EMTEC INC/NJ
Form 10-K/A
July 07, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

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FORM 10-K/A

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AMENDMENT No. 1

(MARK ONE)

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

For the fiscal year ended August 31, 2005

OR

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

For the transition period from___________to___________

Commission file number: 0-32789

EMTEC, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

Common Stock, $0.01 par value

Title of class

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

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 o

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No x

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of February 28, 2005 was approximately $10,912,085 computed by reference to the closing price of the common stock for that date.

As of June 30, 2006, there were outstanding 14,381,286 shares of the registrant s common stock.

DOCUMENTS INCORPORATED BY REFERENCE

None.

EXPLANATORY NOTE

Emtec, Inc. is filing this Amendment No. 1 to its Annual Report on Form 10-K for the year ended August 31, 2005, as filed with the Securities and Exchange Commission on December 14, 2005 (the Original 10-K). At the time of filing its Original 10-K, the Company s financial statements for 2003 had been audited by an accounting firm, Glassel & Bonfiglio, LLC (Glassel), that was not registered by the PCAOB. Subsequently, Glassel registered with the PCAOB and reaudited the 2003 financial statements which are filed with this Form 10-K/A. This amendment updates all references to the 2003 financial statements by removing all references to the 2003 financial statements as being unaudited in Item 5, Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities , Item 6, Selected Financial Data and Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations . Item 15(a), Financial Statements is also amended to include a Report of the Independent Registered Public Accounting Firm for 2003.

The Company has also amended footnote 15 Quarterly Financial Information (Unaudited) of Notes to Consolidated Financial Statements to correct a typographical error that was included in the Original Filing.

As required by Rule 12b-15 of the Exchange Act, new certifications by our principal executive officer and principal financial officer are being flied as exhibits herewith under Item 15(c) Exhibits as part of this Amendment No. 1. Additionally, the Company is filing, as Exhibits 23.1 and 23.2, Consents of each of the Registered Public Accounting Firms that has audited its financial statements. As further required by Rule 12b-15, this Amendment No. 1 sets forth the complete text of each item as amended.

This Amendment No. 1 does not affect any other section of the Original 10-K not otherwise discussed herein and continues to speak as of the date of the Original 10-K. Accordingly, this Amendment No. 1 should be read in conjunction with the Registrant s other filings made with the Securities and Exchange Commission subsequent to the filing of the Original 10-K.

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

Cautionary Statement Regarding Forward-Looking Statements

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

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

PART II

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

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

Three Months Ended	High	Low
August 31, 2005	$ 2.85	$ 1.60
May 31, 2005	$ 2.00	$ 1.32
February 28, 2005	$ 3.04	$ 1.70
November 30, 2004	$ 2.25	$ 0.88
August 31, 2004	$ 1.15	$ 0.91
May 31, 2004	$ 1.45	$ 0.99
February 29, 2004	$ 1.25	$ 0.82
November 30, 2003	$ 1.20	$ 0.77

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

As of November 7, 2005, there were 612 record holders of our common stock, although we believe that beneficial holders approximate 850.

We have not previously declared any dividends. It is not likely that dividends on the shares will be declared in the forseeable future. Under our current loan agreement, we may not declare any dividends without the consent of our lenders. However, even if our lenders consented, the determination and payment of dividends with respect to the shares in the future will be within the discretion of our board of directors and will depend on our earnings, capital requirements and operating and financial condition, among other factors.

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column(a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders			
Equity compensation plans not approved by security holders [(1)]	92,453	$ 1.22	639,058
Total	92,453	$ 1.22	639,058

(1) Our 1996 Stock Option Plan (the Plan) (amended in 1999) authorizes the granting of stock options to directors and eligible employees. We have reserved 1,000,000 shares of our common stock for issuance under the Plan at prices not less than 100% of the fair value of our common stock on the date of grants (110% in the case of shareholders owning more than 10% of our common stock). As of August 31, 2005, 268,489 options have been exercised under the Plan.

Recent Sales of Unregistered Securities

In connection with the Merger, all of the shares of Darr common stock issued and outstanding were exchanged for 9,528,110 shares of our common stock and warrants to purchase an additional 10% of our common stock, measured on a post exercise basis. Neither the shares issued nor the shares underlying the warrant were registered in connection with the closing of the Merger. The new issuance of common stock represented approximately 55.7% of the issuer s total outstanding common stock post-merger and resulted in a change of control of the registrant.

The warrants to purchase our common stock issued to Darr s former shareholders evidences our obligation to issue a variable number of shares, in the aggregate, equal to 10% of the total issued and outstanding shares of the Company s stock, measured on a post exercise basis, at any date during the 5 year term of the warrants ending August 5, 2010. The aggregate exercise price of these warrants is fixed at $3,645,752. The exercise price per warrant shall vary based upon the number of shares issuable under the warrants. As of August 31, 2005, the aggregate number of shares issuable under these warrants totaled 1,914,682 with an exercise price per share of $1.90. In addition, Darr issued a promissory note with a face value of $1,102,794 at an 8% annual interest rate in full redemption of its outstanding $1 million of preferred stock previously issued by Darr in connection with the Westwood Acquisition and in payment of $102,794 of dividends payable on preferred stock at the merger date.

Pursuant to the Merger, we initiated a self tender offer on September 7, 2005. When the tender offer closed on October 4, 2005, 4,984,185 shares had been properly tendered and not withdrawn. Because the number of shares of common stock tendered exceeded the number of shares that we offered to purchase, 57.473 percent of the shares that were tendered were repurchased. We funded the payment for the shares of our common stock from borrowings of $5.5 million under our revolving credit facility.

Item 6. Selected Financial Data

The issuance of our common stock in connection with the Merger gave the former Darr shareholders shares equal to approximately 55.7% of our total outstanding common stock post-merger and resulted in a change of control for us. Accordingly, for financial reporting purposes, the Merger was treated as an acquisition of Emtec by Darr and a recapitalization of Darr and the registrant s historical financial statements for periods prior to the Merger become those of Darr. In addition, for financial accounting purposes, the Westwood Acquisition was treated as an acquisition of Darr by Westwood with the result that the pre-Westwood Acquisition financial statements of Darr, and therefore, the Registrant are those of Westwood. As a result, the consolidated financial statements included in this Form 10-K include (i) the accounts and transactions for Westwood for the year ended August 31, 2003, (ii) the accounts and transactions of Westwood for the period from September 1, 2003 to April 16, 2004 (Darr Predecessor Period) and for Westwood and Darr for the period from April 17, 2004 to August 31, 2004 (Darr Successor Period) and (iii) the accounts and transactions of Darr for the period from September 1, 2004 to August 31, 2005 and including the accounts and transactions of Emtec for the period from August 6, 2005 to August 31, 2005.

The following selected consolidated financial data below should be read in conjunction with our consolidated financial statements including the accompanying notes and Management s Discussion and Analysis of Financial Condition and Results of Operations, both elsewhere in this Report. The data as of August 31, 2005, 2004 and 2003 and for the year ended August 31, 2005, and for the periods from September 1, 2003 to April 16, 2004 (Darr Predecessor Period) and from April 17, 2004 to August 31, 2004 (Darr Successor Period), and for the year ended August 31, 2003 have been derived from, and should be read in conjunction with, our audited consolidated financial statements and accompanying notes, which are contained elsewhere in this Report. The data as of August 31, 2002, and 2001 and for each of the two years in the period ended August 31, 2002 have been derived from our unaudited financial statements, which are not contained in this Report.

	YEAR ENDED AUGUST 31,					
	2005	**(Successor Period) 2004**	**(Predecessor Period) 2004**	**2003**	**2002 (unaudited)**	**2001 (unaudited)**
Net revenues	$ 162,632,042	$ 41,641,604	$ 88,229,719	$ 97,449,611	$ 94,165,222	$ 80,184,220
Net Income (loss)	$ 826,985	$ 122,281	$ 885,837	$ 467,390	$ 549,605	$ 612,757
Net Income (loss) per common share (basic & diluted)	$ 0.08	$ 0.01	$ 0.09	$ 0.05	$ 0.06	$ 0.06

	AT AUGUST 31,				
	2005	**2004**	**2003**	**2002 (unaudited)**	**2001 (unaudited)**
Total assets	$ 70,009,919	$ 21,737,638	$ 22,984,079	$ 23,060,145	$ 14,038,416
Total long-term debt	$ 3,010,219	$ 2,405,084		$ 351,112	$ 404,445
Total preferred stock *		**$** 1,030,000			
Total redeemable common stock	$ 5,500,000	$ 0	$ 0	$ 0	$ 0

*Liquidation value of $1,030,00.00

There was a dividend in the form of the distribution of a note receivable in the amount of $399,958 paid to the shareholders of Westwood on April 15, 2004. There were no other dividends paid to common stockholders during the five year period ended on August 31, 2005.

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

Reference is made to the Risk Factors outlined in Item 1A for a discussion of important factors that could cause actual results to differ from expectations and any of our forward-looking statements contained herein. The following discussion as of August 31, 2005, 2004 and 2003 and the corresponding data for (i) the year ended August 31, 2005, and (ii) for the periods from (a) September 1, 2003 to April 16, 2004 (Darr Predecessor Period) and (b) from April 17, 2004 to August 31, 2004 (Darr Successor Period) and for the year ended August 31, 2006 have been derived from, and should be read in conjunction with, our audited consolidated financial statements and accompanying notes, which are contained elsewhere in this Report.

Overview

We are an information technology company, providing services and products to commercial, federal, education, state and local verticals. Areas of specific practices include communications, data availability, enterprise computing, managed services, storage and data center planning and development. Our solutions are crafted to enable our customers to become more efficient and effective, thereby giving them a competitive advantage. To date, the most significant portion of our revenues has been derived from our activities as a reseller of IT products, such as workstations, servers, microcomputers, application software and networking and communications equipment. However, we are actively endeavoring to increase the portion of our revenues that are derived from IT services.

Merger with Darr

On August 5, 2005, we completed our merger under the Agreement and Plan of Merger dated as of July 14, 2005 (the Merger Agreement), by and among us, Emtec Viasub LLC, a Delaware limited liability company and our wholly-owned subsidiary (MergerCo), and Darr Westwood Technology Corporation, a Delaware corporation (Darr). Pursuant to the terms of the Merger Agreement, Darr merged with and into MergerCo, with MergerCo remaining as the surviving company (the Surviving Company) and a wholly-owned subsidiary of Emtec (the Merger).

The Merger has been accounted for as a capital transaction followed by a recapitalization. Our management concluded that the transaction resulted in a change in control of the Company and that the Merger should be accounted for as a reverse acquisition. Accordingly, Darr is deemed to be the acquiring company for financial reporting purposes in the reverse acquisition. The reverse merger was treated as an acquisition of Emtec by Darr and a recapitalization of Darr. Consequently, Emtec s historical financial statements for periods prior to the Merger become those of Darr.

Furthermore, in connection with the closing of the Merger, Emtec changed its fiscal year end from March 31 to August 31, effective as of August 5, 2005.

Darr and Its 2004 Merger with Westwood

Prior to the Merger, Darr was a holding company formed in April 2004 in order to effectuate the purchase of all of the outstanding capital stock of Westwood. Darr s acquisition of Westwood s capital stock was completed on April 16, 2004. Westwood is engaged in the sale and service of computers and peripherals to customers which include departments of the United States, state and local governments and commercial businesses throughout the United States.

We refer to Darr s acquisition of Westwood as the Westwood Acquisition. Darr is referred to as Darr Predecessor for the periods prior to the Westwood Acquisition and Darr for the periods following the Westwood Acquisition. Similarly to the Emtec-Darr Merger, in the Westwood Acquisition, Westwood was deemed to be the acquiring company for financial reporting purposes in the reverse acquisition. Consequently, Westwood s historical financial statements for periods prior to the Westwood Acquisition become those of Darr. For the discussion and analysis in this Report we have combined Westwood s period from September 1, 2003 to April 16, 2004 (Darr Predecessor Period) and Darr s period from April 17, 2004 to August 31, 2004 (Darr Successor Period).

Westwood is engaged in the sale and service of computers and peripherals to customers which include departments of the United States, state and local governments and commercial businesses throughout the United States. Westwood is a supplier of information technology products and services primarily to the Federal Government. It has been recognized as one of the top 20 General Services Administration vendors in the IT industry during each of the past eight years and was named in data compiled by the GSA as the ninth largest such vendor for the Federal Government s 2004 fiscal year. Westwood has additional locations in New York and Virginia, as well as five regional offices in the South and western United States.

The majority of Westwood s sales are drawn from various civilian and military U.S. governmental departments and agencies. These customers include the Department of Defense, Department of Justice, Department of Homeland Security, Department of Health and Human Services, Department of Agriculture, Department of Commerce and the GSA. During the last three fiscal years ended on August 31, 2005, 2004, and 2003, U.S. governmental departments and agencies accounts for approximately 76.1%, 75.6%, and 75.7%, respectively. The federal government business typically experiences increased activity during the months August through November.

Overview of Financial Statements Presented Herein

As previously noted, the Merger was treated as an acquisition of Emtec by Darr and a recapitalization of Darr and the registrant. Darr is deemed to be the acquiring company for financial reporting purposes and Emtec s historical financial statements for periods prior to the Merger become those of Darr.

In evaluating our results of operations and financial performance, our management has used combined results for the fiscal year ended August 31, 2005 as a single measurement period. Due to the Merger, we believe that comparisons between the eleven months ended August 5, 2005 and either Darr s results for the period from September 1, 2004 to August 5, 2005 or Emtec s results for the period from August 6, 2005 through August 31, 2005 may impede the ability of users of our financial information to understand our operating and cash flow performance. Consequently, in order to enhance an analysis of our operating results and cash flows, we have presented our operating results and cash flows on a combined basis for the fiscal year ended August 31, 2005. This combined presentation for the fiscal year ended August 31, 2005 simply represents the mathematical addition of the pre-acquisition results of operations of Darr for the period from September 1, 2004 through August 5, 2005 and the results of operations of Emtec, following the Merger, for the period from August 6, 2005 through August 31, 2005.

Therefore, the financial statements presented in this Report consist of the following financial statements:

1. Westwood for the fiscal year ended August 31, 2003;

2. Westwood for the period from September 1, 2003 to April 16, 2004 (the Darr Predecessor Period);

3. Darr (following the Westwood Merger on April 16, 2004) for the period from April 17, 2004 to August 31, 2004 (Darr Successor Period);

4. Darr for the fiscal year ended August 31, 2005 (including Emtec, following the Merger, for the period from August 6, 2005 to August 31, 2005).

As mentioned above, for the discussion and analysis in this Report we have combined Westwood s period from September 1, 2003 to April 16, 2004 (Darr Predecessor Period) and Darr s period from April 17, 2004 to August 31, 2004 (Darr Successor Period) and our period from September 1, 2004 to August 31, 2005 represents the financial statements of Darr for the 2005 fiscal year plus the financial statements of Emtec for the period from August 6, 2005 to August 31, 2005.

Results of Operations

The following discussion and analysis provides information that management believes is relevant to an assessment and understanding of our Results of Operations for the fiscal years ended August 31, 2005 and 2004. For this discussion and analysis we have combined the periods from September 1, 2003 to April 16, 2004 (Darr Predecessor Period) and from April 17, 2004 to August 31, 2004 (Darr Successor Period and our period from September 1, 2004 to August 31, 2005 represents the results of operations of Darr for the 2005 fiscal year plus the financial statements of Emtec for the period from August 6, 2005 to August 31, 2005.

Our Report on Form 10-Q that will be filed for the quarter ended November 30, 2005, will be our first quarterly report that will include full three months of results of operations of the combined company.

Comparison of Years Ended August 31, 2005 and 2004

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

	2005	2004	Change	%
Revenues	$ 162,632,042	$ 129,871,323	$ 32,760,719	25.2%
Cost of revenues	148,587,442	$ 117,214,228	31,373,214	26.8%
Gross profit	14,044,600	12,657,095	1,387,505	11.0%
Percent of revenues	8.6%	9.7%		
Operating expenses:				
Selling, general, and administrative expenses	11,872,766	$ 10,711,020	1,161,746	10.8%
Management fee related party	350,000	116,664	233,336	200.0%
Rent expense related party	180,000	$ 215,333	(35,333)	-16.4%
Depreciation and amortization	174,944	$ 75,005	99,939	133.2%
Total operating expenses	12,577,710	11,118,022	1,459,688	13.1%
Pecent of revenues	7.7%	8.6%		0.0%
Operating income	1,466,890	1,539,073	(72,183)	-4.7%
Percent of revenues	0.9%	1.2%		
Other expense (income):				
Forgiveness of debt		($405,652)	405,652	-100.0%
Interest income related party		($21,483)	21,483	-100.0%
Interest income other	(120,520)	($70,262)	(50,258)	71.5%
Interest expense	611,479	$ 257,484	353,995	137.5%
Other expense (income)	(303,604)		(303,604)	N/A
Loss on sales of land and building				N/A
Income before income taxes	1,279,535	1,778,986	(499,451)	28.1%
Provision for income taxes	452,550	$ 770,868	(318,318)	-41.3%
Net income	$ 826,985	$ 1,008,118	$ (181,133)	-18.0%
Percent of revenues	0.5%	0.8%		

Total Revenues

Total revenues increased by 25.2% or $32.76 million to $162.63 million for the year ended August 31, 2005, compared to $129.87 million for the year ended August 31, 2004. This increase is primarily attributable to an increase in the federal government business including significant one-time sale to a federal government customer - the United States Department of Agriculture (USDA) of approximately $21.79 million which represented approximately 66% of our total increase in revenue. Additionally, our revenue increased as a result of our merger with Emtec on August 5, 2005. Revenues associated with this merger equaled $6.26 million for the year ended August 31, 2005 which represents approximately 19% of the total revenue increase. Other factors which increased revenue include increased service revenue and higher selling efforts.

The federal government business typically experiences increased activity during the months of August through November. We do not expect that significant one-time sales like one discussed above will continue to occur in the future periods.

Gross Profit

Aggregate gross profit increased by 11.0% or $1.39 million to $14.04 million for the year ended August 31, 2005, as compared to $12.66 million for the year ended August 31, 2004. This increase is primarily attributable to a significant sale to a federal government customer- the USDA discussed above in the revenue section, and the gross profit associated with Emtec post-merger, (Old Emtec) revenues. Gross profits associated with USDA sales approximated $814,000, and gross profit associated with merger equaled approximately $772,000. Without this one-time sale and the Merger, our aggregate gross profit would have decreased by approximately $200,000. Measured as a percentage of revenues, our gross profit margin decreased to 8.6% of total revenues for the year ended August 31, 2005 from 9.7% for the year ended August 31, 2004. Both of these decreases are mainly due to competitive pressures and aggressive pricing strategies which lowered our gross margins.

Factors that may affect gross margins in the future include changes in product margins, changes in technical employee utilization rates, the mix of products and services sold, and the decision to aggressively price certain products and services.

Selling, General, and Administrative Expenses

Selling, general and administrative expenses increased by 10.8% or $1.16 million to $11.87 million for the year ended August 31, 2005, compared to $10.71 million for the year ended August 31, 2004. This increase is mainly due to the Merger with Emec on August 5, 2005. Selling, general and administrative expenses associated with Emtec post-merger (Old Emtec) approximated $857,000. Our increase in head count company-wide and the corresponding compensation and benefits expense associated with our long-term investment in new employees also factored into the increase of our selling, general and administrative expenses. Selling, general and administrative expenses as a percentage of sales decreased to 7.3% from 8.2%.

Factors that may in the future have a negative impact on our selling, general and administrative costs include costs associated with marketing and selling activities, compliance costs associated with Securities and Exchange Commission rules and insurance markets.

Management Fee-Related Party

Management fee related-party increased by 200% or $233,336 to $350,000 for the year ended August 31, 2005 compared to $116,664 for the year ended August 31, 2004. The increase in the management fee-related party is due to a full year of management fees paid to DARR Global Holdings, Inc. as compared with only a partial year of management fees in 2004. DARR Global Holdings, Inc. is a management consulting company owned by Dinesh Desai, our Chief Executive Officer.

Rent Expense-Related Party

Rent Expense-Related Party decreased by 16.4% or $35,333 to $180,000 for the year ended August 31, 2005 compared to $215,333 for the year ended August 31, 2004. The decrease in Rent Expense-Related Party is due to the decrease in rent for the Springfield, NJ office and warehouse space.

We occupy approximately 43,000 square feet of office and warehouse space in Springfield, New Jersey. This space is leased from Westwood Property Holdings, LLC, in which Mr. Keith Grabel, our director and an executive officer, Mrs. Mary Margaret Grabel, spouse of our director and an executive officer, and Mr. David Micales, our Vice President of Operations are members. The lease term is through April 2009 with monthly base rent of $15,000.

Depreciation and Amortization

Depreciation and Amortization expense increased by 133.2% or $99,939 to $174,944 for the year ended August 31, 2005 compared to $75,005 for the year ended August 31, 2004. This increase is attributable to the merger with Emtec acquisition on August 5. Old Emtec s post-merger depreciation and amortization accounted for approximately for $52,000 of the increase. Additionally, we made fixed asset acquisitions of $491,310 during the year ended August 31, 2005. These capital assets acquisitions were primarily for the purchase of computer equipment for internal use, purchase of software licenses to upgrade our computer systems, and for furniture and fixtures, which increased our depreciation expense.

On August 5, 2005, the Company recorded an Intangible asset, ascribed to customer relationship of $8,378,166 in connection with the acquisition of Old Emtec. Intangible assets at August 31, 2005 and 2004 consisted of the value ascribed to customer relationships of $8,661,712 less accumulated amortization of $68,868 and $283,546 less accumulated amortization of $7,270, respectively. The assets ascribed to customer relationships are being amortized on a straight-line basis over 13-15 years. Amortization expense was $61,598 and $7,270 for the periods ended August 31, 2005 and August 31, 2004, respectively. Amortization expense of $580,356 is expected to be recorded each year through August 31, 2016, $573,085 for the year ended August 31, 2017, $558,544 for the years ended August 31, 2018, and 2019, and $518,755 for the year ended August 31, 2020.

Interest expense

Interest expense increased by 137.5% or $353,995 to $611,479 for the year ended August 31, 2005, compared to $257,484 for the year ended August 31, 2004. This is mainly due to a full year of interest expense on notes payable to former stockholders of Westwood, DARR Westwood LLC, and Four Kings Management, LLC, which were associated with the April 2004 acquisition of Westwood by Darr.

Other expense (income)

Other income of $303,604 recorded on August 31, 2005, was due to the change in the value of the put options issued on August 5, 2005 using a Black-Scholes option pricing model. Under the Black-Scholes model, the total value of the put options was $315,104. As of August 31, 2005, the total value of the put options was $11,500.

Income Taxes

Income taxes decreased by 41.3% or $318,318 to $452,550 for the year ended August 31, 2005, compared to $770,868 for the year ended August 31, 2004. This decrease is primarily attributable to the decrease in taxable income. Taxable income decreased by 28.19% or $499,451 to $1.28 million for the year ended August 31, 2005, compared to $1.78 million for the year ended August 31, 2004.

Comparison of Years Ended August 31, 2004 and 2003

The following discussion and analysis provides information that management believes is relevant to an assessment and understanding of our Results of Operations for the fiscal years ended March 31, 2004, and 2003. For this discussion and analysis we have combined the periods from September 1, 2003 to April 16, 2004 (Darr Predecessor Period) and from April 17, 2004 to August 31, 2004 (Darr Successor Period).

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

	2004	2003	Change	%
Revenues	$ 129,871,323	$ 97,449,611	$ 32,421,712	33.3%
Cost of revenues	$ 117,214,228	87,843,440	29,370,788	33.4%
Gross profit	12,657,095	9,606,171	3,050,924	31.8%
Percent of revenues	9.7%	9.9%		
Operating expenses:				
Selling, general, and administrative expenses	$ 10,711,020	8,623,016	2,088,004	24.2%
Management fee related party	116,664		116,664	N/A
Rent expense related party	$ 215,333		215,333	N/A
Depreciation and amortization	$ 75,005	125,054	(50,049)	-40.0%
Total operating expenses	11,118,022	8,748,070	2,369,952	27.1%
Percent of revenues	8.6%	9.0%		
Operating income	1,539,073	858,101	680,972	79.4%
Percent of revenues	1.2%	0.9%		
Other expense (income):				
Forgiveness of debt	$ (405,652)		(405,652)	N/A
Interest income related party	$ (21,483)		(21,483)	N/A
Interest income other	$ (70,262)	(48,613)	(21,649)	44.5%
Interest expense	$ 257,484	42,324	215,160	508.4%
Loss on sales of land and building		102,253		N/A
Income before income taxes	1,778,986	762,137	1,016,849	133.4%
Provision for income taxes	$ 770,868	294,747	476,121	161.5%
Net income	$ 1,008,118	$ 467,390	$ 540,728	115.7%
Percent of revenues	0.8%	0.5%		

Total Revenues

Total revenues increased by 33.3% or $32.42 million, to $129.87 million for year ended August 31, 2004, compared to $97.45 for the year ended August 31, 2003. Of this $32.42 million increase, $24.31 million, representing 75.0% of the increase, was attributable to a substantial increase in federal government related business. The increase was amongst various military and civilian departments and agencies including sizable increases in sales to the Department of Defense and the Department of Justice which amounted to approximately $3.23 million and $5.71 million, respectively, for the year ended August 31, 2004. In addition to our federal government related business, our overall revenues from our commercial customer base increased by approximately $8.0 million for the fiscal year ended August 31, 2004 as compared with the year ended August 31, 2003. This is mainly attributable to an overall increase in our commercial customers IT spending.

Gross Profit

Aggregate gross profit increased by 31.8%, or $3.05 million, to $12.66 million for the year ended August 31, 2004, compared to $9.61 million for the year ended August 31, 2003. This was primarily attributable to an increase in our overall revenues as discussed in the total revenue section above. Measured as a percentage of product revenues, our gross profit margin decreased to 9.7% of revenue for the year ended August 31, 2004, as compared with 9.9% for the year ended August 31, 2003. This decrease is mainly due to continued downward pricing pressure on product sales from our customers.

Selling, General, and Administrative Expenses

Selling, general and administrative expenses increased by 26.7%, or $2.33 million to $11.02 million for the year ended August 31, 2004, compared to $8.7 million for the year ended August 31, 2003. This increase was mainly due to payroll and benefits costs associated with increase in employee headcount company-wide, increased management related compensation, increased sales commission expense related to increased revenue and gross profits and increased professional fees as a result of the April 16, 2004 acquisition of Westwood by Darr.

Depreciation and Amortization

Depreciation and Amortization expense decreased by 40.0% or $50,049 to $75,005 for the year ended August 31, 2004 as compared to $125,054 for year ended August 31, 2003

Interest expense

Interest expense increased by 508.4%, or $215,160, to $257,484 for the year ended August 31, 2004, compared to $42,324 for the year ended August 31, 2003. This is primarily attributable to the interest expense on the notes payable to former stockholders of Westwood, the note payable to DARR Westwood LLC, and the note payable to Four Kings Management, LLC. Partial year interest expense was recorded in 2004. These notes did not exist in 2003.

Income Taxes

Income tax expense increased by 161.5%, or $476,121, to $770,868 for the year ended August 31, 2004, compared to $294,747 for the year ended August 31, 2003. This increase is primarily attributable to the increase in taxable income. Taxable income increased by 133.4% or $1.02 million to $1.78 million for the year ended August 31, 2004, compared to $762,137 for the year ended August 31, 2004.

Recently Issued Accounting Standards

In November 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 151, Inventory Costs, and an Amendment of ARB No. 43, Chapter 4. SFAS No. 151 retains the general principle of ARB No. 43, Chapter 4, Inventory Pricing, that inventories are presumed to be stated at cost; however, it amends ARB No. 43 to clarify that abnormal amounts of idle facilities, freight, handling costs and spoilage should be recognized as current period expenses. Also, SFAS No. 151 requires that fixed overhead costs be allocated to inventories based on normal production capacity. The guidance in SAFS No. 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. We believe that implementing SFAS No. 151 should not have any material impact on our financial condition, results of operations or cash flows.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), Share-Based Payment (SFAS 123R), which replaces SFAS No. 123, Accounting for Stock-Based Compensation (SFAS 123) and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values, beginning with the next fiscal year that begins after June 15, 2005. The pro forma disclosures previously permitted under SFAS 123 will no longer be an alternative to financial statement recognition. Under SFAS 123R, we must determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at date of adoption.

SFAS No. 123R will apply to awards granted or modified by us after August 31, 2005. Compensation cost will also be recorded for prior option grants that vest after that date. The effect of adopting SFAS 123 on our consolidated results of operations will depend on the level of future option grants and the fair value of the options granted at such future dates, as well as the vesting periods provided by such awards and, therefore, cannot currently be estimated. We are evaluating the requirements of SFAS 123R and have not yet determined the method of adoption or the effect of adopting SFAS 123R, and we have not determined whether the adoption will result in amounts that are similar to the current pro forma disclosures under SFAS 123.

Liquidity and Capital Resources

Cash and cash equivalents at August 31, 2005 of $1.02 million represented a decrease of $194,680 from $1.22 million at August 31, 2004. Outstanding borrowings under our line of credit at August 31, 2005 represented an increase of $4.11 million from $299,290 at August 31, 2004. At August 31, 2005, our working capital was decreased by $901,605 to $2.90 million from $3.80 million as of August 31, 2004.

The Merger was treated as a purchase by Darr of Emtec. Working capital of Emtec acquired by Darr amounted to $5.49 million at August 5, 2005. Darr incurred merger transaction costs of $521,134 that reduced its working capital. Pursuant to the merger terms, we executed a self tender offer to purchase up to 2,864,584 shares of its outstanding common stock from pre-merger Emtec stockholders at a price per share of $1.92. We recorded a current liability of $315,104 at August 5, 2005 related to the fair value of the put options granted in the self tender offer. We borrowed $5.5 million on August 5, 2005 under our revolving credit facility with GE Commercial Distribution Finance Corporation; this amount is classified as restricted cash on the balance sheet as a non-current asset and therefore, reduced our working capital. We initiated this self tender offer on September 7, 2005 and closed on October 4, 2005. The net effect of the Merger and related aforementioned transactions reduced the overall working capital of Darr by $846,728 exclusive of post-merger interest costs related to the $5.5 million borrowing.

The March 1, 2005 acquisition of Proven Technology business was done at a cost of $162,610 which reduced working capital. Earnings from operations for the year ended August 31, 2005 added approximately $1.0 million to our working capital, whereas capital expenditures of $491,000 and debt repayments of $449,000 reduced working capital as of August 31, 2005.

Since our inception, we have funded our operations primarily from borrowings under our credit facility. On August 5, 2005, our subsidiaries, Emtec NJ and Westwood (together, the Borrower), entered into a Business Financing Agreement with GE Commercial Distribution Finance Corporation (Lender) pursuant to which the Lender has agreed to provide to Borrower an accounts receivable facility (the Credit Facility). The Credit Facility provides for aggregate borrowings of the lesser of $35.0 million or 85% of eligible accounts receivable, plus 100% of unsold inventory financed by the Lender, minus a $3.15 million reserve. The Credit Facility includes certain financial covenants that we must maintain on a quarterly basis and we are also subject to certain mandatory prepayments upon the occurrence of certain events, subject to certain exceptions, set forth in the Business Financing Agreement.

Borrowings under the Credit Facility will bear interest at an annual rate equal to the greater of (i) the rate of interest which JP Morgan Chase Bank (or its successor) publicly announces from time to time as its prime rate or reference rate or (ii) four percent (4%). Interest will be calculated by multiplying (i) the annual rate divided by 360 and (ii) the amount of the outstanding principal balance under the Credit Facility at the end of each day.

To secure the payment of the obligations under the Credit Facility, Borrower granted to Lender a security interest in all of Borrower s interests in certain of its assets, including inventory, equipment, fixtures, accounts, chattel paper, instruments, deposit accounts, documents, general intangibles, letter of credits rights, and all judgments, claims and insurance policies.

In connection with the Credit Facility, Emtec NJ and Westwood (together, the Dealer) entered into the Agreement for Wholesale Financing with the Lender on August 5, 2005 (the Wholesale

Agreement). The Wholesale Agreement provides for an extension of credit by the Lender to the Dealer from time to time, subject to the maximum aggregate borrowings set forth in the Credit Facility, to purchase inventory from approved vendors and for other purposes. The financial terms of any advance by the Lender are not set forth in the Wholesale Agreement because such terms depend upon many variable factors, including availability of vendor discounts, payment terms or other incentives and purchase volume. The Wholesale Agreement contains certain customary representations and warranties and events of default, including the failure to pay interest, principal or fees, any material inaccuracy of any representation and warranty, bankruptcy and insolvency events.

Since our current credit facility with one of our primary trade vendors MRA Systems, Inc dba GE Access was also collateralized by substantially all of our assets, the Lender and GE Access entered into an intercreditor agreement in which the lender agreed to give GE Access first lien position on all future unbilled service maintenance billings and which provide that as regards to GE Access, all debt obligations to the Lender are accorded priority.

As of August 31, 2005, we were in compliance with all of our financial covenants and we had a $4.41 million outstanding balance under the credit facility and an unused availability of $11.16 million.

On November 22, 2005, the Lender increased our total credit facility from $35.0 million to $48.0 million. This is a temporary increase available to us only through December 15, 2005.

Our open terms credit facilities at August 31, 2005 with our primary trade vendors, including aggregators and manufacturers was $20.75 million with outstanding principal of approximately $13.67 million. Under these credit lines, we are obligated to pay each invoice within 30-45 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 adversely affect our business, result of operations, and financial condition.

Capital expenditures of $491,310 during the year ended August 31, 2005 were primarily for the purchase of computer equipment for internal use, purchase of software licenses to upgrade our computer systems, and for furniture and fixtures. We anticipate our capital expenditures for fiscal year ending August 31, 2006 will be approximately $650,000. Approximately $540,000 will primarily be for the upgrade of our computer system across the organization, as well as implementation and data conversion costs, and remaining $110,000 will primarily be for the purchase of computer equipment for internal use.

The following are our long-term contractual obligations for leases, debt and other long term liabilities as of August 31, 2005. Other long-term liabilities consist of accrued severance.

	Payments due by period:				
Contractual Obligations:	**Total**	**less than 1 year**	**1-3 years**	**4-5 years**	**more than 5 years**
Long-term debt obligations	3,535,093	524,874	1,223,027	1,787,192	
Capital lease obligations					
Operating lease obligations	3,010,259	973,463	1,498,299	538,497	
Purchase obligations					
Other long-term liabilities	380,356	130,150	235,900	14,306	
Total	$ 6,925,708	$ 1,628,487	$ 2,957,226	$ 2,339,995	$

We will need to generate cash flow from operations at a sufficient enough level through fiscal 2009 to finance anticipated capital expenditures and service our current outstanding debt.

Cash generated from operations may be negatively affected by a number of factors. See Forward Looking Statements and Business Risk Factors for a discussion of the factors that can negatively impact the amount of cash we generate from our operations.

We anticipate that our primary sources of liquidity in fiscal 2006 will be cash generated from operations, trade vendor credit and cash available to us under our revolving credit facility. Our future financial performance will depend on our ability to continue to reduce and manage operating expenses, as well as our ability to grow revenues. Our revenues will continue to be impacted by the loss of customers due to price competition and technological advances. Our future financial performance could be negatively affected by unforeseen factors and unplanned expenses. See Forward Looking Statements and Business Risk Factors.

Although we have no definite plans to undertake any future debt or equity financing, we will continue to pursue all potential funding alternatives. Among the possibilities for raising additional funds are issuances of debt or equity securities and other borrowings under secured or unsecured loan arrangements. There can be no assurances that additional funds will be available to us on acceptable terms or in a timely manner.

We have 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 funds generated from operations, trade vendor credit 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.

Critical Accounting Policies

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

Revenue Recognition

We recognize revenue from the sales of products when risk of loss and title passes which is upon customer acceptance.

Revenue from the sale of warranties and support service contracts is recognized on a straight-line basis over the term of the contract, in accordance with Financial Accounting Standards Board Technical Bulleting No. 90-1, *Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts* (FTB 90-1).

We may also enter into sales arrangements with customers that contain multiple elements. We recognize revenue from sale arrangements that contain both products and manufacturer warranties in accordance with Emerging Issues Task Force (EITF) Issue No. 00-21, Revenue Arrangements with Multiple Deliverables , based on the relative fair value of the individual components. The relative fair value of individual components is based on historical sales of the components sold separately.

Product 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 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. This service is usually performed the same day as delivery. Revenue is recognized on the date of acceptance, except as follows:

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

There are occasions when a customer requests a transaction on a bill & hold basis. We follow the SAB 104 criteria and recognize revenue from these sales prior to date of physical delivery only when all the criteria of SAB 104 are met. At August 31, 2005, accounts receivable related to bill and hold sales totaled $221,255. Total revenue from bill and hold sales were $768,726 with a gross profit of $86,860 which was included in the results of operations for the year ended August 31, 2005. We do not modify our normal billing and credit terms for these customers. The customer is invoiced at the date of revenue recognition when all of the criteria have been met.

We have experienced minimal customer returns. Since all eligible projects must be returned to us within 30 days from the date of the invoice, we reduce the product revenue and cost of goods 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 revenue 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 proportionate performance method by determining the level of service performed based upon the amount of labor cost incurred on the project versus the total labor costs to perform the project because this is the most readily reliable measure of output. Revenues from hardware maintenance contracts are recognized ratably over the contract 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 contact sale date. Manufacturer support service contracts contain cancellation privileges that allow our customers to terminate a contract with 90 days written notice. In this event, the customer is entitled to a pro-rated refund based on the remaining term of the contract and we would owe the manufacturer a pro-rated refund of the cost of the contract. However, we have experienced no customer cancellations of any significance during our most recent 3-year history and do not expect cancellations of any significance in the future.

Trade Receivables

We maintain allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. We base our estimates on the aging of our accounts receivable balances and our historical write-off experience, net of recoveries. If the financial condition of our customers were to deteriorate, additional allowances may be required. We believe the accounting estimate related to the allowance for doubtful accounts is a critical accounting estimate because changes in it can significantly affect net income. Allowance for doubtful accounts was $225,000 and $225,000 as of August 31, 2005, and 2004, respectively.

Inventories

Inventory is stated at the lower of average cost (specific identification) or market. Inventory is entirely finished goods purchased for resale and consists of computer hardware, computer software, computer peripherals and related supplies. We provide an inventory reserve for products it determines are obsolete or where salability has deteriorated based on managements review of products and sales.

The components of inventory at August 31 are as follows:

Hardware, software, accessories, and parts	$	6,070,728	$	644,262
Less: Inventory reserve	$	(300,138)	$	(120,000)
Net Inventory	$	5,770,590	$	524,262

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 a three-five year period. 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:

	2005	2004	Estimated Life Years
Leasehold improvements	$ 197,903	$ 132,018	4.67
Computer equipment	572,728	199,504	3 to 5
Furniture and fixtures	31,156	7,738	3 to 5
Automobiles	72,956	27,445	3 to 5
Software	172,410		3 to 5
Total Property Plant & Equipment	$ 1,047,153	$ 366,705	
Less accumulated depreciation	(129,994)	(16,469)	
	$ 917,159	$ 350,236	

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. Goodwill is the excess of the purchase price over the fair value of the net assets acquired in a business combination accounted for under the purchase method. At August 31, 2005, we recorded goodwill related to the acquisition of Old Emtec of $8,974,610. We test goodwill and indefinite-lived assets for impairment at least annually in accordance with Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, (SFAS 142). Intangible assets that have finite useful lives are amortized over their useful lives.

Intangible assets at August 31, 2005 and 2004 consisted of the value ascribed to customer relationships of $8,661,712 less accumulated amortization of $68,868 and $283,546 less accumulated amortization of $7,270, respectively. The assets ascribed to customer relationships are being amortized on a straight-line basis over 13-15 years. Amortization expense was $61,598 and $7,270 for the periods ended August 31, 2005 and August 31, 2004, respectively. Absent any further acquisitions, amortization expense of $580,356 is expected to be recorded each year through August 31, 2016, $573,085 for the year ended August 31, 2017, $558,544 for the years ended August 31, 2018, and 2019, and $518,755 for the year ended August 31, 2020.

Property and equipment and customer relationship intangible assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable in accordance with Statement of Financial Accounting Standards (SFAS) No. 144 Accounting for the Impairment or Disposal of Long-Lived Assets. Recoverability of long-lived assets is assessed by a comparison of the carrying amount to the estimated undiscounted future net cash flows expected to result from the use of the assets and their eventual disposition. If estimated undiscounted future net cash flows are less than the carrying amount, the asset is considered impaired and a loss would be recognized based on the amount by which the carrying value exceeds the fair value of the asset.

Rebates

Rebates are recorded in the accompanying consolidated statements of income as a reduction of the cost of revenues in accordance with Emerging Issues Task Force Abstract No. 02-16, *Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor* (EITF 02-16). At August 31, 2005 and August 31, 2004, approximately $2,117,290 and $1,009,000, respectively, of rebates receivable are recorded in accounts-receivable-other in the accompanying consolidated balance sheets.

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.

Off-Balance Sheet Arrangements

Under SEC regulations, in certain circumstances, we are required to make certain disclosures regarding the following off-balance sheet arrangements, if material:

- Any obligation under certain guarantee contracts;
- Any retained or contingent interest in assets transferred to an unconsolidated entity or similar arrangement that serves as credit, liquidity or market risk support to that entity for such assets;
- Any obligation under certain derivative instruments; and
- Any obligation arising out of a material variable interest held by the Company in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to the Company, or engages in leasing, hedging or research and development services with the Company.

We do not have any off-balance sheet arrangements that are required to be disclosed pursuant to these regulations.

Item 8. Financial Statements and Supplementary Data

Reference is made to Item 15(a)(i) herein.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Financial Statements

(b) Financial Statement Schedules

None.

(c) Exhibits:

Exhibit No.	Description
2.1	Agreement and Plan of Merger and Reorganization, dated as of December 14, 2000, between Registrant, then known as American Geological Enterprises, Inc., and Emtec, Inc.(1)
2.2	Agreement and Plan of Merger, dated as of March 15, 2004, by and among DARR Westwood Technology Corporation, DARR Westwood Acquisition Corporation, the Shareholders of Westwood Computer Corporation Named, Westwood Computer Corporation, and Keith Grabel, as Shareholder s Agent.(18)
2.3	Agreement and Plan of Merger, dated as of July 14, 2005, by and among the Registrant, Emtec Viasub LLC, and Darr Westwood Technology Corporation.(14)
3.1	Certificate of Incorporation, as amended.(2)
3.2	Amended and Restated Bylaws.(2)
4.1	Certificate evidencing shares of common stock.(2)
10.1	Resale Agreement, dated September 29, 1997, between Registrant and Ingram Micro, Inc.(2)
10.2	Volume Purchase Agreement, dated January 28, 1998, between Registrant and Tech Data Corporation.(2)
10.3	1996 Stock Option Plan, as amended in 1999.(2)
10.4	U.S. Systems Integrator Agreement, dated December 22, 1999, between Cisco System, Inc. and Registrant.(3)
10.5	Sun Microsystem, Inc. Channel Agreement, dated February 1, 2000, between Sun Microsystems, Inc. and Registrant.(5)

Exhibit No.	Description
10.6	IBM Business Partner Agreement, dated May 31, 2000, between International Business Machines Corporation and Registrant.(3)
10.7	Microsoft Certified Partner Agreement, dated December 20, 2000, between Microsoft and Registrant.(3)
10.8	Letter Agreement, dated April 24, 2001, between Novell Inc. and Registrant.(3)
10.9	Citrix Solutions Network Gold Renewal Membership Agreement, dated April 30, 2001, between Citrix Systems, Inc. and Registrant.(3)
10.10	Loan and Security Agreement, dated November 21, 2001, by and between Fleet Capital Corporation and Registrant.(12)
10.11	Agreement for Wholesale Financing, dated November 21, 2001, by and between IBM Credit Corporation and Registrant.(12)
10.12	Subordination Agreement, dated as of November 21, 2001, among Registrant, MRA Systems, Inc., dba GE Access, and Fleet Capital Corporation.(12)
10.13	Intercreditor Agreement, dated as of November 21, 2001, between Fleet Capital Corporation and Ingram Micro, Inc., and accepted by Registrant.(12)
10.14	Asset Acquisition Agreement, dated December 5, 2001, by and between Devise Associates, Inc. and Registrant.(4)
10.15	Lease Agreement, dated January 9, 2002, between Registrant and Vandergrand Properties Co., L.P., for New York, New York facility.(8)
10.16	Lease Agreement, dated March 1, 2002, between Registrant and G. F. Florida Operating Alpha, Inc., for Jacksonville, Florida facility.(8)
10.17	Asset Acquisition Agreement, dated August 12, 2002, by and between Acentra Technologies, Inc. and Registrant.(6)
10.18	Remarketer/Integrator Agreement, dated August 15, 2002, between Dell Marketing L.P. and Registrant.(6)
10.19	Asset Acquisition Agreement, dated August 31, 2002, by and between Turnkey Computer Systems, Inc. and Registrant.(7)
10.20	Lease Agreement, dated November 15, 2002, between Registrant and Hamilton Transit Corporate Center, for warehouse facility in Trenton, New Jersey.(9)
10.21	Lease Agreement, dated April 21, 2003, between V-Sullyfield Properties II LLC and Westwood Computer Corporation, for Chantilly, Virginia facility.(18)
10.22	Lease Agreement, dated July 1, 2003, between Westwood Property Holdings LLC and Westwood Computer Corporation, for Springfield, New Jersey facility.(18)
10.23	Amendment to Lease Agreement, dated July 14, 2003, between V-Sullyfield Properties II LLC and Westwood Computer Corporation, for Chantilly, Virginia facility.(18)
10.24	Management Services Agreement, dated April 16, 2004, by and between DARR Global Holdings, Inc., and Westwood Computer Corporation.(18)
10.25	Employment Agreement, dated as of April 16, 2004, by and between Keith Grabel and Westwood Computer Corporation.(18)
10.26	Employment Agreement, dated as of April 16, 2004, by and between Mary Margaret Grabel and Westwood Computer Corporation.(18)

Exhibit No.	Description
10.27	Separation Agreement, dated April 16, 2004, between Westwood Computer Corporation and Joyce Tischler.(18)
10.28	Subordinated Note, dated April 16, 2004, in the amount of $750,000, made by DARR Westwood Acquisition Corporation in favor of DARR Westwood LLC.(17)
10.29	Subordinated Note, dated April 16, 2004, in the amount of $750,000, made by DARR Westwood Acquisition Corporation in favor of Four Kings Management LLC.(17)
10.30	5% Junior Subordinated Note, dated April 16, 2004, in the amount of $7,771.63, made by Westwood Computer Corporation in favor of Michael John Grabel.(18)
10.31	5% Junior Subordinated Note, dated April 16, 2004, in the amount of $12,588.89, made by Westwood Computer Corporation in favor of Megan Patricia Grabel.(18)
10.32	5% Junior Subordinated Note, dated April 16, 2004, in the amount of $132,183.32, made by Westwood Computer Corporation in favor of Mary Margaret Grabel.(18)
10.33	5% Junior Subordinated Note, dated April 16, 2004, in the amount of $161,151.16, made by Westwood Computer Corporation in favor of Keith Grabel.(17)
10.34	8% Junior Subordinated Note, dated April 16, 2004, in the amount of $23,314.84, made by Westwood Computer Corporation in favor of Michael John Grabel.(18)
10.35	8% Junior Subordinated Note, dated April 16, 2004, in the amount of $37,766.58, made by Westwood Computer Corporation in favor of Megan Patricia Grabel.(18)
10.36	8% Junior Subordinated Note, dated April 16, 2004, in the amount of $396,549.13, made by Westwood Computer Corporation in favor of Mary Margaret Grabel.(18)
10.37	8% Junior Subordinated Note, dated April 16, 2004, in the amount of $483,452.45, made by Westwood Computer Corporation in favor of Keith Grabel.(17)
10.38	First Amendment to Lease Agreement, dated April 16, 2004, between Westwood Property Holdings LLC and Westwood Computer Corporation, for Springfield, New Jersey facility.(18)
10.39	Lease Agreement, dated May 20, 2004, between Registrant and Facstore, for office space in Cranford, New Jersey.(10)
10.40	Lease Agreement, dated June 1, 2004, between Registrant and Hamilton Transit Corporate Center, for office space in Trenton, New Jersey.(10)
10.41	Lease Agreement, dated September 2, 2004, between Registrant and GS&T Properties, LLC, for Suwanee, Georgia facility.(11)
10.42	Sublease Agreement, dated November 24, 2004, between Registrant and vFinance, Inc., for office space in New York, New York.(11)
10.43	Amendment to Loan and Security Agreement, dated as of December 10, 2004, between Bank of America Business Capital Corporation and Registrant.(13)
10.44	Lease Agreement, dated January 1, 2005, between Registrant and Select Office Suites, for a sales office space in New York, New York.(11)
10.45	Lease Agreement, dated March 1, 2005, between Twenty Keyland Corporation and Westwood Computer Corporation, for Bohemia, New York facility.(18)

Exhibit No.	Description
10.47	Revocable License Agreement, dated June 1, 2005, between A.M. Property Holding Corporation and Westwood Computer Corporation, for New York, New York facility.(18)
10.48	Employment Agreement, dated as of July 14, 2005, between Registrant and John Howlett.(14)
10.49	Employment Agreement, dated as of July 14, 2005, between Registrant and Ronald Seitz.(14)
10.50	Form of Guaranty issued by Registrant in favor of Four Kings Management LLC, Keith Grabel, Mary Margaret Grabel, Megan Patricia Grabel, Michael John Grabel, Darr Westwood LLC, and Joyce Tischler, dated September, 2005.(18)
10.51	Business Financing Agreement, dated August 5, 2005, by and between GE Commercial Distribution Finance Corporation and subsidiaries of Registrant.(15)
10.52	Agreement for Wholesales Financing, dated August 5, 2005, by and between GE Commercial Distribution Finance Corporation and subsidiaries of Registrant.(15)
10.53	Addendum to Agreement for Wholesales Financing and Business Financing Agreement, dated August 5, 2005, by and between GE Commercial Distribution Finance Corporation and subsidiaries of Registrant.(15)
10.54	Common Stock Purchase Warrant between Registrant and DARR Westwood LLC, dated August 5, 2005.(16)
10.55	Common Stock Purchase Warrant between Registrant and Margaret Grabel, dated August 5, 2005.(16)
10.56	8% Subordinated Promissory Note, dated August 5, 2005, issued by Darr Westwood Technology Corporation in favor of Darr Westwood LLC.(17)
10.57	Assignment of State of New Jersey Contract from Acentra Technologies, Inc. to Registrant.(6)
14.1	Code of Ethics.(10)
21.1	List of Subsidiaries.(18)
23.1	Consent of a Registered Public Accounting Firm
23.2	Consent of a Registered Public Accounting Firm
31.1	Certification of Dinesh R. Desai, Principal Executive Officer of Registrant, dated July 6 2006. Rule 13a-14(a)/15 d-14(a).
31.2	Certification of Stephen C. Donnelly, Principal Financial Officer of Registrant, dated July 6 2006. Rule 13a-14(a)/15 d-14(a).
32.1	Certificate of Dinesh R. Desai, Principal Executive Officer of Registrant, dated July 6 2006. Section 1350.
32.2	Certificate of Stephen C. Donnelly, Principal Financial Officer of Registrant, dated July 6 2006. Section 1350.

(1) Previously filed as an exhibit to Registrant s Current Report on Form 8--K, dated January 17, 2001, filed on January 31, 2001, and incorporated herein by reference.

(2) Previously filed as an exhibit to Registrant s Registration Statement on Form 10, filed on May 21, 2001,

and incorporated herein by reference.

(3) Previously filed as an exhibit to Amendment No. 1 to Registration Statement on Form 10, filed on July 12, and incorporated herein by reference.

(4) Previously filed as an exhibit to Registrant s Current Report on Form 8-K, dated December 5, 2001, filed on December 20, 2001, and incorporated herein by reference.

(5) Previously filed as an exhibit to Registrant s Form 10-K dated March 31, 2001, filed on July 12, 2001, and incorporated herein by reference.

(6) Previously filed as an exhibit to Registrant s Current Report on Form 8-K, dated August 12, 2002, filed on August 26, 2002, and incorporated herein by reference.

(7) Previously filed as an exhibit to Registrant s Current Report on Form 8-K, dated August 31, 2002, filed on September 13, 2002, and incorporated herein by reference.

(8) Previously filed as an exhibit to Registrant s Form 10-K, dated March 31, 2002, filed on June 30, 2002, and incorporated herein by reference.

(9) Previously filed as an exhibit to Registrant s Form 10-K, dated March 31, 2003, filed on July 15, 2003, and incorporated herein by reference.

(10) Previously filed as an exhibit to Registrant s Form 10-K, dated March 31, 2004, filed on July 14, 2004, and incorporated herein by reference.

(11) Previously filed as an exhibit to Registrant s Form 10-K, dated March 31, 2005, filed on July 14, 2005, and incorporated herein by reference.

(12) Previously filed as an exhibit to Registrant s Current Report on Form 8-K, dated November 21, 2001, filed on November 26, 2001, and incorporated herein by reference.

(13) Previously filed as an exhibit to Registrant s Current Report on Form 8-K, dated December 10, 2004, filed on December 14, 2004, and incorporated herein by reference.

(14) Previously filed as an exhibit to Registrant s Current Report on Form 8-K, dated July 14, 2005, filed on July 20, 2005, and incorporated herein by reference.

(15) Previously filed as an exhibit to Registrant s Quarterly Report on Form 10-Q, dated June 30, 2005, filed on August 19, 2005, and incorporated herein by reference.

(16) Previously filed as an exhibit to Registrant s Tender Offer Statement on Form SC TO-I, filed September 7, 2005, and incorporated herein by reference.

(17) Previously filed as an exhibit to Amendment to Registrant s Tender Offer Statement on Form SC TO-I/A, filed September 22, 2005, and incorporated herein by reference.

(18) Previously filed as an exhibit to Registrant s Form 10-K, dated August 31, 2005, filed on December 14, 2005, and incorporated herein by reference.

Report of Independent Registered Public Accounting Firm

Board of Directors
Emtec, Inc.

We have audited the accompanying consolidated balance sheets of Emtec, Inc. as of August 31, 2005 and 2004, and the related consolidated statements of operations, cash flows and changes in stockholders equity, for the year ended August 31, 2005, the period from April 17, 2004 to August 31, 2004 (Successor Period) and the period from September 1, 2003 to April 16, 2004 (Predecessor Period). These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of The Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Emtec, Inc at August 31, 2005 and 2004, and the consolidated results of its operations and its cash flows for the year ended August 31, 2005, the period from April 17, 2004 to August 31, 2004 (Successor Period) and the period from September 1, 2003 to April 16, 2004 (Predecessor Period), in conformity with U.S. generally accepted accounting principles.

/s/ ERNST & YOUNG LLP

Philadelphia, PA
December 2, 2005

REPORT of INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Westwood Computer Corporation
11 Diamond Road
Springfield, N.J. 07081

We have audited the accompanying consolidated balance sheet of Westwood Computer Corporation and subsidiary as of August 31, 2003, and the related consolidated statements of income, changes in stockholders equity and cash flows for the year ended August 31, 2003. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Westwood Computer Corporation as of August 31, 2003, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Glassel & Bonfiglio, LLC

GLASSEL & BONFIGLIO, LLC

May 15, 2006

EMTEC, INC.
CONSOLIDATED BALANCE SHEETS
AUGUST 31, 2005 and 2004

	2005	2004
Assets		
Current Assets		
Cash & cash equivalents	$ 1,021,237	$ 1,215,917
Receivables:		
Trade, less allowance for doubtful accounts	34,541,373	17,732,321
Others	3,385,891	1,191,658
Inventories, net	5,770,590	524,262
Prepaid expenses	433,238	79,388
Deferred tax asset - current	603,533	172,232
Total Current Assets	45,755,862	20,915,778
Net property and equipment	917,159	350,236
Deferred tax asset - long term		154,344
Customer relationships, net	8,592,844	276,276
Goodwill	8,974,610	
Restricted cash	5,650,000	
Other assets	119,443	41,004
Total Assets	$ 70,009,918	$ 21,737,638
Liabilities and Shareholders Equity		
Current Liabilities		
Line of credit	4,412,526	299,250
Accounts payable - trade	29,738,061	14,259,738
Accounts payable - related party	133,333	33,333
Current portion of long term debt - related party	524,874	349,694
Income taxes payable	828,659	97,786
Accrued liabilities	4,190,728	1,021,994
Due to former stockholders	631,415	664,567
Customer deposits	1,268,672	
Deferred revenue	1,125,205	385,422
Total Current Liabilities	42,853,473	17,111,784
Accrued severance	380,356	473,489
Deferred tax liability	2,838,298	
Long term debt - related party	3,010,219	2,405,084
Total Liabilities	49,082,346	19,990,357
Shareholders Equity		
Redeemable preferred stock, $0.01 par value		10

Common Stock $0.01 par value; 25,000,000 shares authorized; 17,232,134 and 9,528,110 shares issued and outstanding at August 31, 2005 and 2004	172,321	95,281
Additional paid-in capital	19,908,779	1,529,709
Retained earnings	846,472	122,281
Total Shareholders Equity	20,927,572	1,747,281
Total Liabilities and Shareholders Equity	$ 70,009,918	$ 21,737,638

The accompanying notes are an integral part of these consolidated financial statements.

EMTEC, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
Periods Ended August 31, 2005, 2004 and 2003

	Year Ended August 31, 2005	Period from April 17, 2004 to August 31, 2004 (Successor Period)	Period from September 1, 2003 to April 16, 2004 (Predecessor Period)	Year Ended August 31, 2003
Revenues	$ 162,632,042	$ 41,641,604	$ 88,229,719	$ 97,449,611
Cost of revenues	148,587,442	37,617,860	79,596,368	87,843,440
Gross profit	14,044,600	4,023,744	8,633,351	9,606,171
Operating expenses:				
Selling, general, and administrative expenses	11,872,766	3,418,755	7,292,265	8,623,016
Management fee related party	350,000	116,664		
Rent expense related party	180,000	60,000	155,333	
Depreciation and amortization	174,944	23,739	51,266	125,054
Total operating expenses	12,577,710	3,619,158	7,498,864	8,748,070
Operating income	1,466,890	404,586	1,134,487	858,101
Other expense (income):				
Forgiveness of debt			(405,652)	
Interest income related party			(21,483)	
Interest income other	(120,520)	(25,783)	(44,479)	(48,613)
Interest expense	611,479	184,665	72,819	42,324
Other expense (income)	(303,604)			
Loss on sales of land and building				102,253
Income before income taxes	1,279,535	245,704	1,533,282	762,137
Provision for income taxes	452,550	123,423	647,445	294,747