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EMTEC INC/NJ  
Form 10-Q  
February 14, 2005

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

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FORM 10-Q  
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2004

Commission file number: 0-32789

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

Delaware  
State of incorporation or organization)

87-0273300  
(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)

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

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 February 9, 2005, there were outstanding 7,380,498 shares of the registrant's common stock.

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EMTEC, INC.  
FORM 10-Q FOR THE QUARTER ENDED DECEMBER 31, 2004

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

EMTEC, INC.  
CONSOLIDATED BALANCE SHEETS

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	December 31, 2004	March 31, 2004
	-----	-----
	(unaudited)	
Assets		
Current Assets		
Cash and cash equivalents	\$ 385,507	\$ 4,792
Receivables:		
Trade, net	16,138,064	15,206,972
Others	1,865,795	289,445
Inventories	5,727,382	1,599,166
Prepaid expenses	348,039	396,313
Deferred tax assets	186,368	186,368
	-----	-----
Total Current Assets	24,651,155	17,683,056
Property and equipment, net	313,935	387,073
Investment in geothermal power unit	542,129	569,960
Deferred tax assets	103,813	103,813
Intangible assets	106,191	118,198
Other assets	65,755	46,512
	-----	-----
Total Assets	\$25,782,978	\$18,908,612
	=====	=====

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

EMTEC, INC.  
CONSOLIDATED BALANCE SHEETS

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	December 31, 2004	March 31, 2004
	-----	-----
	(unaudited)	
Liabilities and Shareholders' Equity		
Current Liabilities		
Line of credit	\$ 4,738,746	\$ 2,308,416
Accounts payable	12,265,465	9,295,882
Deposits	531,790	332,667
Income Tax Payable	663,945	279,397
Accrued liabilities	2,315,055	2,529,885
Deferred revenues	689,721	853,393
	-----	-----
Total Current Liabilities	21,204,722	15,599,640
Deferred revenue	682,735	714,573
Deferred tax liability	25,924	25,924
	-----	-----
Total Liabilities	21,913,381	16,340,137
	-----	-----
Shareholders' Equity		
Common stock, \$.01 par value; 25,000,000 shares authorized; 7,380,498 shares issued and outstanding	73,805	73,805
Additional paid-in capital	2,294,805	2,294,805
Accumulated earnings	1,500,987	199,865
	-----	-----
Total Shareholders' Equity	3,869,597	2,568,475
	-----	-----
Total Liabilities and Shareholders' Equity	\$25,782,978	\$18,908,612
	=====	=====

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 December 31,		Nine Months Ended December 31,	
	2004	2003	2004	2003
<b>Revenues:</b>				
Procurement services	\$21,208,639	\$19,648,683	\$71,355,830	\$65,286,512
Service and consulting	3,751,018	4,969,881	11,251,763	13,533,973
Geothermal	47,886	47,900	139,921	140,873
	-----	-----	-----	-----
Total Revenues	25,007,543	24,666,464	82,747,514	78,961,358
	-----	-----	-----	-----
<b>Cost of Revenues:</b>				
Procurement services	18,701,165	17,686,595	63,402,197	59,127,426
Service and consulting	2,571,789	3,094,958	7,706,300	8,917,374
Geothermal	20,741	61,167	54,817	91,249
	-----	-----	-----	-----
Total Cost of Revenues	21,293,695	20,842,720	71,163,314	68,136,049
	-----	-----	-----	-----
<b>Gross Profit:</b>				
Procurement services	2,507,474	1,962,088	7,953,633	6,159,086
Service and consulting	1,179,229	1,874,923	3,545,463	4,616,599
Geothermal	27,145	(13,267)	85,104	49,624
	-----	-----	-----	-----
Total Gross Profit	3,713,848	3,823,744	11,584,200	10,825,309
	-----	-----	-----	-----
<b>Operating Expenses:</b>				
Selling, general and administrative	3,517,096	3,350,077	9,355,359	9,934,891
Interest	47,686	75,333	145,243	247,885
	-----	-----	-----	-----
Total Operating Expenses	3,564,782	3,425,410	9,500,602	10,182,776
	-----	-----	-----	-----
Income Before Income Tax Expense	149,066	398,334	2,083,598	642,533
Income tax expense	67,476	78,008	782,476	103,264
	-----	-----	-----	-----
Net Income	\$ 81,590	\$ 320,326	\$ 1,301,122	\$ 539,269
	=====	=====	=====	=====
<b>Net Income Per Share -</b>				
Basic	\$ .01	\$ .04	\$ .18	\$ .08

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Diluted	\$ .01	\$ .04	\$ .17	\$ .07
Weighted Average Number Of Shares Outstanding {Basic}	7,380,498	7,194,628	7,380,498	7,118,680
Weighted Average Number Of Shares Outstanding {Diluted}	7,659,171	7,504,498	7,588,946	7,470,137

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

EMTEC, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	Nine Months Ended:	
	December 31, 2004	December 31, 2003
Cash Flows From Operating Activities		
Net income for the nine months	\$ 1,301,122	\$ 539,269
Adjustments to Reconcile Net Income To Net Cash Used In Operating Activities		
Depreciation and amortization	274,799	504,071
Impairment charges	-	223,858
Deferred income tax	-	106,876
Issuance of stock compensation	-	87,000
Changes In Operating Assets and Liabilities		
Increase in receivables	(2,507,443)	(4,505,974)
(Increase) Decrease in inventories	(4,128,216)	1,106,455
Decrease (Increase) in prepaid expenses	48,274	(11,426)
(Increase) Decrease in other assets	(19,243)	2,313
Increase in accounts payable	2,969,581	5,956,235
Increase (Decrease) in deposits	199,123	(298,127)
Increase in income tax payable	384,548	-
Decrease in accrued liabilities	(215,220)	(32,373)
Decrease in deferred revenue	(195,509)	(413,067)
Net Cash (Used In) Provided By Operating Activities	(1,888,184)	3,265,110

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Cash Flows From Investing Activities		
Purchases of equipment	(161,432)	(82,369)
Net Cash Used In Investing Activities	(161,432)	(82,369)
Cash Flows From Financing Activities		
Net Increase (Decrease) in line of credit	2,430,330	(4,783,935)
Net Cash Provided By (Used In) Financing Activities	2,430,330	(4,783,935)
Net Increase (Decrease) in Cash and Cash Equivalents	380,715	(1,601,194)
Beginning Cash and Cash Equivalents	4,792	1,792,101
Ending Cash and Cash Equivalents	\$ 385,507	\$ 190,907

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

EMTEC, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 THREE AND NINE MONTHS ENDED DECEMBER 31, 2004 AND 2003  
 (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 for the year ended March 31, 2004.

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### 2. Stock-Based Compensation

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.

The Company did not elect to change to the fair value based method of accounting for stock-based employees' compensation during the quarter ended December 31, 2004. 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.

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:

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	Three Months Ended December 31,		Nine Months Ended December 31,	
Pro Forma:	2004	2003	2004	2003
Net Income as reported	\$ 81,590	\$ 320,326	\$ 1,301,122	\$ 539,269
Less: Stock-based compensation under SFAS 123	(24,288)	(900)	(24,288)	( 2,703)
Pro Forma Net Income	\$ 57,302	\$ 319,426	\$ 1,276,834	\$ 536,566
Pro Forma:				
Net Income Per Share Basic	\$ .01	\$ .04	\$ .17	\$ .08
Net Income Per Share Diluted	\$ .01	\$ .04	\$ .17	\$ .07



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Option activity is summarized in the following table:

Options outstanding - October 1, 2004	405,228
Activity for the three months ended December 31, 2004:	
Options granted	60,000
Options exercised	-
Options forfeited or expired	(17,106)
	-----
Options outstanding - December 31, 2004	448,122
	=====

3. Line of Credit

On December 10, 2004, the Company entered into an amendment to the Loan and Security Agreement with Bank of America Business Capital Corporation (successor by merger to Fleet Capital Corporation) ("BOA") extending its credit facility through November 21, 2006. The amendment increased the Company's credit facility from \$10 million to \$12 million. The Company can borrow up to a lesser of \$12 million minus outstanding letter of credits or 85% of eligible accounts receivable minus the outstanding letter of credit obligations. Interest on outstanding loans under the revolving credit facility with BOA 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 the outstanding loans may be charged at LIBOR plus 2.75%. The BOA 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, BOA, GE Access and Ingram Micro have entered into intercreditor agreements, which provide that as regards to these vendors, debt obligations to BOA are accorded priority.

As of December 31, 2004, the Company was in compliance with all its financial covenants and had a \$4.74 million outstanding balance under the credit facility and an unused availability of \$6.26 million and the Company had \$1 million in outstanding letter of credit obligations.

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:

-----	-----
December 31, 2004	March 31, 2004

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Trade Receivable	\$ 16,698,606	\$15,570,374
Allowance for doubtful accounts	(560,542)	(363,402)
Trade Receivable, net	\$ 16,138,064	\$15,206,972

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 \$595,928 and \$722,551 at December 31, 2004 and March 31, 2004, respectively. The Company disposed of \$159,000 of old and obsolete inventory during this quarter of which \$143,000 was charged against the inventory reserve and the remaining \$16,000 was charged to the cost of revenues.

6. Major Customers

Five major customers in the aggregate accounted for approximately 87% and 62% of the Company's net sales for the three months ended December 31, 2004 and 2003, respectively. The same five major customers accounted for in the aggregate approximately 67% and 65% of the Company's net sales for the nine months ended December 31, 2004 and 2003, 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.

7. Related Party Transactions

The Company moved its 2990 Gateway Drive, Norcross, GA office and warehouse location to 500 Satellite Blvd., Suwanee, GA on December 1, 2004. The Company is occupying approximately 21,000 square feet of office and warehouse space out of a total of approximately 70,000 square feet. This space is leased from GS&T Properties, LLC, in which Messrs. John Howlett and Ronald Seitz, each an executive officer and director of the Company, are passive investors, each owning an approximately 10% equity interest. The lease term is for 5 years with monthly base rent of \$12,500.

8. Office Consolidation

At December 31, 2004, the Company completed the final phase of its office consolidation plan by entering into an agreement to sub-lease its office space

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at 880 3rd Avenue in New York City. The June 2008 term of the sublease coincides with the term of the Company's underlying lease. The sublease is expected to generate approximately \$15,000 in monthly rental receipts to the Company to partially offset approximately \$25,000 in monthly rent payments to be made by the Company pursuant to its underlying lease commitment through June 2008.

The Company has recorded a one-time charge of \$470,000 to sales, general and administrative expenses for the three months ended December 31, 2004. This charge was computed based upon the net present value of the Company's remaining lease obligation in excess of the present value of expected rental receipts under the sub-lease.

The company has moved its New York City office to a much smaller shared office space located at 116 West 23rd Street, New York. The term of this lease is for fourteen months at monthly base rent of \$1300.

### 9. Segment Information

The Company has adopted Statements of Financial Accounting Standards No. 131, "Disclosures about segments of an Enterprise and Related Information,". The Company's business activities are considered to be in two business segments, our Information Technology Division and our Geothermal Division.

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

For the three months ended December 31:	2004	2003
Revenues		
Information Technology	\$ 24,959,657	\$ 24,618,564
Geothermal	47,886	47,900
	-----	-----
Total Revenues	\$ 25,007,543	\$ 24,666,464
	=====	=====
Operating Profit/(Loss)		
Information Technology	\$ 133,408	\$ 426,641
Geothermal	15,658	(28,307)
	-----	-----
Net Segment Operating Income	\$ 149,066	\$ 398,334
Income Tax Expense	67,476	78,008
	-----	-----
Net Income	\$ 81,590	\$ 320,326
	=====	=====

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For the nine months ended December 31:	2004	2003
-----		
Revenues		
Information Technology	\$ 82,607,593	\$ 78,820,485
Geothermal	139,921	140,873
	-----	-----
Total Revenues	\$ 82,747,514	\$ 78,961,358
	=====	=====
Operating Profit/(Loss)		
Information Technology	\$ 2,033,369	\$ 635,717
Geothermal	50,229	6,816
	-----	-----
Net Segment Operating Income	\$ 2,083,598	\$ 642,533
Income Tax Expense	782,476	103,264
	-----	-----
Net Income	\$ 1,301,122	\$ 539,269
	=====	=====

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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

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

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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 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:

- o 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.

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- o 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:
  - o Risks of ownership have passed to our customer
  - o The customer has made a fixed commitment, in writing.
  - o A fixed delivery schedule is established
  - o We have not retained any specific performance obligations.

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- o 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.

- 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. Allowance for doubtful accounts was \$560,542 and \$363,402 as of December 31, 2004 and March 31, 2004, respectively.

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- 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

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inventory, its age, and net realizable value based upon assumptions about future demand and market condition. At December 31, 2004, and March 31, 2004, inventory reserve was \$595,928 and \$722,551, respectively. We disposed of \$159,000 of old and obsolete inventory during this quarter of which \$143,000 was charged against the inventory reserve and the remaining \$16,000 was charged to the cost of revenues.

### 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 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
	Dec. 2004	March 2004	(Years)
Computer equipment	\$ 3,799,176	\$ 3,643,052	3
Furniture and fixtures	360,205	357,845	5
Leasehold improvements	244,847	244,847	5
Vehicles	80,984	80,984	2
	-----	-----	
Total Property and Equipment	\$ 4,485,212	\$ 4,326,728	
Less: accumulated depreciation and amortization	(4,171,277)	(3,939,655)	
	-----	-----	
Net book value	\$ 313,935	\$ 387,073	
	=====	=====	

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### 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. Based on the impairment tests performed during the fiscal year ended March 31, 2004, we found no impairment of the remaining goodwill. The next annual impairment test shall be performed during the fourth quarter of the fiscal year 2005.

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 was expensed based upon then contract term scheduled to end in May 2004. The contract, which is subject to annual renewal by mutual agreement, was instead extended by the State of New Jersey through June 2005. The net carrying value for this contract amounted to \$0 and \$9,091 at December 31, 2004 and March 31, 2004, respectively.

### 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 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 for the nine months ended December 31, 2004, as compared to the nine months ended December 31, 2003. This increase is a result of the utilization of approximately \$850,000 of federal tax loss carryforwards 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.

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### 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 three months ended December 31, 2004, and 2003.

EMTEC, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
Three Months Ended December 31,



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	2004	2003	Change	%
<b>Revenues</b>				
Procurement services	\$ 21,208,639	\$ 19,648,683	\$ 1,559,956	7
Service and consulting	3,751,018	4,969,881	\$ (1,218,863)	-24
Geothermal	47,886	47,900	\$ (14)	0
<b>Total Revenues</b>	<b>25,007,543</b>	<b>24,666,464</b>	<b>\$ 341,079</b>	<b>1</b>
<b>Cost of Revenues</b>				
Procurement services	18,701,165	17,686,595	\$ 1,014,570	5
Service and consulting	2,571,789	3,094,958	\$ (523,169)	-16
Geothermal	20,741	61,167	\$ (40,426)	-66
<b>Total Cost of Revenues</b>	<b>21,293,695</b>	<b>20,842,720</b>	<b>\$ 450,975</b>	<b>2</b>
Percent of revenues	85.1%	84.5%		
<b>Gross Profit</b>				
Procurement services	2,507,474	1,962,088	\$ 545,386	27
Service and consulting	1,179,229	1,874,923	\$ (695,694)	-37
Geothermal	27,145	(13,267)	\$ 40,412	304
<b>Total Gross Profit</b>	<b>3,713,848</b>	<b>3,823,744</b>	<b>\$ (109,896)</b>	<b>-2.8</b>
Percent of revenue	14.9%	15.5%		
<b>Operating Expenses</b>				
Sales, General & Administrative Expenses	3,517,096	3,350,077	\$ 167,019	5
Interest Expense	47,686	75,333	\$ (27,647)	-36
<b>Total Operating Expenses</b>	<b>3,564,782</b>	<b>3,425,410</b>	<b>\$ 139,372</b>	<b>4</b>
Percent of revenue	14.3%	13.9%		
Income Before Income Tax	149,066	398,334	\$ (249,268)	-62
Income Tax Expense	67,476	78,008	\$ (10,532)	-13
<b>Net Income</b>	<b>\$ 81,590</b>	<b>\$ 320,326</b>	<b>\$ (238,736)</b>	<b>-74</b>
Income Per Share Basic	\$ 0.01	\$ 0.04		
Income Per Share Diluted	\$ 0.01	\$ 0.04		

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Three Months Ended December 31, 2004 Compared to Three Months Ended December 31, 2003.

### Total Revenues

Total revenues for our IT business, which includes services and consulting revenue, and procurement revenues, increased by 1.4% or \$341,093, to \$24.96 million for the quarter ended December 31, 2004, compared to \$24.62 million for the quarter ended December 31, 2003. This increase is primarily attributable to a growth in our commercial customers' IT spending. Total IT revenue associated with our commercial customers increased by approximately \$2.8 million as compared with the prior quarter; this increase was partially off-set by approximately \$2.4 million decrease in computer roll-out projects for the various state agencies in the State of New Jersey.

Procurement revenues increased by 7.9%, or \$1.56 million, to \$21.21 million for the quarter ended December 31, 2004, as compared to \$19.65 million for the quarter ended December 31, 2003. This change is primarily attributable to reasons discussed above.

Services and consulting revenue decreased by 24.5%, or \$1.22 million, to \$3.75 million for the quarter ended December 31, 2004 compared to \$4.97 million for the quarter ended December 31, 2003. 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. Net revenue associated with this sale was approximately \$800,000 recognized in the quarter ended December 31, 2003.

During the fourth quarter of our fiscal year ending March 31, 2005, our contract with the State of New Jersey was extended through June 30, 2005, and we expect our revenues from commercial customer base will continue to grow, and to roll-out over 1200 computers to a school district in GA. Our inventory at December 31, 2004 was increased by approximately 350% as compared with the inventory at March 31, 2004. This increase was mainly due to our receipt of products from our distributors that were ordered by a customer for computer roll-out projects starting in January 2005 for a school district in GA.

Five major customers accounted in the aggregate for approximately 87.0% and 62.0% of our revenues for the quarter ended December 31, 2004 and 2003, respectively. These top five customers are Gwinnett County Schools, Duval County Schools, General Electric, Cox Communications and the State of New Jersey. We anticipate that these customer concentrations will continue for the foreseeable future. The loss of any of these customers may cause results of operations to vary materially from those anticipated.

Geothermal revenues of \$47,886 for the quarter ended December 31, 2004 are consistent with prior quarter. Our average geothermal revenue is approximately \$45,000 a quarter. We do not expect any significant change in the

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average revenue in the future quarters.

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### Gross Profit

Aggregate gross profit for our IT business decreased by 3.9%, or \$150,308, to \$3.69 million for the quarter ended December 31, 2004. Measured as a percentage of total revenues for our IT business, our overall gross profit margin decreased to 14.8% of total revenues for the quarter ended December 31, 2004 from 15.6% for the quarter ended December 31, 2003. The reasons for these decreases are discussed in the two paragraphs below.

Gross profit for product sales increased by 27.8%, or \$545,386, to \$2.51 million for the quarter ended December 31, 2004 as compared with \$1.96 million for the quarter ended December 31, 2003. This increase is primarily attributable to a growth in our commercial customers' IT spending and our greater selling efforts. Measured as a percentage of procurement revenues, our gross profit margin increased to 11.8% of procurement revenue for the quarter ended December 31, 2004 from 10.0% for the quarter ended December 31, 2003. 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 revenues decreased by 37.1%, or \$695,694, to \$1.18 million for the quarter ended December 31, 2004 as compared with \$1.87 million for the quarter ended December 31, 2003. Also, measured as a percentage of services and consulting revenues, our gross margin attributable to services and consulting revenue decreased to 31.4% of services and consulting revenue for the quarter ended December 31, 2004 from 37.7% for the quarter ended December 31, 2003. 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 quarter, both of these decreases were mainly due to the non-renewal of a manufacturers' support service contract sold to one customer in the prior quarter as discussed in the revenue section.

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

The geothermal gross profit increased by 304.6%, or \$40,412, to \$27,415 for the quarter ended December 31, 2004 compared with \$(13,267) for the quarter ended December 31, 2003. This is mainly due to approximately \$40,000 higher operating and maintenance expense associated with the geothermal unit in the quarter ended December 31, 2003 that was unusual in nature. We have not seen such a high operating and maintenance expense in the last four quarters nor do we expect to see such an expense in the foreseeable future.

### Sales, General, and Administrative Expenses

Sales, general and administrative expenses increased by 5.0%, or \$167,019, to \$2.51 million for the quarter ended December 31, 2004. This

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increase is mainly due to 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 at 880 3rd Avenue minus the expected future rental income to be received from the sub-tenant

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through June 30, 2008. Without this one time charge of \$470,000, our sales, general and administrative expenses would have decreased by 9.0%, or \$302,981, to \$3.05 million for the quarter ended December 31, 2004 as compared with \$3.35 million for the quarter ended December 31, 2003. This decrease is primarily attributable to our continuous focus on cost containment measures and the following:

- o Consolidation of our operations, administrative and inventory warehousing functions from Mt. Laurel, NJ and Cranford, NJ to Trenton, NJ.
- o No bonus charges 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.
- o Much lower depreciation expense due to write-down of Network Operation Center and Help Desk assets during fiscal 2004.

We estimate starting January 2005, 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 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 2005.

### Interest expense

Interest expense decreased by 36.7%, or \$27,647, to \$47,686 for the quarter ended December 31, 2004 as compared with \$75,333 for the quarter ended December 31, 2003. This decrease is primarily attributable to a lower balance on our line of credit, lower days sales outstanding, and lower interest charged by our lender starting this quarter than prior quarters.

### Income Taxes

Income tax expense, as a percentage of income before income taxes, increased for the quarter ended December 31, 2004 as compared to the quarter ended December 31, 2003. This increase is a result of the utilization of federal tax loss carryforwards during the year ended March 31, 2004. The Company had

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previously recorded significant valuation allowances for deferred tax assets, which effectively reduced the income tax expense percentage during the year ended March 31, 2004.

### Net Income

For the three months ended December 31, 2004, net income was \$81,590 compared to net income of \$320,326 for the comparable period in 2003, a decrease of 74.5%.

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As discussed, the decrease in net income is mainly due to the loss of a manufacturers' support service contract sold to one customer in the prior quarter and an increase in SG&A expenses due to a one-time charge of \$470,000 associated with the sub-lease of our New York office. Without this one-time charge, net of income tax, our net income for the quarter ended December 31, 2004 would have been approximately \$400,000 for the quarter ended December 31, 2004.

Nine Months Ended December 31, 2004 Compared to Nine Months Ended December 31, 2004.

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

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EMTEC, INC.  
 CONSOLIDATED STATEMENTS OF OPERATIONS  
 Nine Months Ended December 31,

	2004	2003	Change
-----			
Revenues			
Procurement services	\$ 71,355,830	\$ 65,286,512	\$ 6,069,318
Service and consulting	11,251,763	13,533,973	\$(2,282,210)
Geothermal	139,921	140,873	\$ (852)
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Total Revenues	82,747,514	78,961,358	\$ 3,78
Cost of Revenues			
Procurement services	63,402,197	59,127,426	\$ 4,27
Service and consulting	7,706,300	8,917,374	\$ (1,21
Geothermal	54,817	91,249	\$ (3
Total Cost of Revenues	71,163,314	68,136,049	\$ 3,02
Percent of revenues	86.0%	86.3%	
Gross Profit			
Procurement services	7,953,633	6,159,086	\$ 1,79
Service and consulting	3,545,463	4,616,599	\$ (1,07
Geothermal	85,104	49,624	\$ 3
Total Gross Profit	11,584,200	10,825,309	\$ 75
Percent of revenue	14.0%	13.7%	
Operating Expenses			
Sales, General & Administrative Expenses	9,355,359	9,934,891	\$ (57
Interest Expense	145,243	247,885	\$ (10
Total Operating Expenses	9,500,602	10,182,776	\$ (68
Percent of revenue	11.5%	12.9%	
Income Before Income Tax	2,083,598	642,533	\$1,44
Income Tax Expense	782,476	103,264	\$ 67
Net Income	\$ 1,301,122	\$ 539,269	\$ 76
Income Per Share Basic	\$ 0.18	\$ 0.08	
Income Per Share Diluted	\$ 0.17	\$ 0.07	

Total Revenues

Total revenues for our IT business, which includes services and consulting revenue, and procurement revenues, increased by 4.8% or \$3.79 million, to \$82.61 million for the nine months ended December 31, 2004, compared to \$78.82 million for the nine months ended December 31, 2003. 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 IT revenue associated with our commercial customers and revenue associated with computer roll-out projects increased by approximately \$15.0 million as compared with the prior

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period, this increase was off-set partially by approximately \$11.3 million decrease in computer roll-out projects for the various state agencies in the State of New Jersey.

Procurement revenues increased by 9.3%, or \$6.07 million, to \$71.36 million for the nine months ended December 31, 2004. This change is primarily attributable to reasons discussed above.

Services and consulting revenue decreased by 16.9%, or \$2.28 million, to \$11.25 million for the nine months ended December 31, 2004 compared to \$13.53 million for the nine months ended December 31, 2003. 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.

Five major customers accounted in the aggregate for approximately 67% and 65% of our revenues for the nine months ended December 31, 2004 and 2003, respectively. 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.

Geothermal revenues of \$139,921 for the nine months ended December 31, 2004 is consistent with comparable prior period.

### Gross Profit

Aggregate gross profit for our IT business increased by 6.7%, or \$723,411, to \$11.50 million for the nine months ended December 31, 2004. 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 for our IT business, our overall gross profit margin increased to 13.9% of total revenues for the nine months ended December 31, 2004 from 13.7% for the nine months ended December 31, 2003. The reasons for this increase are discussed in the two paragraphs below.

Gross profit for product sales increased by 29.1%, or \$1.79 million, to \$7.95 million for the nine months ended December 31, 2004 as compared with \$6.16 million for the nine months ended December 31, 2003. 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 and increase in the gross profit margin. Measured as a percentage of procurement revenues, our gross profit margin increased to 11.1% of procurement revenue for the nine months ended December 31, 2004 from 9.4% for the nine months ended December 31, 2003. 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 23.2%, or \$1.07 million, to \$3.55 million for the nine months ended December 31, 2004 as compared with \$4.62 million for the nine months ended December 31, 2003. This

decrease is mainly due to an over-all decrease

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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 period 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 31.5% of service and consulting revenue for the nine months ended December 31, 2004 from 34.1% for the nine months ended December 31, 2003. This decrease in services and consulting gross margin was mainly due to the non-renewal of manufacturers' support service contract sold to one customer during the nine months ended December 31, 2003.

The geothermal gross profit increased by 71.5%, or \$35,480, to \$85,104 for the nine months ended December 31, 2004 compared with \$49,624 for the nine months ended December 31, 2003. This is mainly due to approximately \$40,000 higher operating and maintenance expense associated with the geothermal unit in the quarter ended December 31, 2003 that was unusual in nature. We have not seen such a high operating and maintenance expense in the last four quarters nor do we expect to see such an expense in the foreseeable future periods.

#### Sales, General, and Administrative Expenses

Sales, general and administrative expenses decreased by 5.8%, or \$579,532, to \$9.36 million for the nine months ended December 31, 2004. 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 10.6%, or \$1.05 million, to \$8.89 million for the nine months ended December 31, 2004 as compared with \$9.93 million for the nine months ended December 31, 2003. This decrease is primarily attributable to our continuous focus on cost containment measures and the following:

- o Elimination of non-productive sales staff;
- o Eliminated duplication of non-essential administrative support services.
- o Consolidation of our operations, administrative and inventory warehousing functions from Mt. Laurel, NJ and Cranford, NJ to Trenton, NJ.
- o 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.



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

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We estimate starting January 2005, 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 2005.

### Interest expense

Interest expense decreased by 41.4%, or \$102,642, to \$145,243 for the nine months ended December 31, 2004 as compared with \$247,885 for the nine months ended December 31, 2003. 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 period than prior period.

### Income Taxes

Income tax expense, as a percentage of income before income taxes, increased for the nine months ended December 31, 2004 to \$785,476, as compared to \$103,264 for the nine months ended December 31, 2003. This increase is primarily a result the \$1.44 million increase in net income before income taxes for the nine months ended December 31, 2004 compared to the nine months ended December 31, 2003 and the utilization of federal tax loss carryforwards 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.

### Net Income

For the nine months ended December 31, 2004, net income was \$1.30 million compared to net income of \$539,269 for the comparable period in 2003, an increase of 141.3%.

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 the Company. The reported net income for the nine months ended December 31, 2004 includes a one-time charge of \$470,000 associated with the sub-lease of our New York office. Without this one-time charge, net of income tax, our net income for the nine months ended December 31, 2004 would have been approximately \$1.61 million for the nine months ended December 31, 2004.

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### Cautionary Statement Regarding Forward-Looking Statements

You should carefully review the information contained in this Quarterly Report and in other reports or documents that we file from time to time with the Securities and Exchange Commission (the "SEC"). In this Quarterly 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,"

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"believes," "estimates," "predicts," "potential," or "continue" or the negative of those words and other comparable words. You should be 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, 2004 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.

#### 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 December 31, 2004. Although we expect to remain in compliance with the financial covenants, no assurance can be given.

At December 31, 2004, credit facilities with our primary trade vendors, GE Access, Ingram Micro, and Tech Data were as follows: \$6.6 million, \$5.0 million and \$1.5 million, respectively. Under these credit lines, we are obligated to pay each invoice within 30 days from the date of such invoice. These credit lines could be reduced or eliminated without a notice, and this action could have a material adverse affect our business, result of operations, and financial condition.

We must continue to effectively manage expenses in relation to revenues

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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

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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 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. While we have offered IT services to our customers since 1983, our major emphasis on IT consulting and services began in 1995. 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 December 31, 2004 of \$385,507 represented an increase of \$380,715 from \$4,792 at March 31, 2004. 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. At December 31, 2004, our working capital was increased to \$3.45 million from \$2.08 as of March 31,

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2004. This increase in working capital was primarily attributable to net earnings for the nine months ended December 31, 2004.

Since our inception, we have funded our operations primarily from borrowings under our credit facility. On December 10, 2004, we entered into an amendment to the Loan and Security Agreement with Bank of America Business Capital Corporation (successor by merger to Fleet Capital Corporation) ("BOA") extending our credit facility through November 21, 2006. This amendment increased our credit facility from \$10 million to \$12 million. We can borrow up to a lesser of \$12 million minus the outstanding letter of credit obligations or 85% of eligible accounts receivable minus the outstanding letter of credit obligations. Interest on outstanding loans under our revolving credit facility with BOA is charged monthly at a fluctuating rate per annum equal to 0.25% above the Prime Rate and, at our option, interest on the outstanding loans may be charged at LIBOR plus 2.75%. The BOA revolving credit facility is collateralized by a lien upon and security interest in substantially all of our assets. Since current credit facilities with two of our primary trade vendors (GE Access and Ingram Micro.) were also collateralized by substantially all of our assets, Fleet, GE Access and Ingram Micro have entered into

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intercreditor agreements, which provide that as regards to these vendors, debt obligations to BOA are accorded priority.

As of December 31, 2004, we were in compliance with all of our financial covenants and we had a \$4.74 million outstanding balance under the credit facility and an unused availability of \$6.26 million and we had \$1 million in outstanding letter of credit obligations.

At December 31, 2004, our credit facilities with our primary trade vendors, GE Access, Ingram Micro, and Tech Data were as follows:

- o Our credit line with GE Access was \$6.6 million, with an outstanding principal balance of \$6.6 million.
- o Our credit line with Ingram Micro was \$5.0 million, with an outstanding principal balance of \$2.6 million.
- o Our credit line with Tech Data was \$1.5 million, with an outstanding balance of \$519,000.

Under these credit lines, we are obligated to pay each invoice within 30 days from the date of such invoice.

Capital expenditures of \$161,432 during nine months ended December 31, 2004 were primarily for the purchase of computer equipment for internal use, and furniture and fixtures. We anticipate our capital expenditures for fiscal year ending March 31, 2005 will be approximately \$250,000.

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.

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We believe that funds generated from operations and bank borrowings should be sufficient to meet our current operating cash requirements through the next twelve months, although there can be no assurance that all of the aforementioned sources of cash can be realized.

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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 December 31, 2004 was approximately \$3.3 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 \$33,000 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 December 31, 2004. 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 13a-15(d) under the Exchange Act that occurred during the quarter ended December 31, 2004 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 6. Exhibits

Exhibit 10.1 - Amendment to Loan and Security Agreement dated as of November 11, 2004, by and between Bank of America Business Capital Corporation (successor by merger to Fleet Capital Corporation) and Emtec, Inc.

Exhibit 31.1 - Rule 13a-14(a)/15 d-14(a) Certification of John P. Howlett, Principal Executive Officer, of Emtec, Inc. dated November 15, 2004.

Exhibit 31.2 - Rule 13a-14(a)/15 d-14(a) Certification of Sam Bhatt, Principal Financial Officer, of Emtec, Inc. dated November 15, 2004.

Exhibit 32.1 - Section 1350 Certificate of John P. Howlett, Principal Executive Officer, of Emtec, Inc. dated November 15, 2004.

Exhibit 32.2 - Section 1350 Certificate of Sam Bhatt, Principal Financial Officer, of Emtec, Inc. dated November 15, 2004.

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)

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By: /s/ SAM BHATT

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

Date: February 14, 2005

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STATEMENT OF DIFFERENCES

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