

EMTEC INC/NJ
Form 10-K
December 14, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

(MARK ONE)

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

For the fiscal year ended August 31, 2012

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
(State of incorporation or organization)

87-0273300
(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 No

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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 No

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

Indicate by check mark whether the registrant 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 No

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 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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of February 29, 2012 was approximately \$5,584,592 computed by reference to the closing price of the common stock for that date.

As of November 19, 2012, there were outstanding 17,616,437 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 2013 Annual Meeting of Stockholders

EMTEC, INC.

2012 FORM 10-K ANNUAL REPORT

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

Cautionary Statement Regarding Forward-Looking Statements

You should carefully review the information contained in this Annual Report and in other reports or documents that we file from time to time with the Securities and Exchange Commission (the “SEC”). In this Annual Report, we state our beliefs of future events and of our future financial performance. In some cases, you can identify those so-called “forward-looking statements” by words such as “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “believes,” “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, 2012 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, outsourced application services and infrastructure services to commercial and public sector clients. The Company’s client base is comprised of commercial businesses, school districts throughout the U.S. and Canada and departments of the U.S. and Canada’s federal, state/provincial and local governments.

Over the last two years, we have focused our sales efforts on delivering Enterprise application services and custom application services to our clients; we go to market through specific industry segments, commonly called “verticals,” “industry verticals” or “vertical markets,” and specific organizational functional expertise.

Our primary business objective is to become a leading provider of high quality IT application services and innovative consulting for our clients, while continuing to provide a range of managed infrastructure support.

We service our clients on their premises or in our delivery centers in the U.S., Canada and India.

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 February 3, 2011, the Company acquired through its subsidiary, Emtec Global Services, LLC (“EGS LLC”), all of the issued and outstanding stock of Dinero Solutions, LLC (“Dinero”), headquartered in Duluth, Georgia. Dinero provides Oracle consulting and implementation services to commercial clients.

On March 1, 2011, the Company acquired through EGS LLC all of the issued and outstanding stock of Covelix, Inc. (“Covelix”), headquartered in Kirkland, Washington. Covelix provides software development, quality assurance, staffing and program management services to software companies. Covelix enters into contracts with clients and outsources the work to its wholly-owned subsidiary, Covelix Technologies Private Ltd., located in Pune, India.

On August 15, 2011, the Company acquired through its subsidiary EGS LLC all of the outstanding membership interests of GNUCO, LLC, d/b/a Emerging Solutions (“Emerging”) headquartered in Chicago, Illinois. Emerging is an IT consulting/services company that focuses on enterprise performance management and has broad capabilities and technical expertise in leading technologies (e.g. Oracle, Hyperion, PeopleSoft, Microsoft, and Salesforce.com) as well as expertise in business process management.

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 our clients' IT infrastructure with the needs of our clients' businesses and operations, and advice, design and selection of their clients' business process technology needs. We also provide our clients with IT staff augmentation 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.

From 2010 through 2012, the commercial IT services industry rebounded from the recession and demand for a wide variety of information technology services increased. At the same time, the federal government and state and local governments faced budgetary pressures stemming from reduced tax collections and a reduction in stimulus funds. 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 the use of technology to improve business efficiencies. 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 the IT services market.

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. Currently, many companies are outsourcing these functions to independent providers of IT services. Furthermore, 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 benefits, and address the challenges, of 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.

We serve clients in various vertical markets including retail, manufacturing, financial services, professional services, utilities, healthcare, governments at the federal (both U.S. and foreign governments), state, and local level, and the K-12 education market.

The U.S. federal government is one of the world's largest consumers of IT and is our largest source of revenue. The U.S. federal government tends to use procurement vehicles to purchase its IT needs which foster partnering relationships. The federal government encourages partnering relationships in order to give small businesses the opportunity to serve the federal government while, at the same time, not forgoing shifting risk and management of larger 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 shift our business away from low margin transactional IT to multiyear outsourcing engagements using an onshore/offshore sourcing model.

In application services, we typically engage with our clients in a consulting capacity and expand the relationship over time to provide high value-added strategic advice in combination with recurring information technology outsourcing. 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. Our consulting practices include; IT strategy and planning, IT security consulting, functional expertise such as federal agency finance and accounting, and our Information Management practice. Sales of these services are focused on business users including CEOs, CFOs, sales and marketing, operations and human resources.

Our infrastructure services, led by our Information Technology Service Management (“ITSM”) practice, views itself as a partner to our clients’ CIOs, 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 the Company to eventually 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 Vertical, Functional and Geographical Sales Force

We have hired professional sales executives and experienced sales professionals who have significant experience selling IT solutions and managed services. 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 which are Fortune 1000 companies or government agencies of similar size. Our commercial sales force is both functional and geographical. The functional sales teams focus on selling a specific solution to an industry segment while our executive sales teams focus on selling a full set of solutions to an industry segment and/or in a geographical region. Our state and local and education sales teams are focused geographically. We feel the flexibility of our approach to professional sales teams allows us to fit industry needs to different sales structures. In our federal vertical, we have focused these sales teams around selling to specific agencies of the government.

Pursuing Strategic Acquisitions

We are seeking to expand our service offerings. We plan to add on practice areas as we continue to grow through acquisitions. We seek out companies that strengthen our management team, enhance our technical expertise and delivery capabilities, and can help us to nurture and expand client relationships. We identify businesses that complement our strengths and, in particular, expand our 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. In addition, we believe our acquisition targets greatly benefit from our scale, leadership and infrastructure.

Capitalizing on Existing Relationships

We believe that our history of satisfying the IT requirements of our larger clients is facilitating the marketing of our new services to this important segment of our clientele. The addition of our acquired companies has expanded our service offerings in areas of custom application development, Enterprise Resource Planning (“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

Our Business is segmented based on our go-to-market sales approach. We currently have the following reporting segments, each having their own independent sale forces.

- Federal - provides IT consulting and procurement services to various agencies of the U.S. federal government.
- Commercial, State & Local and Education (“CSLED”) – provides IT consulting services to clients in the commercial, state & local and education sectors

Our practices are based on types of services we provide across these segments as described below.

IT Consulting Services

Our IT Consulting Services analyze whether a customer's IT is providing services that are truly valuable to the enterprise it supports. We also help align IT priorities with the priorities of our customer's business. Specific areas of focus include; IT Strategy and Planning, Performance and Governance, Process Improvement, and Security and compliance. We rely on our unique approach to quantifying IT Value (Value Based Management ("VBM")), and our real-world experience in IT transformation and operations to ensure that our clients can leverage IT as a true competitive differentiator.

Application Services

We combine expertise in diverse technologies with experience across a wide array of industries to deliver applications that solve business problems, improve operational efficiency and optimize the use of information. From identifying process improvement opportunities through the entire application development lifecycle, we possess the skills and experience to assist our clients. Currently, we have associates located onshore and offshore to provide our clients with the right mix of skills and experience in line with their specific needs.

Areas of focus include:

- **Development Maintenance and Support** – We design, develop, and support custom services and software applications for enterprise-wide and mission-critical deployments. Our developers and project managers are experienced in Open Source, Microsoft .NET, J2EE/Java, Mobile (iPhone/iPad, Android, Blackberry, Symbian, Windows Mobile), Silverlight, and Cloud development. Additionally, our application support personnel can provide ongoing support after final delivery of the application.
- **Package Implementation** – We help our clients maximize the benefits of business applications by using leading edge technology. We implement, upgrade and integrate innovative packaged applications from leading software vendors, focusing on delivery of Oracle, PeopleSoft, Microsoft, Salesforce.com and SAP technologies.
- **Information Management** – For many of our clients, information is their most important asset. We help them control, manage and leverage information for maximum return. We take a holistic and vendor agnostic approach to information management. From information architecture, through integration, management, and presentation to enable timely business intelligence, we cover the entire information lifecycle.
- **Validation and Verification** – Our clients often need to ensure that a new or existing software application will satisfy their business, technical and regulatory requirements. We help them by independently validating and verifying that the application fulfills its design specifications. We do this by utilizing proven quality assurance methodologies and tools. Our consultants have experience across multiple tools, including HP (Mercury), IBM (Rational), Borland (Segue), Compuware and other Opensource toolsets such as Selenium. We also have Domain coverage for NTier, WebApp – SOA, SaaS; Mainframe; DW/BI; ERP and Embedded Systems.

Infrastructure Services

We offer our clients help with the selection, design, deployment, and ongoing support of their IT infrastructure. These services deliver comprehensive lifecycle IT infrastructure services – from requirements analysis, selection, planning, design, procurement and deployment and technical support, to ongoing service management and outsourced managed services.

We offer these services in the following areas:

- **IT Service Management** – We focus on the design, implementation, and testing of IT management systems including BMC/Remedy and HP, utilizing years of experience in IT service management in alignment with best practices including ITIL. We help our clients to align their IT investments in people, process and technology to effectively manage IT.
- **Infrastructure Optimization** – We design and implement virtualized infrastructure solutions that optimize distribution and availability of virtual assets and mission-critical applications across our client’s organizations. We begin with pre- and post-deployment capacity plans to help design a solution that maximizes performance while minimizing costs. We implement platform management tools for image synchronization and design virtual infrastructure tools and metrics to help maintain data and image consistency. We also optimize native virtualization management consoles and equip our clients with the management tools and resources required to ensure availability of virtual assets and mission-critical applications. Our end-to-end service provides critical details for planning, design and best practices implementation.

- **Procurement Services** – We plan, design, procure, deploy, and maintain our client’s IT infrastructure. We are product agnostic, and for an organization of our scale, we believe this differentiates us from many of our competitors because we can provide them the best solution for their IT spend without creating conflicts. We offer products from a broad array of technologies, 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.
- **Managed Infrastructure Services** – We provide ongoing monitoring and support of our client’s IT infrastructure through the utilization of help desk and monitoring services as well as through our own on-site engineering resources. This allows our clients to focus the majority of their time and resources on their businesses, rather than managing their IT infrastructures.

Cloud Services

Cloud computing refers to internet based computing that enables users to access processing power, storage, software or other services via the Internet. We believe cloud computing is transforming the way that IT services are consumed and delivered, and we are prepared to help our clients to capitalize on the opportunities that it presents. From understanding the promise of cloud-based services for a client’s organization, to developing a cloud-based application, we have the skills and expertise to help. Our current areas of focus in this area include:

- **Cloud Strategy and Planning** – Many of our clients know that cloud computing could benefit them, but they are not exactly sure where and how. We can assist our clients with this process by helping them to break down the problem using our VBM approach and systematically or opportunistically determine which services could be best provided through cloud computing methods. Once these opportunities have been identified, our consultants assist clients with the prioritization and planning required for an orderly migration to new cloud-based services.
- **Cloud Development** – Our application developers understand the considerations, opportunities and pitfalls of developing applications for delivery via cloud platforms and can help clients determine which cloud platform(s) are best suited to their needs.

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.

Clients

Our clients are primarily large business organizations, departments of the U.S. and Canada’s federal, state and local governments, local school districts and other large and mid-sized companies throughout the U.S. and Canada. We service our clients on their premises as well as from our leased delivery centers in the U.S. Canada, and India.

Sales to one school district accounted for approximately \$29.3 million or 13.0% and \$46.0 million or 21.7% of the Company’s total revenues for years ended August 31, 2012 and 2011, respectively. A large portion of our revenues are also drawn from various civilian and military U.S. governmental departments and agencies. 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.

We hold a number of contracts with the U.S. government including a General Service Administration (“GSA”) contract for the sale of IT products and services that runs through September 2015.

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 penetrate wider and deeper into various civilian and military agencies.

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

	For the Year Ended					
	Aug 31, 2012			Aug 31, 2011		
Departments of the U.S.						
Government	\$ 87,996	39.2	%	\$ 87,869	41.4	%
Canadian Government Agencies	2,040	0.9	%	2,761	1.3	%
State and Local Governments	5,218	2.3	%	3,384	1.6	%
Commercial Companies	83,360	37.1	%	58,304	27.5	%
Education and other	45,959	20.5	%	59,829	28.2	%
Total Revenues	\$ 224,573	100.0	%	\$ 212,147	100.0	%

Government Contracts Potentially Subject to Termination