a) Certifications

Exhibit 32 Section 1350 Certifications

(b) Reports on Form 8-K filed during the quarter ended June 30, 2003:

During the quarter ended September 30, 2003, we filed or furnished the following current reports on Form 8-K with the Securities and Exchange Commission:

Current report on Form 8-K, dated July 15, 2003, was furnished on July 15, 2003. The item reported was:

- Item 9 - Regulation FD Disclosure, which furnished the Section 906 certification that accompanied the Company's annual report on Form 10-K for the year ended March 31, 2003.

Current report on Form 8-K, dated August 4, 2003, was furnished on August 4, 2003. The items reported were:

- Item 7 - Financial Statements and Exhibits, which identified the exhibit furnished with the Form 8-K; and
- Item 9 - Regulation FD Disclosure, which reported the issuance of a press release announcing the Company's financial results for the quarter ended June 30, 2003.

Current report on Form 8-K, dated August 4, 2003, was furnished on August 4, 2003. The items reported were:

- Item 7 - Financial Statements and Exhibits, which identified the exhibit furnished with the Form 8-K; and
- Item 9 - Regulation FD Disclosure, which reported the issuance of a press release correcting previously reported net income for the quarter ended June 30, 2003.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized

EMTEC, INC.

By: /s/ JOHN P. HOWLETT

John P. Howlett
Chairman, and Chief
Executive Officer
(Principal Executive Officer)

By: /s/ SAM BHATT

Sam Bhatt
Vice President - Finance
(Principal Financial and
Accounting Officer)

Date: November 14, 2003

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STATEMENT OF DIFFERENCES

The section symbol shall be expressed as ....'SS'