EMTEC INC/NJ
Form 10-K
November 26, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

(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, 2010

OR

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from……….to…………

Commission file number: 0-32789

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

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

11 Diamond Road
Springfield, New Jersey 07081
(Address of principal executive offices, including zip code)

(973) 376-4242
(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:

Title of class
Common Stock $0.01 par value

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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one): ¨ Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer x Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes 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, 2010 was approximately $8,356,396 computed by reference to the closing price of the common stock for that date.

As of November 9, 2010, there were outstanding 16,119,931 shares of the registrant's common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following document are incorporated by reference in the Part of this report indicated below:

Part III – Registrant's Proxy Statement for the 2011 Annual Meeting of Stockholders

EMTEC, INC.

2010 FORM 10-K ANNUAL REPORT

TABLE OF CONTENTS

PART I

PART II

PART III

PART IV

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," " "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 August 31, 2010 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 any person acting on our behalf are expressly qualified in their entirety by this cautionary statement.

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

PART I

Item 1. Business

Introduction

Emtec, Inc., a Delaware corporation, was formed on January 17, 2001 and is an information technology ("IT") services provider. We provide consulting, application services and infrastructure services to public sector and commercial clients. The Company's client base is comprised of departments of the United States and Canada's federal, state/provincial and local governments, schools and commercial businesses throughout the United States and Canada.

Over the last year, we have transformed the business by structuring our sales efforts to specific client niche groups referred to as vertical industry practices ("verticals") such as the federal government, school districts, state and local governments and commercial business as well as adding and acquiring new technology practices ("horizontals") in the areas of strategic IT consulting, business application services and infrastructure consulting and services. This restructuring has helped transform our business into broad based IT services of lifecycle technology services and managed technology services.

Our primary business objective is to become a leading single-source provider of high quality and innovative consulting, business application services, managed services and IT infrastructure.

We service our client base from leased facilities in California, Georgia, Florida, Illinois, New Jersey, Pennsylvania, Virginia in the United States, India and Canada.

Our headquarters and principal offices are located at 11 Diamond Road, Springfield, New Jersey; telephone: (973) 376-4242. Our website is www.emtecinc.com. We have made available free of charge through our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, other reports and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after such material was electronically filed with, or furnished to, the SEC. The information on our website is not part of or incorporated by reference in this Annual Report.

Recent Acquisitions

On March 20, 2008, the Company acquired, through its subsidiary Emtec Global Services LLC ("Emtec Global Services"), all of the outstanding stock of Luceo, Inc. ("Luceo") headquartered in Naperville, IL. During 2009, we rebranded Luceo into the Emtec Enterprise Resource Planning ("ERP") and Application Development Practice. This practice offers a broad range of consulting/contracting services to clients throughout the United States including IT project management services, packaged software implementation, web technologies/client server application development and support.

On August 13, 2008, the Company acquired, through its subsidiary Emtec Global Services, all of the outstanding stock of eBusiness Application Solutions, Inc. ("eBAS") and Aveeva, Inc. ("Aveeva") headquartered in Fremont, CA and their Indian subsidiary Aviance Software India Private Limited ("Aviance") headquartered in Bangalore, India. During 2009, eBAS and Aveeva were rebranded in 2009 into the Emtec Business Analysis and Quality Assurance Practice. This practice offers a broad range of business and software consulting services, including process reengineering, business analysis, quality assurance, testing and training. Many of our consultants have applied their skills in this practice in technologies such as ERP, customer relationship management, Oracle Applications, business intelligence and Java based solutions throughout the United States. In 2010, we rebranded Aviance into Emtec Software India.

1

On February 12, 2009, the Company acquired through its subsidiary, Emtec Infrastructure Services Corporation ("EIS-US"), all of the outstanding stock of KOAN-IT Corp. headquartered in Ottawa, Canada ("KOAN-IT") and KOAN-IT (US) Corp. ("KOAN-IT (US)"). KOAN-IT is a consulting firm specializing in business service management methodologies for its clients in Canada and the United States. As of March 1, 2009 KOAN-IT Corp. and 7119747 Canada Inc., a subsidiary of EIS-US, were amalgamated to form Emtec Infrastructure Services Canada Corporation ("EIS-Canada"), which is referred to in this report as KOAN-IT.

On May 12, 2009, the Company acquired through its subsidiary, KOAN-IT (US), certain assets of Enterprise Management Solutions, Inc. ("EMS"), a company under Chapter 11 bankruptcy protection in the Middle District of Florida. Prior to the acquisition, EMS was a consulting firm, headquartered in Clearwater, Florida, specializing in business service management methodologies for its clients throughout the United States.

On April 1, 2010, Emtec India acquired certain assets of SARK Infotech Private Limited ("SARK") based in Mumbai, India. SARK is a software consulting firm.

On June 4, 2010, the Company acquired through its subsidiary, Emtec Federal, Inc., all of the outstanding stock of Secure Data, Inc. ("SDI") headquartered in O'Fallon, Illinois. SDI is an application services consulting firm specializing in developing financial and custom web business applications. SDI's focus has been on agencies within the federal government, primarily the Department of Defense and select commercial clients.

Industry Background

We compete in the technology services market. We provide our clients with a broad array of technology services including IT infrastructure and process consulting; development, implementation and maintenance and support of custom and packaged business applications; planning, managing, maintaining and supporting IT infrastructure; aligning their IT infrastructure with the needs of their businesses and operations, and advice, design and selection of their business process technology needs. We also provide our clients with IT staff augmentation needs in a select set of business application skills. We can provide full lifecycle services as well as point solutions for our clients depending on their needs.

During the economic downturn in 2009 and 2010, the overall global market for technology services faced significant growth challenges. The market for distributors of technology products has been consolidating and manufacturers have intensified direct selling efforts. While this product market has matured, the market for IT services has expanded from proliferation of technology hardware, software and networking. Many organizations are increasingly dependent on the use of IT as a competitive tool in today's business environment. The need to distribute and access information on a real-time basis throughout an organization and between organizations has led to the rapid growth in network computing infrastructures that connect numerous and geographically dispersed end users through local and wide area networks. This growth has been driven by the emergence of industry standard hardware, software and communications tools, as well as the significant improvement in the performance, capacity and utility of such network-based equipment and applications.

The decision-making process that confronts companies when planning, selecting and implementing their IT needs continues to grow more complex. Organizations are continually faced with new business challenges which are not only driven by the markets they operate in but by the rapid change of technology itself. Many organizations today face intense competitive pressure and rapidly changing market dynamics, driven by such factors as changes in government regulations, globalization and technology innovation. In response to these challenges, many organizations are focused on improving productivity, increasing service levels, lowering costs and expediting delivery times. In order to achieve these goals, organizations are focusing on improving applications and infrastructure to facilitate faster, more responsive, lower-cost business operations. The development, integration and on-going maintenance of improved operations can present major challenges and require highly skilled professionals trained in diverse technologies, and many companies are now outsourcing these function to independent providers of IT services. Additionally, organizations also require additional technical resources to maintain, enhance and re-engineer their core legacy IT systems to address application maintenance projects.

Increasingly, many IT departments have shifted all or a portion of their IT development, integration and maintenance requirements to outside service providers operating with on-site and/or offshore IT resources. Global demand for high quality, lower cost IT services from outside providers has created a significant opportunity for IT service providers that can successfully leverage the benefits of and address the challenges in using offshore talent. The delivery of IT services has shifted to a global sourcing model, where companies can choose from a wide array of technology partners and effectively manage their technology costs through the use of round the clock support and best delivery.

We serve clients in various vertical markets including governments at the federal (both U.S. and foreign governments), state, and local level, the K-12 education market, and various commercial businesses including healthcare and life sciences, financial services, retail and telecommunications industries.

Currently our largest source of revenue is the U.S. federal government, which is one of the largest purchasers of IT products and services in the world and one of the largest users of outside contractors. The use of outside contractors is driven primarily by an effort to address specific skills needed by the federal government. Engagements support mission-specific goals rather than routine and deferrable office automation efforts. The U.S. federal government tends to use procurement vehicles to purchase its IT needs which fosters partnering relationships that the federal government encourages in order to promote small businesses with opportunities to serve the government, while at the same time not forgoing shifting risk and management of large projects to larger companies.

We also service the K-12 education market, which is becoming a high-volume adopter of technology. School districts have been typically slow to adapt to the needs of their student base and often have infrastructure that cannot currently support a broader use of technology by students. We believe that the arrival of broad-band wireless delivery will eventually overcome some of these infrastructure challenges, and as delivery of technology and systems becomes more widespread and available the education market will be able to adapt more quickly to provide students, instructors and administrators with technology. We also believe that the delivery of content through technology will eventually enable schools to reduce other expenses such as textbooks. These shifts should enable technology to capture a larger share of the budget of a school system. We have focused our education strategy on larger suburban school districts with growing populations that have a greater ability to fund their technology needs. In particular, we work with school systems that have emphasized technology as an important part of their future curriculum. As the technology expertise of students becomes more prolific, we expect the demand for services in this market to increase.

Our Strategy

Our business objective is to maximize value for all our stakeholders including our associates, our clients and our stockholders. We strive to be considered by our clients as one of their most trusted advisors and be recognized as the premier IT services company by our partners. We offer high-end practices as a wedge to penetrate and deliver a broad array of services to our clients. Our wedges on our application services business include IT strategy & planning, IT security consulting, functional expertise such as federal agency finance and accounting, and our Information Management practice. Our Infrastructure Services, led by our Information Technology Service Management (“ITSM”) practice, views itself as a partner to our client’s CIO, assisting them in enhancing their value to their companies, as well as helping them reduce their overall infrastructure costs through innovative solutions. We intend to shift the services we deliver to managed infrastructure services through our broader infrastructure offerings over time. We will continue to enhance our practice areas in both our infrastructure and applications services, adding practices through organic growth, development of our existing consultants and hiring. We expect our applications services business to become a larger percentage of our service offering in the future and for Emtec eventually to be a go-to source of application development maintenance and managed services. We believe that by working with a single-source provider, organizations will be able to adapt more quickly to technological changes and reduce their overall IT costs.

To this end, we are pursuing the following strategies:

Organic Growth through a Verticalized Professionalized Sales Force

We have hired professional sales executives and experienced sales professionals who have significant experience selling IT solutions and managed services into vertical practices. We have trained these professionals in differentiating the Company by offering a unique set of solutions that provide a value proposition for our clients. We focus our sales professionals on expanding our services within our existing client base, many of whom are Fortune 100 companies or government agencies of similar size. Our sales force is enhanced by solution specialists who demonstrate agility in adjusting to the needs of our clients.

Pursuing Strategic Acquisitions

We are seeking to expand our service offerings. We plan to enhance our technical expertise and our delivery capabilities and to nurture and expand client relationships by means of acquisitions of companies whose businesses complement our businesses and, in particular, expand into the area of business application services. We intend to focus on companies with management teams who are willing to commit to long-term participation in our organization and who share our vision of continued growth.

Capitalizing on Existing Relationships

We believe that our history of satisfying the IT product requirements of our larger clients is facilitating the marketing of our broad range of services to this important segment of our clientele. The addition of our acquisition partners has expanded our service offerings in areas of custom application development, ERP and programming technologies and business service management along with enriching our client base in a variety of industry verticals including government, retail, telecommunications, financial services, pharmaceutical, insurance and manufacturing.

Our Business

Strategic IT Consulting

We provide consulting around managing technology and business transformation, information management strategies, security and compliance and risk management services. We help clients to address business and technology issues in the areas of information technology optimization and value extraction, integrated business and technology architecture, process and planning, and transformational program management. We provide solutions for business and technology problems, such as information management, transformational technology platforms, supply chain processes and data analytics.

Business Application Services

We work with our clients to analyze and redesign their business processes, identify new process requirements, select business applications that are engineered to best fit their processes, implement support and maintain their business applications. We deliver these services through project consulting assignments and staff augmentations. Currently, we have associates skilled in process redesign and analysis, custom application development, independent validation and verification (i.e., quality assurance and testing), ERP and CRM solutions, and Information Management (i.e., Business Intelligence, Analytics and Data Warehousing) and web-based business applications.

Infrastructure Consulting Services

Our infrastructure consulting services are designed to align the needs of our clients' CIOs and IT organizations with the needs of their businesses. We offer these services in the following areas:

- IT Business Alignment and Planning Services: These services help clients see the value that IT provides to the organization creating cost savings in IT through effective management of projects and focus on IT service management.

- IT Operations and Support Services: Our services are designed to provide clients with tools and methods to improve internal IT service delivery while becoming effective and efficient on a daily basis. IT departments can then reduce costs while becoming more proactive in providing internal service and support.

- IT Practices & Governance: Using industry standards based on an Information Technology Infrastructure Library ("ITIL"), we assist clients to measure and assess their IT performance against their peer groups. Our services also include strategies for implementation, improvement and continued governance to maintain an IT department that follows best practices.

- Data Storage Solutions: We offer storage needs assessments, solution recommendations with hardware, software and implementation project requirements, implementation and integration services, post-sales training, maintenance and support services.

Infrastructure Managed Services

Our managed infrastructure services provide ongoing monitoring and support of our clients' networks through the utilization of help desk and network monitoring services as well as through our own on-site engineering resources. This allows our clients to focus the majority of their efforts on their businesses – rather than managing their IT infrastructures. We offer these services in following areas:

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

- evaluation and prioritization of business objectives to determine the best course of action for our clients;
- consultation with clients to identify the right IT products and services for their needs;
- leveraging our vendor relationships to quickly source the right combination of products;
- providing logistical support needed to deploy a major technology roll out; and
- providing continuous support to enable a client to improve end-user satisfaction, minimize downtime and lower the total cost of ownership.

- Support Services Contracts: We offer both manufacturer and our own support service contracts that provide our clients with extended technical support, on-site hardware service and access to new software releases at a fixed price.

- Training: We offer a dynamic IT training program that keeps abreast of industry trends and market requirements. Areas of study include: ITIL, software quality assurance, software development life cycle, IT project management, unified modeling language, software test automation, IT business analysis, data warehousing and business intelligence, ERP and web application development.

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

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

- Data Access Solutions: We enable on-demand access to information from anywhere over any network; our mobility, messaging, and management solutions provide secure data access, which we believe will increase business productivity and reduce IT costs for our clients.

Procurement services

Procurement services include planning, designing, procuring, deploying, installing the software on and maintaining the hardware and networks of our clients. Typically, our clients go through 3-5 year cycles on their equipment and they stagger the deployments throughout their organization. This leads to a more predictable and steady procurement cycle for our practice area. We are product agnostic and for an organization of our scale we feel this differentiates us from many of our competitors because we can offer them the best solution for their IT spend without creating conflicts. We offer products from a broad array of technology, from both hardware manufacturers and software providers. Equipment we deploy and maintain includes workstations, servers, networking and communications equipment, enterprise computing products and application software. We minimize inventory risk by ordering products primarily on an as-needed basis. We utilize electronic ordering and pricing systems that provide real-time status checks on the aggregators' inventories and maintain electronic data interchange links to other suppliers. Our sales team is thereby able to schedule shipments more accurately and to provide electronically-generated client price lists.

K-12 Specialized Services for Student and Faculty Needs

We integrate top-quality curriculum software and computer products into the classroom. We have significant experience in building local area networks that link campuses together. We also provide district-wide support and sustain internet access to educational resources worldwide. We tailor our array of services to make the best use of limited funds.

Marketing

Our marketing efforts are focused on:

- Brand Building: broadening our public image as an IT services provider
- Lead Generation and focused marketing campaigns: promoting our offerings to current clients, prospects, partners and investors; increasing overall inquiries and sales from all sources
- Increasing Awareness: maintaining a constant flow of marketing communications to increase and maintain our market presence
- Increasing traffic to our web site
- Providing sales tools and research to support our sales team

Our marketing group is charged with sales lead generation. Through diverse efforts that include print and electronic advertising, seminars and webinars, tradeshows, direct mail, public relations, telemarketing, a bi-monthly newsletter and through our website we create multiple and frequent contacts with existing and prospective clients. The primary goal is to increase the number of face to face meeting opportunities between our account team and prospective clients, and to drive additional opportunities through our sales pipeline. During the upcoming fiscal year we will continue to consolidate our offerings under the Emtec brand name and promote our full line of capabilities to current and prospective clients.

Customers

Our clients are primarily large business organizations, departments of the United States and Canada's federal, state and local governments, local school districts and other large and mid-sized companies throughout the United States and Canada. The majority of our sales are drawn from various civilian and military U.S. governmental departments and agencies. We service our client base from leased facilities in California, Georgia, Florida, Illinois, New Jersey, Pennsylvania and Virginia in the United States, Bangalore and Mumbai in India and Ottawa and other offices in Canada.

Our governmental agency clients include the Department of Defense, Department of Justice, Department of Homeland Security, Department of Health and Human Services, Department of Commerce and the General Service Administration ("GSA"). Our state and local government clients include various state agencies and other local government units. Educational institution clients primarily include K-12 school districts.

The government utilizes a variety of contracting methods when purchasing from us, including negotiated bids, pre-negotiated blanket purchase agreement contracts and open-market procurements. We participate in formal government bids for all contract types, and also process orders received on existing contracts on an ongoing basis.

Substantially all of these bids are awarded on a “best value” to the government basis (which, depending on the bid, can be a combination of price, technical expertise, past performance on other government and commercial contracts and other factors). We seek to use contacts, purchasing power, distribution strength, value-added services and procurement expertise to compete successfully on these bids. These major procurements can generate millions of dollars in annual revenue, span multiple years and provide government personnel with an expedited method of purchasing from us.

We hold a GSA contract for the sale of IT products and services that runs through September 2015. Schedule 70 contracts are multi-award schedule contracts managed by the GSA IT Acquisition Center. Additionally, we hold two Indefinite Delivery Indefinite Quantity (“IDIQ”) contracts that are valid for all federal government agencies. An Army Desktop and Mobile Computing – 2 (“ADMC-2”) prime contract issued to us by the Army Small Computer Program provides all military departments (and other authorized government agencies) the ability to purchase desktops, laptops, thin clients, ruggedized computers, peripheral devices and related accessories. The ADMC-2 contract is valid thru April 2016. A National Aeronautics and Space Administration - Solutions for Enterprise-Wide Procurement IV (“SEWP IV”) prime contract issued to us by NASA provides all governmental agencies with the means to purchase a wide variety of IT products and related integration and installation services. Specifically for the SEWP IV contract, we are considered a large business; and the SEWP IV contract is valid through April 2014. We also hold a contract to provide the National Institute of Health with IT products and services that runs through November 2012.

It is expected that federal government business revenues will continue to represent a large portion of our total revenues and that the consulting services to the federal government will become an increasingly important part of our business as we continue to strive to penetrate wider and deeper into various civilian and military agencies.

Our revenues, by client type consist of following (in thousands):

	For the Years Ended					
	August 31, 2010			August 31, 2009		
Departments of the U.S. Government	$104,598	46.6	%	$85,044	38.0	%
Canadian Government Agencies	2,509	1.0	%	771	0.3	%
State and Local Governments	4,105	1.8	%	7,333	3.3	%
Commercial Companies	51,491	23.0	%	65,595	29.3	%
Education and other	61,899	27.6	%	65,100	29.1	%
Total Revenues	$224,602	100.0	%	$223,843	100.0	%

Government Contracts Potentially Subject to Termination

Our contracts with the U.S. federal, state and local government clients are generally subject to termination, in whole or part, at the convenience of the government parties or if funding becomes unavailable.

Competition

The IT services industry is highly competitive. Our competitors include other IT service providers, systems integrators and value added resellers.

Many of our current and potential competitors have longer operating histories and substantially greater financial, sales, marketing, technical and other resources than we do. As a result, our competitors may be able to adapt more quickly to changes in client needs or to devote greater resources than we can to the sales of IT products and the provision of IT services.

We are also in direct competition with various IT consulting companies. These competitors run the gamut from niche consulting companies to the established consulting arms of international accounting and auditing firms. Several of these competitors offer most of the same basic products as we do. We also encounter competition from microcomputer manufacturers that sell their products through direct sales forces and from manufacturers and distributors that emphasize mail order and telemarketing sales. Depending on the client, the principal areas of competition may include technological expertise, quality of consultants, depth and breadth of offering, consultant service levels, pre-sale and post-sale technical support and service, breadth of product line and price.

Employees

As of November 11, 2010, we employed 649 individuals, including 450 IT services consulting staff and support personnel, 98 sales, marketing and related support personnel, 66 operations and administrative personnel, and 35 employees in accounting, finance, and human resources. We believe that our ability to recruit and retain highly skilled technical and other management personnel will be critical to our ability to execute our business model and growth strategy. We believe that our relations with our employees are good.

Available Information

The public may read and copy any materials filed by us with the SEC at the SEC’s public reference room located at 100 F Street, N.E., Washington D.C. 20549. The public may obtain information about the operation of the SEC's public reference rooms by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website at http://www.sec.gov that contains reports, proxy and information statements and other information about issuers such as us that file electronically with the SEC.

In addition, we make available free of charge on our website at www.emtecinc.com our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) under the Exchange Act as soon as reasonably practical after we electronically file such material with, or furnish it to, the SEC. Information on our website is not incorporated by reference into this report.

Item 1A. Risk Factors

The current economic recession and declining general economic, business, or industry conditions may continue to adversely affect the business of the Company, as well as our ability to forecast financial results.

The domestic and international economies continue to feel the effects of the significant recession. The effects of the recession have been magnified by the tightening of the availability and cost of credit, inflation, volatile energy costs, geopolitical issues, a declining U.S. real estate market, decreased business and consumer confidence and increased unemployment. These and other macro-economic conditions have contributed to increased volatility and diminished expectations for the global economy and expectations of future global economic growth. If the economic climate in the U.S. and abroad does not improve or continues to deteriorate, our customers or potential customers could reduce or delay their purchases of our offerings, which would adversely impact our revenues and our ability to sell our offerings, collect customer receivables and, ultimately, our profitability. Additionally, future economic conditions currently have an increased degree of inherent uncertainty. As a result, it is more difficult to estimate the level of growth or contraction for the economy as a whole, as well as for the various sectors of the economy, such as the IT market. Because all components of our budgeting and forecasting are dependent upon estimates of growth or contraction in the IT market and demand for our offerings, the prevailing economic uncertainties render accurate estimates of future income and expenditures very difficult to make. We cannot predict the effect or duration of this economic slowdown or the timing or strength of a subsequent economic recovery, worldwide or in the IT industry. Further adverse changes may occur as a result of soft global, domestic or regional economic conditions, wavering consumer confidence, unemployment, declines in stock markets, contraction of credit availability or other factors affecting economic conditions generally. These changes may negatively affect the sales of our offerings, increase exposure to losses from bad debts, increase the cost and decrease the availability of financing or increase the risk of loss on investments.

Our financial results are impacted by the level of business activity of our clients, in particular our commercial clients. Continued economic downturns may cause reductions in technology and discretionary spending by our clients, which may result in reductions in the growth of new business as well as reductions in existing business. If our commercial clients enter bankruptcy or liquidate their operations, our revenue could be adversely affected. There can be no assurance that weakening economic conditions throughout the world will not adversely impact our results of operations and/or financial position.

Our revenues are derived from a few major clients, the loss of any of which could cause our results of operations to be adversely affected.

A large portion of our revenues are drawn from various civilian and military U.S. governmental departments and agencies. These clients 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 two fiscal years ended on August 31, 2010 and 2009, U.S. governmental department and agency related sales accounted for approximately 46.6% and 38.0% of our total revenues, respectively.

Either of the following additional risk factors could have a material negative impact on our business:

- seasonality of federal government related business makes future financial results less predictable; and

- due to our dependence on governments demand for IT products, a material decline in overall sales to the government as a whole, or to a certain key agency thereof, could have a material adverse effect on our results of operations.

Additionally, sales to one of the school districts in Georgia accounted for approximately $41.2 million or 18.4% and $44.3 million or 19.8% of the Company's total revenues for years ended August 31, 2010 and 2009, respectively.

We cannot assure you that we can successfully increase the portion of our revenues derived from IT services and consulting. If we are unsuccessful, our future results may be adversely affected.

Our transition from an emphasis on IT procurement services to an emphasis on providing IT services and consulting has placed significant demands on our managerial, administrative and operational resources. Our ability to manage this transition effectively is dependent upon our ability to develop and improve operational, financial, and other internal systems, as well as our business development capabilities, and to attract, train, retain, motivate and manage our employees. If we are unable to do so, our ability to effectively deliver and support our services may be adversely affected. Further, our transitional efforts to access higher-margin services and consulting revenues may result in reduced IT procurement services revenue. If we successfully expand our IT services offerings, periods of variability in utilization may continue to occur. In addition, we are likely to incur greater technical training costs during such periods. Historically, our IT procurement services accounted for approximately 74.0% and 75.1% of our total revenues for the years ended August 31, 2010 and 2009, respectively. In contrast, our IT services and consulting accounted for approximately 26.0% and 24.9% of our total revenues for the years ended August 31, 2010 and 2009, respectively.

Our new services and consulting offerings have not achieved widespread client acceptance. If they do not achieve market acceptance, our profit potential may be adversely affected.

We have limited experience in developing, marketing or providing these services. We cannot assure you that we will be able to successfully market such services to either new or existing clients, 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 clients' expectations.

Our business will suffer if we fail to develop new services and enhance our existing services in order to keep pace with the rapidly evolving technological environment.

The IT services and consulting market is characterized by rapid technological change, evolving industry standards, changing client preferences and new product and service introductions. Our future success will depend on our ability to develop solutions that keep pace with changes in the IT services and consulting market. We cannot assure you that we will be successful in developing new services addressing evolving technologies on a timely or cost-effective basis or, if these services are developed, that we will be successful in the marketplace. In addition, we cannot assure you that products, services or technologies developed by others will not render our services non-competitive or obsolete. Our failure to address these developments could have a material adverse effect on our business, results of operations and financial condition.

We may not be able to compete effectively in the highly competitive IT services and consulting industry.

The IT services and consulting business is highly competitive. Our competitors include established computer product manufacturers, some of which supply products to us, distributors, computer resellers, systems integrators and other IT service providers. Many computer product manufacturers also sell to clients through their direct sales organizations and certain of them have announced their intentions to enhance such direct sales efforts. Many of our current and potential competitors have longer operating histories and financial, sales, marketing, technical and other resources substantially greater than ours. As a result, our competitors may be able to adapt more quickly to changes in client needs or to devote greater resources than we can to the sales of IT products and the provision of IT services and we may not have the resources necessary to compete effectively.

Our inability to maintain high personnel-utilization rates may adversely impact our profit potentiality.

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

Competition for highly skilled technical personnel is intense and the success of our business depends on our ability to attract and retain highly skilled professionals.

Our future success will depend to a significant extent on our ability to attract, train and retain highly skilled IT development professionals. In particular, we need to attract, train and retain project managers, IT engineers and other senior technical personnel. We believe there is a shortage of, and significant competition for, IT development professionals in the United States with the advanced technological skills necessary to perform the services we offer. We have subcontracted, to a limited extent in the past, and may do so in the future, with other service providers in order to meet our obligations to our clients. Our ability to maintain and renew existing engagements and obtain new business will depend, in large part, on our ability to attract, train and retain technical personnel with the skills that keep pace with continuing changes in IT, evolving industry standards and changing client preferences. Further, we must train and manage our growing work force, requiring an increase in the level of responsibility for both existing and new management personnel. We cannot assure you that the management skills and systems currently in place will be adequate or that we will be able to train and assimilate new employees successfully. Our failure to attract, train and retain current or future employees could have a material adverse effect on our business, results of operations and financial condition.

Our growth may be hindered by United States Citizenship and Immigration Services restrictions.

Our continued success will depend, to a large extent, on our ability to remain in the forefront of developments in the field of IT. In order for us to remain competitive in the current market environment, it is critical for us to hire and maintain the services of highly skilled and competitive employees who have the technical and practical expertise to meet the high-end technological needs of our clients. A number of our IT professionals are from developing countries, especially India. The ability of Indian nationals to work in the United States depends on obtaining the necessary visas and work permits.

The H-1B visa classification enables U.S. employers to employ foreign workers in specialty occupations that require theoretical or technical expertise in a specialized field (such as, Systems Analysis and Systems Engineering) and a bachelor's degree or its equivalent. The H-1B visa usually permits an individual to work and live in the United States for a period of up to six years. Under certain circumstances, H-1B visa extensions after the six-year period may be available. There is a limit on the number of new H-1B petitions that United States Citizenship and Immigration Services, or USCIS, one of the successor agencies to the Immigration and Naturalization Service, may approve in any federal fiscal year. In years in which this limit is reached, we may be unable to obtain H-1B visas necessary to bring foreign employees to the United States. Furthermore, the costs associated with obtaining H-1B visas is continuing to increase.

The numerical limitation on H-1B petitions for Fiscal Year 2011 is 65,000, however that number is reduced to 58,200 by reserved allocations for certain countries, including Singapore and Chile. There is an additional 20,000 cap-exempt H-1Bs available for individuals who have a U.S. master's or higher degree. USCIS began accepting H-1B petitions subject to the Fiscal Year 2011 (FY 2011) cap on April 1, 2010. Despite the current economic environment, as of November 2010, approximately 46,800 H-1B cap-subject petitions had been filed for the federal fiscal year 2011 cap. USCIS has received 17,200 H-1B petitions under the U.S. Master's Cap out of the exemption of 20,000 available for beneficiaries with U.S. master's or higher degrees for the fiscal year 2011 cap. In the past years, the H-1B cap was reached prior to the beginning of the fiscal year for which the H-1B visas were to become available.

Moreover, there are strict labor regulations associated with the H-1B visa classification. Larger users of the H-1B visa program are often subject to investigations by the Wage and Hour Division of the United States Department of Labor. A finding by the United States Department of Labor of willful or substantial failure by employers to comply with existing Department of Labor regulations on the H-1B classification may result in back-pay liability, substantial fines, and/or a ban on future use of the H-1B program and other immigration benefits. We are currently subject to such an investigation.

We also process immigrant visas for lawful permanent residence for employees to fill positions for which there are no able, willing and qualified U.S. workers available to fill the positions. Compliance with the existing U.S. immigration and labor laws, or changes in those laws making it more difficult to hire foreign nationals or limiting our ability to successfully obtain permanent residence for our foreign employees in the United States, could require us to incur additional unexpected labor costs and expenses or could restrain our ability to retain the skilled professionals we need for our operations in the United States. Any of these restrictions or limitations on our hiring practices could have a material adverse effect on our business, results of operations and financial condition.

Our revenues and expenses are unpredictable. A decrease in revenues or increase in expenses could materially adversely affect our operating results.

Our operating results have been, and will continue to be, impacted by changes in technical personnel billing and utilization rates. Moreover, we expect that downward pricing pressure will persist due to the continued commoditization of computer products. Further, there are numerous other factors, which are not within our control that can contribute to fluctuations in our operating results, including the following:

- patterns of capital spending by clients;
- the timing, size and mix of product and service orders and deliveries;
- the timing and size of new projects, including projects for new clients; and
- changes in trends affecting outsourcing of IT services.

We also believe that, to a limited degree, our business is seasonal with a greater proportion of our product sales occurring in the first quarter of our fiscal year due to the capital budgeting and spending patterns of some of our larger clients. Operating results have been, and may in the future also be, affected by the cost, timing, and other effects of acquisitions, including the mix of product and service revenues of acquired companies.

Failure to comply with the financial covenants under our credit facility would allow our lender to call for repayment of our outstanding borrowings.

Our credit facility contains certain financial covenants. As of August 31, 2010, the Company was in compliance with all of its financial covenants and the Company had $16.0 million outstanding under the revolving portion of the credit facility, and balances of $3.4 million (included in the Company’s accounts payable) plus $723,000 in open approvals under the floor plan portion of the credit facility. As of August 31, 2010, net availability was $6.8 million under the revolving portion of the credit facility, and additionally $5.0 million was available under the floor plan portion of the credit facility. There can be no assurance that we will be in compliance with all of our financial covenants in the future and that the lender will not immediately call for repayment of the outstanding borrowings under the credit facility in the event we are not in compliance with any of the financial covenants.

Our inability to renew our existing credit facility before it terminates could have a material adverse effect on our business, operating results and financial condition.

Our existing credit facility is scheduled to terminate on December 7, 2010. The Company is currently in the process of negotiating a two year renewal of its credit facility with the lender, and anticipates the renewal will be completed prior to December 6, 2010, which is the expiration date of the existing credit facility. There can be no assurance that we will be successful in our effort to negotiate a renewal of the existing facility. As of August 31, 2010, the Company had $16.0 million outstanding under the revolving portion of the credit facility, and balances of $3.4 million (included in the Company’s accounts payable) plus $723,000 in open approvals under the floor plan portion of the credit facility. If the credit facility is not renewed, the amount due under the existing facility on December 7, 2010 significantly exceeds the Company’s available cash as of August 31, 2010.

In the event that we are obligated to pay such debt in full we may not be able to meet this demand. If we do not have sufficient funds and are otherwise unable to negotiate renewals of our credit facility or arrange new financing, we may have to sell significant assets. Any such sale could have a material adverse effect on our business and financial results. Additionally, if we are unable to pay back the amount due, we will be in default under our credit facility and the lender may take remedial action, including forcing the Company into bankruptcy.

Our lenders may have suffered losses related to the weakening economy and may not be able to fund our borrowings.

Our lenders, including the lender for our credit facility, could have suffered losses related to their lending and other financial relationships, especially because of the general weakening of the national economy and increased financial instability of many borrowers. As a result, lenders may become insolvent or tighten their lending standards, which could make it more difficult for us to borrow under our credit facility or to obtain other financing on favorable terms or at all. Our financial condition and results of operations would be adversely affected if we were unable to draw funds under our credit facility because of a lender default or to obtain other cost-effective financing.

Reduction in or elimination of our credit facilities with our primary trade vendors could have a material adverse effect on our business and operations.

As of August 31, 2010, our open terms credit lines with our primary trade vendors, including aggregators and manufacturers were $41.5 million. Under these credit lines, we are typically 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 adverse affect on our business, result of operations, and financial condition.

Adverse changes in U.S. federal government fiscal spending could have a negative effect on our sales, gross margin, and cash flow.

Changes in U.S. federal government spending policies or budget priorities could directly affect our financial performance. Among the factors that could materially harm our business are:

- a significant decline in spending by the U.S. federal government in general or by specific departments or agencies in particular, which may occur if lower tax revenues are received by the government as a result of any economic slow-down;
- changes in the structure, composition and/or buying patterns of the U.S. federal government;
- the adoption of new laws or regulations changing procurement practices; or
- delays in the payment of our invoices by government payment offices.

These or other factors could cause U.S. federal government agencies and departments to reduce their purchases under contracts, to exercise their right to terminate contracts, or not to exercise options to renew contracts, any of which would cause us to lose future revenue.

The demand for our products and services in our state, local and education verticals depends primarily on state and local budgets. Our business, financial condition and results of operations may be harmed if state and local budgets continue to be constrained.

Education, state and local verticals sales levels are subject to fluctuations driven in part by state budgetary status and changes in state and local government funding and spending patterns. We believe there has been a reduction in spending by schools due to the general economic conditions in the United States and fiscal constraints on state and local government budgets. A continuation of global capital and credit market instability, a sluggish economic recovery or a return to a period of economic contraction could result in reductions, or further reductions as the case may be, in spending by school districts and other customers to which we sell products and services. A further reduction in spending by our customers could have a material adverse effect on our business, financial condition and results of operations.

Any issue that compromises our relationship with agencies of the U.S. Federal Government would cause serious harm to our business.

Our sales are highly dependent on the government's demand for IT products. We believe that U.S. federal government contracts will continue to be a source of the majority of our sales for the foreseeable future. For this reason, any issue that compromises our relationship with agencies of the U.S. federal government would cause serious harm to our business. A material decline in overall sales to the U.S. federal government as a whole, or to certain key agencies thereof, could have a materially adverse effect on our results of operations. Among the key factors in maintaining our relationships with U.S. federal government agencies are:

- our performance on individual contracts and delivery orders;
- the strength of our professional reputation;

- the relationships of our key executives with client personnel;
- our compliance with complex procurement laws and regulations related to the formation, administration and performance of U.S. federal government contracts; and
- the ability of the U.S. federal government, at their convenience, to unilaterally terminate our contracts, in whole or part.

To the extent that our performance does not meet client expectations, or our reputation or relationships deteriorate, this would cause a negative effect on our sales, profitability and cash flow. Noncompliance with government procurement regulations or contract provisions could result in substantial monetary fines or damages, suspension or debarment from doing business with the U.S. federal government and civil or criminal liability.

We are subject to regular review and audit by our government clients, government auditors and others, and these reviews can lead to the non-renewal or termination of existing contracts, legal actions, fines and liabilities and other remedies against us.

From time to time, we are subject to review and audit by governmental agencies relating to our governmental business as well as our taxes. Given the demands of working for governmental agencies, we expect that from time to time we will have disagreements or experience performance issues with the various government clients for which we work. If performance or other issues arise as a result of any investigative process, the government retains the right to pursue remedies, which could include fines or the threatened termination, termination or non-renewal under any affected contract. If any fines are levied or contract so terminated or not renewed, our ability to secure future contracts could be adversely affected. Further, the negative publicity that could arise from disagreements with the government could have an adverse effect on our reputation in the industry, reduce our ability to compete for new contracts, and may also have a material adverse effect on our business, financial condition, results of operations and cash flow.

Write-offs of goodwill and other intangible assets could adversely affect our future results of operations and financial position.

Goodwill and intangible assets deemed to have indefinite lives are not amortized but instead are subject to annual impairment tests. As of August 31, 2010 and 2009, we had goodwill of approximately $14.0 million and $11.4 million, respectively. We performed impairment tests on goodwill as of June 1, 2010 and 2009, and no impairment losses were recorded. We test for impairment at least annually. Such tests may result in a determination that these assets have been impaired. If at any time we determine that an impairment has occurred, we will be required to reflect the impaired value as a part of operating income, resulting in a reduction in earnings in the period such impairment is identified and a corresponding reduction in our net asset value. A material reduction in earnings resulting from such a charge could cause us to fail to be profitable or increase the amount of its net loss in the period in which the charge is taken or otherwise fail to meet the expectations of investors and securities analysts, which could cause the price of our stock to decline.

Our quarterly sales and operating results are volatile, which makes our future financial results difficult to forecast.

Our sales, operating results and earnings per share have been, and are expected to continue to be, subject to significant fluctuations from quarter to quarter due to a number of factors including:

- the seasonality of our business due to the U.S. federal government's buying and funding patterns;

- fluctuations in our gross margins due to variations in the mix of products and services sold;
- the number, size and scope of orders from our clients;
- availability of price protection, purchase discounts and rebate programs from vendors;
- contractual terms and degree of completion of projects;
- currency fluctuations; and
- changes in our sales cycles as we move towards solution selling.

Our recent level of gross margins may not be sustainable. In addition, changes in services gross margin may result from various factors such as changes in the mix between technical support services and advanced services, as well as the timing of service contract initiations, renewals and utilization of service personnel. As a consequence, sales volumes and operating results for future periods are difficult to predict and, therefore, prior results are not necessarily indicative of results to be expected in future periods.

We must maintain our status as an authorized reseller/service provider of IT products. The loss of any one such authorization could have a material adverse effect on our business and operations.

We are materially dependent on our continued status as an approved reseller of IT products and our continued authorization as an IT service provider. Without such authorizations, we would be unable to provide the range of products and services we currently offer, including warranty services and manufacturers support services contracts. Our resale agreements with manufacturers generally are terminable by manufacturers upon 30 days' prior written notice. The loss of one or more of such authorizations could have a material adverse effect on our business and results of operations.

We have no long-term sales commitments from any of our suppliers. A loss of any of our principal suppliers would material adversely affect our IT procurement business.

Our IT procurement business depends on large part upon our access to aggregators and manufacturers to supply us with products at competitive prices and on reasonable terms for resale by us to our clients. Certain agreements may be terminated by such companies upon 30 days' prior written notice. We cannot assure you that we will be able to continue to obtain products from the aggregators and manufacturers at prices or on terms acceptable to us, if at all.

Our client engagements entail significant risks and a failure to meet a client's expectations could materially adversely affect our reputation and business.

Many of our engagements involve projects that are critical to the operations of our clients' businesses and provide benefits that may be difficult to quantify. Our failure or inability to meet a client's expectations in the performance of our services could result in a material adverse change to the client's operations and therefore could give rise to claims against us or damage our reputation, adversely affecting our business, results of operations and financial condition.

Our use of fixed-price contracts could adversely affect our operating results.

From time to time we may enter into contracts that are performed on a fixed-price basis. Under a fixed-price contract, we agree on the price that we will receive for the entire project, based upon a defined scope, which includes specific assumptions and project criteria. If our estimates of our own costs to complete the project are below the actual costs that we may incur, our margins will decrease, and we may incur a loss. The revenue, cost and gross profit realized on a fixed-price contract will often vary from the estimated amounts because of unforeseen conditions or changes in job conditions and variations in labor and equipment productivity over the term of the contract. If we are unsuccessful in mitigating these risks, we may realize gross profits that are different from those originally estimated and incur reduced profitability or losses on projects. Depending on the size of a project, these variations from estimated contract performance could have a significant effect on our operating results for any quarter or year.

We may issue additional equity to management or in connection with future acquisition that may dilute our stockholders' ownership.

We have in the past and in the future will continue to issue equity to management as part of our executive compensation program. In addition, as part of our strategy, we may acquire other businesses and may use our stock as a portion of the purchase price for such transactions. Any future equity issuances will result in further dilution to holders of our common stock.

Holders of our common stock may face a lack of liquidity.

Our common stock is currently traded on the Over-the-Counter Bulletin Board market. Given the fact that our common stock is thinly traded, there can be no assurance that the desirable characteristics of an active trading market for such securities will ever develop or be maintained. Therefore, each investor's ability to control the timing of the liquidation of the investment in our common stock will be restricted and an investor may be required to retain his investment in our common stock indefinitely.

The market price of our common stock has been and is likely to continue to be volatile, which may make it difficult for stockholders to resell common stock when they want to and at prices they find attractive.

Our share price has been volatile due, in part, to the general volatility of the securities market. Factors other than our operating results may affect our share price and may include the level of perceived growth of the industries in which we participate, market expectations of our performance success of the partners and the sale or purchase of large amounts of our common stock.

If we make future acquisitions of companies, technology and other assets, we may be exposed to numerous risks such as difficulty integrating acquired companies, technologies and assets or generating an acceptable return on our investment.

We may pursue opportunities to acquire companies, technologies and assets that would complement our current service offerings, expand the breadth of our markets, enhance our technical capabilities or that may otherwise offer growth opportunities as we have done in the past. Acquisitions involve numerous risks, including the following:

- difficulties in integrating the system with our current operations;
- diversion of management's attention away from normal daily operations of our business;
-

difficulty in entering markets in which we have no or limited direct prior experience and where competitors in such markets have stronger market positions;

- initial dependence on an unfamiliar system while training personnel in its use;
- insufficient revenues to offset increased expenses associated with acquisitions; and
- the potential loss of key employees of the acquired companies.

Acquisitions may also cause us to:

- issue common stock or preferred stock or assume stock option plans that would dilute current stockholder's percentage ownership;
- use cash, which may result in a reduction of our liquidity;
- assume liabilities;
- record goodwill and other intangible assets that would be subject to impairment testing and potential periodic impairment charges;
- incur amortization expenses related to certain intangible assets;
- incur large and immediate write-offs; and
- become subject to litigation.

Mergers and acquisitions of companies in our industry and related industries are inherently risky, and no assurance can be given that our acquisition strategy will be successful, that we will have the resources to pursue this strategy, and that such acquisitions will not materially adversely affect our business, operating results, or financial condition. Failure to manage and successfully integrate acquisitions could harm our business and operating results in a material way. Even when an acquired company has already developed and marketed products or services, there can be no assurance that product enhancements will be made in a timely fashion or that all pre-acquisition due diligence will have identified all possible issues that might arise with respect to such products or services.

Restrictions in non-competition agreements with former shareholders of acquired companies may not be enforceable.

We have entered into non-competition agreements with former shareholders of acquired companies. We cannot be assured, however, that the restrictions in these agreements prohibiting such former shareholders from engaging in activities that are competitive with the businesses that we have acquired are enforceable.

We could find it challenging to obtain financing for future acquisitions in today's environment.

The current state of the global credit markets could hinder our ability to secure financing for future acquisitions and/or could make obtaining the necessary financing cost prohibitive. The tightening of credit markets could limit our ability to fully execute our growth strategy and expand our business because there will be fewer acquisition opportunities available or only smaller acquisition opportunities that can still be financed.

Fluctuations in foreign currency exchange rates could negatively impact our results of operations.

We are exposed to gains and losses resulting from the effect that fluctuations in foreign currency exchange rates have on the reported results in our Consolidated Financial Statements due to the translation of operating results and financial position of our foreign subsidiaries.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

We lease space in fifteen locations. Our corporate headquarters is currently located in Springfield, New Jersey. The following table contains information about each of our leased facilities:

Address	Segment Used by	(Size in Square Feet)	Monthly Rent		Expiration Date
100 Matsonford Road, Suite 420 2 Radnor Corporate Center, Radnor, PA 19087	EIS/EGS	7,342	$	14,005	June 30, 2017
500 Satellite Blvd. Suwannee, GA 30024	EIS	36,284	$	20,816	November 30, 2014
9450 Philips Highway, Suite 1 Jacksonville, FL 32256	EIS	7,563	$	4,601	February 28, 2014
40 Shuman Blvd. Suite 216 Naperville, IL 60563	EGS	2,593	$	2,701	May 31, 2012
11 Diamond Road Springfield, NJ 07081	EIS	42,480	$	17,250	May 31, 2014
2355 Dulles Corner Blvd, Suite 600 Herndon, VA 20171	EIS	11,012	$	21,978	March 30, 2016
44150 S. Grimmer Blvd Fremont, CA 94538	EGS	20,000	$	20,000	August 31, 2011
16 Executive Drive Fairview Heights, IL 62208	EIS	3,788	$	7,892	June 30, 2011
612 Pierce Boulevard O'Fallon, IL 62269	EIS	4,900	$	9,762	December 31, 2014
311 South Lincoln Avenue O'Fallon, IL 62269	EIS	1,200	$	1,000	February 28, 2013
#30, 1st Floor 9th Main, 14th Cross 6th Sector, HSR Layout Bangalore - 560102 India	EIS/EGS	2,500	$	1,064	September 17, 2011

301 Acme Industrial Park Western Express Highway Goregaon East Mumbai - 400064 India	EGS	3,141	$	4,669	February 28, 2011
329 March Road Suite 108 Ottawa, ON K2K 2E1 Canada	EIS	4,150	$	9,154	April 30, 2012
1010 Sherbrooke West, Suite 1800 Montreal, QB H3A 2R7 Canada	EIS	180	$	2,500	Monthly
4950 Yonge Street, Suite 2200 Toronto, ON M2N 6K1 Canada	EIS	300	$	1,971	Monthly

We lease six guesthouses that are utilized by our consultants during training. The aggregate monthly rent for these guesthouses is approximately $9,000. The leases for these guesthouses expire February 28, 2011.

Item 3. Legal Proceedings

In October 2010, the Company learned that it had been named as a defendant in a qui tam case alleging violations of the Trade Agreements Act. This case, designated United States ex rel. Folliard v. Synnex Corporation et al., was filed under seal in the United States District Court for the District of Columbia. Qui tam lawsuits typically remain under seal (hence, usually unknown to the defendant) for some time while the government decides whether or not to intervene on behalf of a private qui tam plaintiff (known as a relator) and take the lead in the litigation. These lawsuits can involve significant monetary damages and penalties and award bounties to private plaintiffs who successfully bring the suits. The United States declined to intervene in the matter on May 27, 2010. Nonetheless, the Company can provide no assurance that the government will not intervene in this case in the future or in any other qui tam suit against the Company in the future. The Company expects to file a motion to dismiss the lawsuit. At this time, the Company is unable to predict the timing and outcome of this matter.

The Company is occasionally involved in various lawsuits, claims, and administrative proceedings arising in the normal course of business. Except as set forth above, the Company believes that any liability or loss associated with such matters, individually or in the aggregate, will not have a material adverse effect on the Company’s financial condition or results of operations.

Item 4. (Removed and Reserved)

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 market 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, 2010	$1.43	$0.80
May 31, 2010	$1.65	$1.10
Feburary 28, 2010	$1.35	$0.94
November 30, 2009	$0.99	$0.70
August 31, 2009	$1.09	$0.40
May 31, 2009	$0.78	$0.50
Feburary 28, 2009	$0.95	$0.25
November 30, 2008	$1.01	$0.36

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 9, 2010, there were 484 record holders of our common stock, although we believe that the number of beneficial holders is approximately 850.

We have not previously declared any dividends. It is not likely that dividends on shares of our common stock will be declared in the foreseeable future. Under our current credit facility, 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 the Board and will depend on our earnings, capital requirements and operating and financial condition, among other factors.

Information with respect to equity compensation plans of the Company appears in Item 12 of this report.

On June 4, 2010, Emtec Federal, Inc. (“Emtec Federal”), a wholly-owned subsidiary of the Company. acquired all of the outstanding stock of Secure Data pursuant to the Purchase Agreement. The consideration for the acquisition included (i) 175,000 shares of restricted common stock of the Company and/or (ii) the potential right to receive 100,000 shares of restricted common stock of the Registrant on the third anniversary of the closing if certain performance goals are met.

On August 2, 2010, the Company entered into a letter agreement (the “Letter Agreement”) with DARR Westwood LLC (the “Investor”), pursuant to which, among other things, (a) the Investor agreed (i) to certain transfer restrictions on shares of Common Stock owned by the Investor, which are described below, and (ii) to transfer to the Company for cancellation the existing warrant owned by the Investor to purchase 8% of the outstanding Common Stock on a fully diluted basis, and (b) the Company issued to the Investor a warrant (the “Warrant”) to purchase up to an aggregate of 1,401,733 shares of common stock, par value $.01 per share, of the Company (“Common Stock”) at an exercise price of $2.11 per share. The Investor’s sole member is Dinesh R. Desai, the Company’s Chairman, Chief Executive Officer and President.

All of these securities were sold only to “accredited investors,” as such term is defined in the Securities Act of 1933, as amended (the “Securities Act”), were not registered under the Securities Act or the securities laws of any state, and were offered and sold in reliance on the exemption from registration afforded by Section 4(2) and Regulation D (Rule 506) under the Securities Act and corresponding provisions of state securities law, which exempt transactions by an issuer not involving any public offering. The securities were offered for investment purposes only and not for the purpose of resale or distribution, and the transfer thereof was restricted under the terms of the Purchase Agreement.

Item 6. Selected Financial Data

Not required for smaller reporting companies.

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, 2010 and 2009 should be read in conjunction with our audited consolidated financial statements and accompanying notes, which are contained elsewhere in this Report.

Overview of Emtec

We are an IT services provider and we deliver consulting, application services and infrastructure services to public sector and commercial clients. The Company's client base is comprised of departments of the United States and Canada's federal, state/provincial and local governments, schools and commercial businesses throughout the United States and Canada.

Over the last year, we have transformed the business by structuring our sales efforts to specific client niche groups referred to as vertical industry practices ("verticals") such as the federal government, school districts, state and local governments and commercial business as well as adding and acquiring new technology practices ("horizontals") in the areas of strategic IT consulting, business application services, infrastructure consulting and services. This restructuring has helped transform our business into broad based IT services of lifecycle technology services and managed technology services. This restructuring has helped transform our business into a systems integrator and provider of lifecycle technology services and managed technology services.

Our primary business objective is to become a leading single-source provider of high quality and innovative IT infrastructure and business application services, consulting and managed services.

We service our client base from leased facilities in California, Georgia, Florida, Illinois, New Jersey, Pennsylvania and Virginia in the United States, and in India and Canada.

We have historically not been adversely affected by inflation; technological advances and competition within the IT industry have generally caused the prices of the products we sell to decline, and product life-cycles tend to be short. These factors require that our growth in unit sales exceed any declines in prices in order for us to increase our net sales.

Factors that may affect gross profits in the future include changes in product margins, volume incentive rebates and other incentives offered by various manufacturers, changes in technical employee utilization rates, the mix of products and services sold, the mix of client type and the decision to aggressively price certain products and services.

Factors that may in the future have a negative impact on our selling, general and administrative expenses for both segments include costs associated with marketing and selling activities, potential merger and acquisition related costs, technological improvement costs, compliance costs associated with SEC rules and increases in our insurance costs.

In the past we have divided our operating activity into two operating segments for reporting purposes: Emtec Infrastructure Services ("EIS") and Emtec Global Services ("EGS"). EIS consisted of the Company's historical business, which we referred to as the Systems Division, and the business service management solutions offered by the ITSM practice. EGS was the Company's enterprise applications services solutions and training business including its ERP and Application Development practice and its Business Analysis and Quality Assurance Practice. In 2010, we have maintained these segments for reporting purposes, however due to the amount of cross-selling which occurred in 2010, the addition of SDI into our federal platform and the increase in application services needs in our systems division platform, we will likely re-evaluate our segment reporting for the business in 2011. When comparing the

2010 results by segment with historical results, the reader should take into account the changing nature of our business. We will continue to reassess our segment reporting structure in accordance with ASC 280, “Segment Reporting.”

Quarterly Financial Summary

Over our history, our revenues have been largest in the first and fourth quarters of our fiscal years. The United States government typically purchases a large amount of its IT needs prior to the end of its fiscal year which is September 30. The delivery of the services and products we provide to our government customers has historically been highest during the fourth and first quarters of our fiscal year, which corresponds to the fulfillment of the government purchases. Our education clients have historically had the majority of their services and products delivered by us during the summer months, when schools are not in session; this has corresponded typically to our fourth quarter.

We believe that as we add to the portfolio of services we are offering our revenues will experience less quarterly fluctuations. Some of the contracts we are now in the process of negotiating with US Government agencies require services and products to be delivered throughout the year as opposed to the historical delivery timing we have experienced. In addition, we have diversified our revenue base through acquisitions, and the businesses we have acquired typically deliver services to a variety of customers. Therefore, the revenues from these businesses have not fluctuated as much quarter to quarter as has our historical business. We expect to continue to develop new practices and acquire companies which may not have seasonal fluctuations and therefore in general we expect our revenues not to fluctuate as much quarter to quarter in the future as they have in the past.

The consolidated quarterly financial information for the year ended August 31, 2010 includes the accounts and transactions of SARK and SDI with respective acquisition dates of April 1, 2010 and June 4, 2010.

	Year ended August 31, 2010 (In thousands, except share amounts)				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal 2010
Revenue	$73,577	$36,103	$53,506	$61,416	$224,602
Gross Profit	$10,544	$5,902	$8,081	$11,268	$35,795
Net Income (Loss)	$1,407	$(850)	$(35)	$(1,035)	$(513)
Net Income (Loss) per share: Basic and Diluted	$0.09	$(0.06)	$0.00	$(0.07)	$(0.03)

The consolidated quarterly financial information for the year ended August 31, 2009 includes the accounts and transactions of KOAN-IT and the assets of EMS as of the respective acquisition dates of February 12, 2009 and May 12, 2009.

	Year ended August 31, 2009 (In thousands, except share amounts)				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal 2009
Revenue	$70,019	$41,962	$49,220	$62,642	$223,843
Gross Profit	$8,794	$6,126	$7,646	$10,330	$32,896
Net Income (Loss)	$1,006	$(385)	$272	$825	$1,718
Net Income (Loss) per share: Basic and Diluted	$0.07	$(0.03)	$0.02	$0.06	$0.12

Overview of Consolidated Financial Statements Presented Herein

The consolidated financial information for the year ended August 31, 2010 includes the accounts and transactions of SARK and SDI as of the respective acquisition dates of April 1, 2010 and June 4, 2010. The consolidated financial statements for the year ended August 31, 2009 includes the accounts and transactions of KOAN-IT and the assets of EMS as of the respective acquisition dates of February 12, 2009 and May 12, 2009.

EMTEC, INC.
CONSOLIDATED STATEMENTS OF INCOME
(In thousands)

	Years Ended August 31, 2010	2009	Change	%
Revenues				
Procurement services	$166,130	$168,020	$(1,890)	(1.1)%
Service and consulting	58,472	55,823	2,649	4.7%
Total Revenues	224,602	223,843	759	0.3%
Cost of Sales				
Cost of procurement services	148,104	149,631	(1,527)	(1.0)%
Cost of service and consulting	40,703	41,316	(613)	(1.5)%
Total Cost of Sales	188,807	190,947	(2,140)	(1.1)%
Gross Profit				
Procurement services	18,026	18,389	(363)	(2.0)%
Procurement services %	10.9%	10.9%		
Service and consulting	17,769	14,507	3,262	22.5%
Service and consulting %	30.4%	26.0%		
Total Gross Profit	35,795	32,896	2,899	8.8%
Total Gross Profit %	15.9%	14.7%		
Operating expenses:				
Selling, general, and administrative expenses	30,901	26,333	4,568	17.3%
Stock-based compensation	561	161	400	248.4%
Warrant expense	910	-	910	N/A
Depreciation and amortization	2,405	2,320	85	3.7%
Total operating expenses	34,777	28,814	5,963	20.7%
Percent of revenues	15.5%	12.9%		
Operating income	1,018	4,082	(3,064)	(75.1)%
Percent of revenues	0.5%	1.8%		
Other expense (income):				
Interest income – other	(32)	(16)	(16)	(100.0)%
Interest expense	947	1,117	(170)	(15.2)%
Other	27	30	(3)	(10.0)%
Income before income taxes	76	2,951	(2,875)	(97.4)%

Provision (benefit) for income taxes	589		1,233		(644	)	(52.2	)%
Net income (loss)	$(513	)	$1,718		$(2,231	)	(129.9	)%
Percent of revenues	-0.2	%	0.8	%				

31

Consolidated Results of Operations Overview

Management examines numerous measures when analyzing the results of our operations. Our objective is to grow the overall revenues, gross profit margins and operating profits of the Company.

As we diversify our business and grow our consulting services revenues, and in particular our applications services revenues, we expect gross margins to increase. We measure our selling costs as a percentage of gross profits and sales compensation for the employees of the company is derived from gross profit. We expect that our growth will lead to selling costs increasing, but as our revenues grow we expect our selling costs to grow less quickly than our gross profit, thereby decreasing selling costs as a percentage of total gross profits. We expect as we grow our general and administrative costs will decrease as a percentage of revenue. However we may invest from time to time in additional general and administrative costs in order to be able to grow our revenue more quickly as market conditions improve.

As the Company grows its consulting revenues we expect to focus increasingly on measures such as average billing rates, utilization rates, hours billed and hourly consulting costs. While we do not publicly report these metrics, we analyze these figures to monitor trends which will enable us to make more effective decisions. We are improving our internal systems in order to be able to provide these metrics more quickly to our management.

We currently categorize our revenues and costs of sales into “Procurement Services” and “Services and Consulting.” We have made the categorizations in order to analyze our growth in consulting and other services as a percentage of overall revenues. Traditionally, we have divided our business into two segments. Emtec Infrastructure Services (“EIS”) provides a broad range of IT infrastructure services for our clients. These services are focused on improving the value IT assets provide to an organization, and to reduce the costs of these assets. Emtec Global Services (“EGS”) was formed to provide IT application consulting and other services. These services typically include business process improvement through the use of technology. Our associates are skilled in a wide array of technologies in this segment.

Our consolidated operating income and net income (loss) for the year ended August 31, 2010 was $1.0 million and $(513,000) million, respectively, as compared to $4.1 million and $1.7 million, respectively for the year ended August 31, 2009. The decreases in operating income and net income was primarily attributable to increased selling, general and administrative expenses as discussed in the segment results below. However, a portion of the increase in selling, general and administrative expenses for the year ended August 31, 2010 was partially offset by an increase in gross profit margin in service and consulting revenues which is also discussed below.

We discuss the results of each segment below.

Results of Operations - EIS

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, 2010 and 2009.

The financial information of EIS for the year ended August 31, 2010 includes the accounts and transactions of KOAN-IT, EMS and SDI as of the respective acquisition dates of February 12, 2009, May 12, 2009 and June 4, 2010.

EIS
STATEMENTS OF INCOME
(In thousands)

	Years Ended August 31, 2010	2009	Change	%
Revenues				
Procurement services	$166,130	$168,020	$(1,890)	(1.1)%
Service and consulting	28,344	19,331	9,013	46.6%
Total Revenues	194,474	187,351	7,123	3.8%
Cost of Sales				
Cost of procurement services	148,104	149,631	(1,527)	(1.0)%
Cost of service and consulting	15,784	11,379	4,405	38.7%
Total Cost of Sales	163,888	161,010	2,878	1.8%
Gross Profit				
Procurement services	18,026	18,389	(363)	(2.0)%
Procurement services %	10.9%	10.9%		
Service and consulting	12,560	7,952	4,608	57.9%
Service and consulting %	44.3%	41.1%		
Total Gross Profit	30,586	26,341	4,245	16.1%
Total Gross Profit %	15.7%	14.1%		
Operating expenses:				
Selling, general, and administrative expenses	25,316	21,034	4,282	20.4%
Stock-based compensation	561	161	400	248.5%
Warrant expense	910	-	910	0.0%
Depreciation and amortization	1,543	1,445	98	6.8%
Total operating expenses	28,329	22,640	5,689	25.1%
Percent of revenues	14.6%	12.1%		
Operating income	2,255	3,701	(1,446)	(39.1)%
Percent of revenues	1.2%	2.0%		
Other expense (income):				
Interest income – other	(29)	(12)	(17)	(141.7)%
Interest expense	722	754	(32)	(4.2)%
Other	29	24	5	20.8%
Income before income taxes	1,533	2,935	(1,402)	(47.8)%
Provision for income taxes	1,033	1,282	(249)	(19.4)%
Net income	$500	$1,653	$(1,153)	(69.7)%
Percent of revenues	0.3%	0.9%		

Comparison of Years Ended August 31, 2010 and 2009-EIS

Revenues - EIS

EIS division's total revenues increased $7.1 million, or 3.8%, to $194.5 million for the year ended August 31, 2010, compared to $187.4 million for the year ended August 31, 2009. EIS division's total revenue includes revenues from the Company's historical business, which we refer to as the Systems Division, KOAN-IT, which was acquired on February 12, 2009, the assets of EMS which were acquired on May 12, 2009 and SDI, which was acquired June 4, 2010. SDI's total revenues for the year ended August 31, 2010 was $1.5 million. KOAN-IT's total revenues (including revenues derived from the assets acquired from EMS) for the year ended August 31, 2010 increased $3.9 million, or 105.7%, to $7.5 million. The increase is primarily a result of having owned KOAN-IT for the entire fiscal year of 2010. Without these acquisitions, Systems Division's revenue increased $1.8 million, or 1.2%, to $185.5 million for the year ended August 31, 2010, compared to $183.7 million for the year ended August 31, 2009.

Procurement services revenue decreased $1.9 million, or 1.1%, to $166.1 million for the year ended August 31, 2010, compared to $168.0 million for the year ended August 31, 2009. We believe that this decrease in revenues was attributed to the economic downturn and the deferral of some larger IT projects to future quarters.

Service and consulting revenue increased $9.0 million, or 46.6%, to $28.3 million for the year ended August 31, 2010, compared to $19.3 million for the year ended August 31, 2009. This increase is mainly attributable to assuming a role of prime contractor for one of our clients, the acquisition of SDI and a full year of operations of KOAN-IT.

Our EIS division's revenues, by client type, are comprised of the following (in thousands):

	For the Years Ended					
	August 31, 2010			August 31, 2009		
Departments of the U.S. Government	104,598	53.8	%	$85,044	45.4	%
Canadian Government Agencies	2,509	1.3	%	771	0.4	%
State and Local Governments	4,105	2.1	%	7,333	3.9	%
Commercial Companies	21,363	11.0	%	29,103	15.5	%
Education and other	61,899	31.8	%	65,100	34.7	%
Total Revenues	$194,474	100.0	%	$187,351	100.0	%

During the year ended August 31, 2010 and 2009, U.S. governmental department and agency related revenues represented approximately 53.8% and 45.4% of total EIS revenues, respectively. These clients include the Department of Defense, Department of Justice, Department of Homeland Security, Department of Health and Human Services, Department of Agriculture and Department of Commerce. Revenues from various civilian and military U.S. governmental departments and agencies increased by approximately $19.5 million, or 22.9%, to $104.6 million during the year ended August 31, 2010 compared with the year ended August 31, 2009. During our 2009 fiscal year, we restructured our federal sales force to focus more on services as well as multi-year awards. The goal for 2010 was to stabilize the procurement services revenue back to previous levels, and then secondly to increase our federal clients' awareness of our services offerings. The increase in federal procurements services sales accounts for nearly all the growth in our federal vertical. In general, we expect that federal government business revenues will continue to represent a large portion of our total revenues as we continue to strive to penetrate wider and deeper into various civilian and military agencies. The federal government business typically experiences increased activity during the months of August through November.

The state and local government business remains uncertain due to the tight budgetary pressures within governmental agencies primarily in the State of New Jersey. Until tax revenues increase in state and local governments, we will not see a large amount of growth from these clients.

Revenues from commercial clients decreased by approximately $7.7 million, or 26.5%, to $21.4 million during the year ended August 31, 2010 compared with the year ended August 31, 2009. This decrease is mainly due to the economic downturn that caused reductions in technology and discretionary spending by our commercial clients. We have taken steps to reposition our sales force to sell more services and long-term projects and managed services with our commercial clients. We expect to see growth in the commercial sector as the economy recovers and we are able to offer our clients a wider range of services.

During the year ended August 31, 2010, revenues from our education business decreased by approximately $3.2 million compared with the year ended August 31, 2009. This decrease is attributable to a reduction in purchases of hardware by our education clients during the year ended August 31, 2010. In 2009, our largest client had a number of new schools constructed which required significant procurement services. During 2010, the number of new schools being built decreased. However, we increased our services revenues with this client in 2010. During our fiscal years 2008 and 2009, we took steps to increase our business with our existing customers by outsourcing more of their infrastructure managed services needs and to increase our penetration with additional clients in this market. These steps increased the amount of long-term recurring revenue we have with these clients and we believe because of the strength of our offering and knowledge in this segment we will be able to increase our client base.

Gross Profit - EIS

Aggregate gross profit for our EIS division increased $4.2 million, or 16.1%, to $30.6 million for the year ended August 31, 2010 as compared to $26.3 million for the year ended August 31, 2009. This increase was mainly due to an increase in the gross profit derived from our services and consulting revenues of $4.6 million which resulted from higher margin sales. This services gross profit increase included an increase of $1.4 million from KOAN-IT, and an increase of $806,000 from SDI. The increase in gross profit was offset by a slight decrease of $363,000 in our procurement services gross profit for the year ended August 31, 2010 as compared to the year ended August 31, 2009 which resulted from the decline in procurement services revenue.

Measured as a percentage of revenues, our gross profit margin for EIS division increased to 15.7% of our EIS division's revenues for the year ended August 31, 2010 from 14.1% for the year ended August 31, 2009. This increase is primarily a result of an increase in our service and consulting gross profit margin attributable to higher utilization of our engineering resources and increase in our services and consulting revenue associated with IT projects for school districts in New Jersey, Florida and Georgia during the year ended August 31, 2010.

Selling, General and Administrative Expenses - EIS

Corporate expenses are primarily recorded in our EIS segment. Selling, general and administrative expenses for our EIS division increased by $4.3 million, or 20.4% to $25.3 million for the year ended August 31, 2010, compared to $21.0 million for the year ended August 31, 2009.

EIS division's selling, general and administrative expenses includes selling, general and administrative expenses from Systems Division, KOAN-IT, and SDI. KOAN-IT's selling, general and administrative expenses (including selling, general and administrative expenses related to the assets acquired from EMS) for the year ended August 31, 2010 increased by $682,000. The increase is primarily a result of our having owned KOAN-IT for the entire fiscal year of 2010. SDI had selling, general and administrative expenses of $640,000 for the year ended August 31, 2010. There was approximately $1 million in investment in new management at the executive level in 2010. We also invested approximately $1 million in combination of new sales personnel and a new sales compensation structure focused on selling our new lines of services and recurring services. Additionally, we had approximately $700,000 in increased management information systems costs in conjunction with improving our IT systems to manage a larger IT services business. There were also increases in expense categories such as travel and lodging, merger and acquisition related expenses and professional fees that were off-set by a commercial infrastructure restructuring where we eliminated sales and support positions. This cost reduction restructuring in our commercial infrastructure business is expected to result in the elimination of approximately $2.1 million in annualized costs.

Stock-Based Compensation

Stock-based compensation for our EIS division increased by $400,000, or 248.5% to $561,000 for the year ended August 31, 2010, compared to $161,000 for the year ended August 31, 2009. The increase was related to shares which have been awarded to management as a portion of their compensation which vested over the year.

Warrant Expense

Warrant expense for our EIS division was $910,000 for the year ended August 31, 2010 as compared to $-0- for the year ended August 31, 2009. This expense relates to the stock warrants issued to our majority stockholder during 2010. Going forward this warrant will be "marked-to-market" each reporting period, which could result in large fluctuations in income or expense on the statement of operations in future periods related to this non- cash charge.

Depreciation and Amortization - EIS

Depreciation and amortization expense for our EIS division increased by 6.8%, or $98,000, to $1.5 million for the year ended August 31, 2010, compared to $1.4 million for the year ended August 31, 2009. The increase for the year ended August 31, 2010 is mainly attributable to the acquisition of SDI and comparing a full year of operations for KOAN-IT for the year ended August 31, 2010 to a shorter stub period for the year ended August 31, 2009, partially offset by a decrease in depreciation expense for software upgrades that were fully depreciated in the prior year.

Operating Income - EIS

Operating income for our EIS division for the year ended August 31, 2010 decreased by 39.1%, or $1.4 million, to $2.3 million, compared to operating income of $3.7 million for the year ended August 31, 2009. This decrease in operating income is mainly attributable to an increase in overall operating expenses as discussed in Selling, General and Administrative Expenses, Stock-Based Compensation and Warrant Expense above that was partially offset by increased services and consulting revenue as discussed in the Total Revenue and Gross Profit sections above.

Interest expense - EIS

Interest expense for the EIS division decreased by 4.2%, or $32,000, to $722,000 for the year ended August 31, 2010, compared to $754,000 for the year ended August 31, 2009. This decrease is primarily attributable to lower balances on various notes payable paid off in fiscal year 2010 and a lower average interest rate charged on the line of credit resulting from a decrease in the prime rate during this period.

Provision for income taxes - EIS

We recorded an income tax expense of $1.0 million for the year ended August 31, 2010 as compared to $1.3 million for the year ended August 31, 2009. The effective tax rate was 67.4% for the year ended August 31, 2010 as compared to 43.7% for the year ended August 31, 2009. The higher effective tax rate for the year ended August 31, 2010 was primarily the result of the warrant expense not being deductible for income tax purposes. If the warrant expense was added-back to taxable income for the year ended August 31, 2010, our effective tax rate would have been 42.3%.

Results of Operations – EGS

Most of the clients EGS serves are commercial clients. While our consultants are typically working on long- term projects, the general economic slowdown has impacted our ability to sell services the way these businesses had typically operated before the acquisitions. In addition, it has been our intention to convert these businesses to a new sales model and cross-sell their services across our organization. During 2009, we took steps to add additional sales resources in the U.S. to change our training methodologies of our consultants and to shift recruiting resources to an onshore/offshore model. We have also defined four practices within EGS that we are starting to sell as a full service practice offerings using projects as opposed to typical staff augmentation. We intend for these changes to help us to grow revenues in 2011 in EGS.

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, 2010 and 2009.

The financial information of EGS for the year ended August 31, 2010 and 2009 includes the accounts and transactions of Luceo, eBAS/Aveeva, and SARK as of the respective acquisition dates of March 20, 2008, August 13, 2008 and April 1, 2010.

EGS
STATEMENTS OF INCOME
(In thousands)

	Years Ended August 31, 2010		2009		Change		%	
Revenues								
Procurement services					$-		#DIV/0!	
Service and consulting	$30,128		$36,492		$(6,364	)	(17.4	)%
Total Revenues	30,128		36,492		(6,364	)	(17.4	)%
Cost of Sales								
Cost of service and consulting	24,918		29,937		(5,019	)	(16.8	)%
Total Cost of Sales	24,918		29,937		(5,019	)	(16.8	)%
Gross Profit								
Service and consulting	5,210		6,555		(1,345	)	(20.5	)%
Service and consulting %	17.3	%	18.0	%				
Total Gross Profit	5,210		6,555		(1,345	)	(20.5	)%
Total Gross Profit %	17.3	%	18.0	%				
Operating expenses:								
Selling, general, and administrative expenses	5,583		5,299		284		5.4	%
Stock-based compensation	-		-		-		0.0	%
Warrant expense	-		-		-		0.0	%
Depreciation and amortization	862		875		(13	)	(1.5	)%
Total operating expenses	6,445		6,174		271		4.4	%
Percent of revenues	21.4	%	16.9	%				
Operating income (loss)	(1,235	)	381		(1,616	)	(424.2	)%
Percent of revenues	(4.1	)%	1.0	%				
Other expense (income):								
Interest income – other	(2	)	(4	)	2		(47.8	)%
Interest expense	225		363		(138	)	(38.0	)%
Other	(2	)	6		(8	)	(134.2	)%
Income (loss) before income taxes	(1,456	)	16		(1,472	)	(9201.4	)%
Provision (benefit) for income taxes	(444	)	(49	)	(395	)	805.5	%
Net income (loss)	$(1,013	)	$65		$(1,078	)	(1657.7	)%
Percent of revenues	(3.4	)%	0.2	%				

Comparison of Years Ended August 31, 2010 and 2009-EGS

Revenues - EGS

EGS revenue consists of its ERP and Application Development practice and its Business Analysis and Quality Assurance practice. EGS division's total revenues decreased $6.4 million, or 17.4%, to $30.1 million for the year ended August 31, 2010, compared to $36.5 million for the year ended August 31, 2009. This decline was caused by an

11.4% decrease in hours billed and a 7.2% decrease in the average hourly billing rate during the year ended August 31, 2010 compared with the corresponding year ended August 31, 2009. The decrease in billable hours and rate is mainly due to the decrease in our Business Analysis and Quality Assurance practices. Most of the clients EGS serves are commercial clients and we believe that this decrease in commercial business was primarily attributable to the general economic downturn. Since many of the consultants get placed on long term projects the immediate impact of the downturn was not felt until a number of these contracts were completed in 2010. Because of a drop in the number of new projects in 2009 and 2010 there will be a lag experienced in the recovery of these businesses. In 2010 we saw increases in our ERP application development business while our business analysis and quality assurance business continue to experience declines.

Gross Profit - EGS

EGS division's gross profit decreased $1.3 million, or 20.5%, to $5.2 million for the year ended August 31, 2010, compared to $6.6 million for the year ended August 31, 2009. We believe this decrease is mainly due to the economic downturn as discussed in the Revenue section above.

Measured as percentages of revenues, our gross profit margin for the EGS division decreased to 17.3% of our EGS division's revenues for the year ended August 31, 2010 from 18.0% for the year ended August 31, 2009. We believe this decrease is mainly due to the decreased billing rate per hour that resulted from pricing pressure from our commercial clients.

Selling, General and Administrative Expenses - EGS

EGS division's selling, general and administrative expenses increased $284,000, or 5.4%, to $5.6 million for the year ended August 31, 2010, compared to $5.3 million for the year ended August 31, 2010. The increase in selling, general and administrative expenses between the years ended August 31, 2010 and August 31, 2009 is primarily related to increases in salaries, bad debt expense, office expense and system management costs. In connection with the EGS acquisitions discussed above, we entered into employment agreements with former shareholders and selected management personnel of the acquired companies that provided for retention and/or performance bonuses. Retention and performance bonuses expenses reflected in selling, general and administrative expenses include $921,000 in 2010 and $932,000 in 2009.

Depreciation and Amortization - EGS

EGS division's depreciation and amortization expense decreased $13,000, or 1.5%, to $862,000 for the year ended August 31, 2010, compared to $875,000 for the year ended August 31, 2009. The decrease is mainly due to an adjustment of the useful life of certain assets in the year ended August 31, 2010.

Operating income (loss) - EGS

Operating loss for our EGS division for the year ended August 31, 2010 was $1.2 million, compared to operating income of $381,000 for the year ended August 31, 2009. This decrease in operating income is mainly due to the bonuses and the decreases described in the Revenue, Gross Profit and Selling, General and Administrative sections above.

Interest expense - EGS

Interest expense for our EGS division for the year ended August 31, 2010 decreased by 38.0%, or $138,000, to $225,000, compared to interest expense of $363,000 for the year ended August 31, 2009. This is primarily attributable to the absence of interest costs related to an 8% subordinated note payable, which was paid in full in September 2009, and a lower average interest rate charged on the line of credit attributable to a decrease in the prime rate during this period.

Provision for income taxes - EGS

We recorded an income tax benefit of $444,000 for the year ended August 31, 2010 as compared to income tax benefit of $49,000 for the year ended August 31, 2009. The increase in the income tax benefit for the year ended August 31, 2010 was the result of a loss before income taxes for the year.

Recently Issued Accounting Standards

Determination of the Useful Life of Intangible Assets

In April 2008, FASB ASC 350-30 Intangible, Goodwill and Other amended the factors to be considered in assumptions used to determine the useful lives of recognized intangible assets. The new guidance applies to intangible assets with contractual lives that are acquired individually or with a group of assets as well as those assets acquired in a business combination. The new guidance is effective for fiscal years beginning after December 15, 2008 and subsequent interim periods. We adopted the statement on September 1, 2009 which is the beginning of our 2010 fiscal year. The adoption of ASC 350-30 has not had a significant impact on our consolidated financial position or results of operations.

Warrants

Effective as of September 1, 2009, the Company adopted FASB ASC 815, Derivatives and Hedging, relating to the recording and disclosure of warrants. This guidance applies to freestanding contracts that are indexed to, and potentially in, an entity's own stock. The Company calculates and records the fair value of the liability associated with warrants using an acceptable valuation model (Black-Scholes method) at each reporting period. In connection with the issuance of warrants and compliance with FASB ASC 815, the Company recorded a liability on August 2, 2010 of $916,000. At August 31, 2010, the net liability and net expense of $910,000 is recorded on the Balance Sheet and Consolidated Statement of Operations.

Subsequent Events

In February 2010, the Financial Accounting Standards Board (“FASB”) issued amended guidance on subsequent events. Under this amended guidance, SEC filers are no longer required to disclose the date through which subsequent events have been evaluated in originally issued and revised financial statements. This guidance was effective immediately and we adopted these new requirements for the period ended February 28, 2010.

Accounts Receivable

In July 2010, the FASB issued Accounting Standards Update (ASU) 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. ASU 2010-20 requires more robust and disaggregated disclosures about the credit quality of financing receivables and allowances for credit losses, including disclosure about credit quality indicators, past due information and modifications of finance receivables. The disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on and after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The adoption of this guidance may expand the existing disclosure requirements which the Company is currently evaluating.

Revenue Recognition

In October 2009, the FASB issued ASU 2009-13, Revenue Recognition (Topic 605) Multiple Deliverable Revenue Arrangements, which amends ASC 605, Revenue Recognition, to permit companies to allocate revenue in multiple-element arrangements based on an element’s estimated selling price if vendor-specific or other third-party evidence of value is not available. ASU 2009-13 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Earlier application is permitted. The adoption of this ASU is not expected to have a material impact on the Company’s financial position, results of operations or cash flows.

In October 2009, the FASB issued ASU No. 2009-14, Certain Revenue Arrangements That Include Software Elements. ASU 2009-14 modifies the software revenue recognition guidance to exclude from its scope tangible products that contain both software and non-software components that function together to deliver a product's essential functionality. ASU 2009-14 is effective for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early promotion is permitted. The adoption of this ASU is not expected to have a material impact on the Company's financial position, results of operation or cash flows.

Liquidity and Capital Resources

Cash at August 31, 2010 of $2.4 million represented an increase of approximately $700,000 from cash of $1.7 million at August 31, 2009. We are a net borrower; consequently, we believe our cash balance must be viewed along with the available balance on our line of credit. Borrowings under our line of credit at August 31, 2010 increased to $16.0 million from $9.0 million at August 31, 2009. The increase in our line of credit is primarily due to an increase in receivables and a decrease in accounts payable totaling to $7.3 million, which was off-set by decrease in inventories of $2.9 million, these items netted an increase of $4.4 million. The increase is receivable is mainly due to increase in days sales outstanding ("DSO") from 48 days in 2009 to 56 days in 2010 as a result of an increase in the amount of revenues from our Federal clients. Our Federal clients typically have a higher DSO for procurement services. Additionally, during the fiscal year ended August 31, 2010, the acquisitions of SARK, SDI and earn-out payments related Luceo and KOAN-IT totaled to approximately $2.7 million, which were funded through borrowings under the line of credit.

The Company, Emtec NJ, Emtec LLC, Emtec Federal, Emtec Global, Luceo, eBAS and Aveeva (collectively, the "Borrower"), are parties to a Loan and Security Agreement with De Lage Landen Financial Services, Inc. (the "Lender") pursuant to which the Lender provides the Borrower with a revolving credit loan and floor plan loan (the "Credit Facility") until December 7, 2010. The Company is currently in the process of negotiating a two year renewal of its Credit Facility with the Lender, and anticipates the renewal will be completed prior to December 6, 2010, which is the expiration date of the existing Credit Facility. The Credit Facility currently provides for aggregate borrowings of the lesser of $32.0 million or 85% of Borrower's eligible accounts receivable, plus 100% of unsold inventory financed by the Lender and 40% of all other inventory. The floor plan loan portion of the Credit Facility is for the purchase of inventory from approved vendors and for other business purposes. The Credit Facility subjects the Borrower to mandatory repayments upon the occurrence of certain events as set forth in the Credit Facility. For detailed information on terms of the Credit Facility, refer to footnote 7 – Line of Credit of the Condensed Consolidated Financial Statements in this Annual Report the Form 10-K for the fiscal year ended August 31, 2010.

The Company had balances of $16.0 million and $9.0 million outstanding under the revolving portion of the Credit Facility, and balances of $3.4 million and $5.4 million (included in the Company's accounts payable) outstanding plus $723,000 and $321,000 in open approvals under the floor plan portion of the Credit Facility at August 31, 2010 and 2009, respectively. Net availability was $6.8 million and $11.9 million under the revolving portion of the Credit Facility, and additionally $5.0 million and $5.4 million was available under the floor plan portion of the Credit Facility as of August 31, 2010 and 2009, respectively.

As of August 31, 2010, the Company determined that it was in compliance with its covenants under the Credit Facility.

We are currently in the process of negotiating a two year renewal of the Credit Facility with the Lender, and we anticipate the renewal will be completed prior to December 6, 2010, which is the expiration date of the existing Credit Facility.

As of August 31, 2010, we had open credit terms with our primary trade vendors, including aggregators and manufacturers, of approximately $41.5 million with outstanding principal of approximately $26.5 million. Under these lines, we are typically obligated to pay each invoice within 30-45 days from the date of such invoice. These credit lines could be reduced or eliminated without notice and this action could have a material adverse affect on our business, result of operations and financial condition.

Capital expenditures of approximately $1.1 million during the year ended August 31, 2010 related primarily to the purchase of computer equipment for internal use, phone system upgrades, purchase of automobiles for our service technicians, leasehold improvements, furniture and fixtures for our offices and software costs to upgrade various modules of our accounting systems.

The following are our long-term contractual obligations for leases, debt and other long-term liabilities as of August 31, 2010.

	Payments due by period: (in thousands)				
Contractual Obligations:	Total	Less than 1 year*	1-3 years	4-5 years	More than 5 years
Operating Lease Obligations	$5,711	$1,701	$2,383	$1,617	$-
Other Long-Term Liabilities - Reflected on the Company's Balance Sheet under GAAP	676	202	474	-	-
Total	$6,387	$1,911	$2,857	$1,617	$-

* This does not include the total Credit Facility in the amount of $19.4 million that is due December 7, 2010 that is classified as current liability on our consolidated balance sheet at August 31, 2010. We are currently in the process of negotiating a two year renewal of the Credit Facility with the Lender, and we anticipate the renewal will be completed prior to December 6, 2010, which is the expiration date of the existing Credit Facility.

We anticipate that our primary sources of liquidity in fiscal year 2011 will be cash generated from operations, trade vendor credit and cash available to us under our Credit Facility in the event it is extended. 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. Any loss of clients, whether due to price competition or technological advances, will have an adverse affect on our revenues. Our future financial performance could be negatively affected by unforeseen factors and unplanned expenses. See “Forward Looking Statements” and “Risk Factors.”

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 at least the next twelve months. However, 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 SEC 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, rebates and income taxes.

Revenue Recognition

We are an IT Services provider delivering consulting, staffing, application services and infrastructure solutions to commercial, federal, education, state and local government clients. Our specific practices include IT consulting, communications, data management, enterprise computing, managed services, business service management solutions, training, storage and data center planning and development and staff augmentation solutions.

In accordance with paragraph 40 FASB Topic ASC paragraph 280-10-50, it is impracticable for us to report the revenues from external customers for each of our products and services or each group of similar products and services offered. Our revenue recognition policy is as follows:

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

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 Staff Accounting Bulletin 104 (“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.