

Edgar Filing: EMTEC INC/NJ - Form 10-Q

EMTEC INC/NJ  
Form 10-Q  
November 19, 2001

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For The Quarter Ended  
September 30, 2001

Commission file number: 0-32789

EMTEC, INC.

(Exact name of Registrant as specified in charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

87-0273300  
(I.R.S. Employer  
Identification Number)

817 East Gate Drive  
Mt. Laurel, New Jersey 08054  
(Address of principal executive offices)

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

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes | X |

No ||

The number of shares of Common Stock outstanding as of November 10, 2001 was 7,080,498.

EMTEC, INC.  
FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2001

Edgar Filing: EMTEC INC/NJ - Form 10-Q

Table of Contents

PART I - FINANCIAL INFORMATION

Item 1 - Financial Statements

Consolidated Balance Sheets

September 30, 2001 (Unaudited) and March 31, 2001.....

Consolidated Statements of Operations

for the Three and Six months ended September 30, 2001 (Unaudited) and  
2000 (Unaudited) .....

Consolidated Statements of Cash Flows

for the Six months ended September 30, 2001 (Unaudited) and 2000 (Unaudited) .....

Notes to Consolidated Financial Statements

(Unaudited) .....

Item 2 - Management's Discussion and Analysis of Financial

Condition and Result of Operations .....

Item 3 - Quantitative and Qualitative Information About Market Risk .....

PART II - OTHER INFORMATION

Item 4 - Submission of Matters to a vote by Securities Holders .....

SIGNATURES.....

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

EMTEC, INC.  
CONSOLIDATED BALANCE SHEETS

September 30,      March 31,

Edgar Filing: EMTEC INC/NJ - Form 10-Q

	2001 ----- (unaudited)	2001 -----
Assets		
-----		
Current Assets		
-----		
Cash and cash equivalents	\$ 819,239	\$ 2,098,198
Marketable securities	2,820	292,346
Receivables:		
Trade, less allowance for doubtful accounts	10,471,249	12,828,456
Others	326,504	433,580
Inventories, net of reserve	2,175,409	1,019,715
Prepaid expenses	264,517	296,939
	-----	-----
Total Current Assets	14,059,738	16,969,234
-----		
Net property and equipment	761,167	919,110
Investment in geothermal power unit	537,548	549,626
Deferred tax asset	16,796	22,996
Other assets	184,309	175,711
	-----	-----
Total Assets	\$ 15,559,558	\$ 18,636,677
-----	=====	=====

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

Edgar Filing: EMTEC INC/NJ - Form 10-Q

	September 30, 2001	March 31, 2001
	-----	-----
	(unaudited)	
Liabilities and Shareholders' Equity		
-----		
Current Liabilities		
-----		
Line of credit	\$ 4,374,369	\$ 6,535,405
Due to related party	19,000	19,000
Accounts payable	5,899,279	7,284,625
Income taxes payable	2,087	2,087
Customer deposits	-	203,202
Accrued liabilities	811,042	1,023,556
Deferred revenue	1,370,014	899,352
	-----	-----
Total Current Liabilities	12,475,791	15,967,227
	-----	
Deferred revenue	820,692	841,922
	-----	-----
Total Liabilities	13,296,483	16,809,149
	-----	-----
Shareholders' Equity		
-----		
Common stock, \$.01 par value; 25,000,000 shares authorized; 7,080,498 shares issued and outstanding	70,805	70,805
Additional paid-in capital	2,210,805	2,210,805
Accumulated other comprehensive income (loss)	1,748	(5,458)
Accumulated deficit	(20,283)	(448,624)
	-----	-----
Total Shareholders' Equity	2,263,075	1,827,528
	-----	-----
Total Liabilities and Shareholders' Equity	\$ 15,559,558	\$ 18,636,677
	=====	=====

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

Edgar Filing: EMTEC INC/NJ - Form 10-Q

EMTEC, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(unaudited)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2001	2000	2001	2000
<b>Revenues:</b>				
Procurement services	\$ 14,158,118	\$ 19,842,003	\$ 28,703,661	\$ 43,656,2
Service and consulting	3,227,698	2,612,655	8,185,940	6,228,7
Geothermal	45,056	-	89,398	-
	-----	-----	-----	-----
Total Revenues	17,430,872	22,454,658	36,978,999	49,884,9
	-----	-----	-----	-----
<b>Cost of Revenues:</b>				
Procurement services	12,520,530	17,654,035	25,367,745	39,160,4
Service and consulting	2,467,074	1,975,446	6,400,487	4,818,8
Geothermal	20,596	-	33,507	-
	-----	-----	-----	-----
Total Cost of Revenues	15,008,200	19,629,481	31,801,739	43,979,2
	-----	-----	-----	-----
<b>Gross Profit:</b>				
Procurement services	1,637,588	2,187,968	3,335,916	4,495,7
Service and consulting	760,624	637,209	1,785,453	1,409,9
Geothermal	24,460	-	55,891	-
	-----	-----	-----	-----
Total Gross Profit	2,422,672	2,825,177	5,177,260	5,905,6
	-----	-----	-----	-----
<b>Operating Expenses:</b>				
Selling, general and administrative	2,063,200	2,435,163	4,217,616	5,039,2
Termination costs	-	13,000	-	52,0
Interest	75,488	177,602	167,746	334,7
Startup costs, E-Business	123,941	202,325	357,357	540,8
	-----	-----	-----	-----
Total Operating Expenses	2,262,629	2,828,090	4,742,719	5,966,8
	-----	-----	-----	-----
<b>Income (Loss) From Continuing Operations Before Litigation Settlements And Income Tax Expense</b>				
	160,043	(2,913)	434,541	(61,1
<b>Litigation settlements</b>				
	-	(180,000)	-	193,9

Edgar Filing: EMTEC INC/NJ - Form 10-Q

Income tax expense	3,020	-	6,200	-
	-----	-----	-----	-----
Income From Continuing Operations, Net of Income Taxes	157,023	(182,913)	428,341	132,7
Loss from discontinued operations, net of income taxes	-	(3,521)	-	(48,1
	-----	-----	-----	-----
Net Income	\$ 157,023	\$ (186,434)	\$ 428,341	\$ 84,6
	=====	=====	=====	=====
Income Per Share From Continuing Operations {Basic And Diluted}	\$ .02	\$ (.03)	\$ .06	\$ .
Net Income Per Share {Basic And Diluted}	\$ .02	\$ (.03)	\$ .06	\$ .
Weighted Average Number Of Shares Outstanding {Basic And Diluted}	7,080,498	5,329,501	7,080,498	5,329,5

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

3

EMTEC, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2001 AND 2000

(unaudited)

	September 30, 2001	September 30, 2000
	-----	-----
Cash Flows From Operating Activities		
-----		
Net income for the six months	\$ 428,341	\$ 84,624
Adjustments to Reconcile Net Income To Net Cash Provided By (Used In) Operating Activities:		
Depreciation and amortization	224,569	195,149
Deferred income tax	6,200	
Unrealized loss (gain) on marketable securities	7,200	(72,604)

Edgar Filing: EMTEC INC/NJ - Form 10-Q

Changes In Operating Assets and Liabilities		
Decrease (increase) in marketable securities	289,526	(101,545)
Decrease in receivables	2,464,283	3,925,032
Increase in inventories	(1,155,694)	(320,669)
Decrease in prepaid expenses	32,422	100,394
Decrease in accounts payable	(1,385,346)	(3,578,002)
Decrease in customer deposits	(203,202)	(358,000)
Decrease in accrued liabilities	(212,514)	(215,933)
Increase (decrease) in deferred revenue	449,432	(125,043)
	-----	-----
Net Cash Provided By (Used In)		
Operating Activities	945,223	(466,597)
	-----	-----
Cash Flows From Investing Activities		
	-----	-----
Purchases of equipment	(43,146)	(138,243)
Additional security deposit	(20,000)	-
Purchase other asset	-	(2,401)
	-----	-----
	(63,146)	(140,644)
	-----	-----
Cash Flows From Financing Activities		
	-----	-----
Net (decrease) increase in line of credit	(2,161,036)	593,540
	-----	-----
Net Decrease in Cash and Cash Equivalents	(1,278,959)	(13,701)
	-----	-----
Beginning Cash and Cash Equivalents	2,098,198	686,413
	-----	-----
Ending Cash and Cash Equivalents	\$ 819,239	\$ 672,712
	=====	=====

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

## Edgar Filing: EMTEC INC/NJ - Form 10-Q

### 1. Basis of Presentation

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

### 2. Reverse Acquisition

On January 17, 2001, Emtec, Inc., a New Jersey corporation (the Company) was acquired by American Geological Enterprises, Inc. (AGE) through an exchange of stock at a ratio of .9753 shares of AGE stock for one share of Company stock whereas AGE issued stock to the shareholders of the Company in exchange for stock representing 100% of the outstanding shares of the Company. Pursuant to the acquisition agreement, AGE changed its name to Emtec, Inc. and a majority of the directors and officers of the former AGE resigned in favor of the directors and officers of the Company. In addition, Emtec, Inc. (formerly AGE) increased its authorized capitalization from 2,500,000 to 25,000,000 shares of common stock. Emtec, Inc. intends to seek a listing of its common stock on NASDAQ's Over-The-Counter Bulletin Board. Immediately after the transaction, the stock ownership of Emtec, Inc. {formerly AGE} was as follows:

	Shares	Percent
Former shareholders of the Company	5,329,501	75.3
Original shareholders of AGE (including public owners)	1,380,997	19.5
Transaction brokers	370,000	5.2
Total	7,080,498	100.0
	=====	=====

Because the former shareholders of the Company acquired control of Emtec, Inc. {formerly AGE}, the transaction is considered a "reverse acquisition" by the Company for accounting purposes. The Company is treated as the accounting acquirer of Emtec, Inc. {formerly AGE}, the legal acquirer. For accounting purposes, the acquisition has been treated as an acquisition of Emtec, Inc. (formerly AGE) by Emtec, Inc., a New Jersey Corporation (the Company) and as a recapitalization of the Company. The historical financial statements of the Company are those of Emtec, Inc., a New Jersey corporation.

The historical shareholders' equity of the Company prior to the reverse acquisition has been retroactively restated for the equivalent number of shares



received in the transaction after giving effect to the difference in par value between the issuer's and acquirer's stock. Income per share amounts have also been restated to reflect the number of equivalent shares received by the former shareholders of Emtec, Inc. a New Jersey corporation.

3. Stock-Based Compensation

Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," (SFAS No. 123) encourages, but does not require companies to record compensation cost for stock-based employee compensation plans at fair value. The Company has adopted Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB No. 25). APB No. 25 provides that the compensation expense relative to the Company's employee stock options is measured based on the intrinsic value of the stock option. SFAS No. 123 requires companies that continue to follow APB No. 25 to provide a pro forma disclosure of the impact of applying the fair value method of SFAS No. 123.

All stock options granted for the six months ended September 30, 2001 and 2000 were determined to have a fair value of zero. The exercise price of these options was set at \$ 1 per share, an amount in excess of 150% of the fair value of the underlying stock. Therefore, no options granted have been exercised during the six months ended September 30, 2001 and 2000. A pro forma presentation of compensation cost and earnings per share is not required due to the zero fair value determination. At September 23, 1996, options to purchase 372,895 shares were issued primarily to the founders of the Company at an exercise price of \$ .48 per share. At September 30, 2001, 166,227 of these founder options expired. Option activity is summarized in the following table:

Options outstanding - April 1, 2001	465,259
Activity for the six months ended September 30, 2001:	
Options granted	49,186
Options exercised	0
Options forfeited or expired	(166,677)
Options outstanding - September 30, 2001	347,768
	=====

4. Net Income (Loss) per Share

## Edgar Filing: EMTEC INC/NJ - Form 10-Q

Computations of net income (loss) per share and the income (loss) per share from continuing operations have been made in accordance with Statement of Financial Accounting Standards No. 128 "Earnings Per Share" (SFAS No. 128). These per share computations use the weighted average number of shares outstanding during the period. SFAS No. 128 requires a separate presentation of diluted income per share from continuing operations and diluted net income per share for the potential dilutive effect of securities such as stock options. The Company maintains a stock option plan as discussed in Note 3. The pricing of the options were in excess of the underlying value of the Company stock during the six months ended September 30, 2001 and 2000, therefore, the stock options are antidilutive.

6

### 5. Litigation

In a previous year the Company instituted litigation against two companies (defendants) that were in discussions with the Company about a possible merger. The complaint in the action charged the two defendants for breach of contract, interference with business relationships and misappropriation of trade secrets. The parties settled the litigation in June 2000, pursuant to which the Company received a \$350,000 cash payment and 333,116 shares of the one of defendant's common stock. Costs related to the litigation and realized losses on disposition of the defendant's common stock during the year ended March 31, 2001 reduced net income from the litigation settlement to \$24,108.

In 1999 the Company instituted litigation against a company (defendant) for breach of contract action in an amount approximating \$50,000. The defendant stated a counterclaim in excess of \$8 million for damages resulting from the Company's alleged negligence, which purportedly caused the defendant's computer system to become corrupted and unavailable. In a recent development, the Company offered an attempt to restore data to the defendant's computer disc. In consideration of the Company's effort to restore the data, the defendant agreed to seek resolutions of the claims through arbitration. If the restoration effort is successful, the arbitrator will decide whether the Company is entitled to be paid and whether the Company is liable for any loss incurred by the defendant during the period the data was lost. If the effort to restore the data fails, the arbitrator will decide the entire issue of whether the defendant is entitled to recover for the loss of its data.

### 6. Segment Information

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

For the six months ended September 30:	2001	2000
--	------	------

Edgar Filing: EMTEC INC/NJ - Form 10-Q

External Sales

Mt. Laurel, NJ	\$ 5,586,222	\$ 8,434,583
Cranford, NJ	14,038,508	23,280,229
Atlanta, GA	7,997,653	9,746,023
Norwalk, CT	1,499,373	1,270,687
Education-Atlanta	7,767,845	7,153,441
Geothermal	89,398	-
Total External Sales	\$ 36,978,999	\$ 49,884,963
	=====	=====

Interest Expense

Mt. Laurel, NJ	\$ 23,087	\$ 60,311
Cranford, NJ	69,730	147,023
Atlanta, GA	40,253	63,462
Norwalk, CT	9,691	12,535
Education-Atlanta	25,292	46,436
e-Business	65	-
Geothermal	-	-
Allocated Interest Expense	168,118	329,767
Unallocated	(372)	5,002
Total Interest Expense	\$ 167,746	\$ 334,769
	=====	=====

7

	2001	2000
Depreciation and Amortization		
Mt. Laurel, NJ	\$ 16,662	\$ 33,450
Cranford, NJ	33,866	64,537
Atlanta, GA	55,775	30,080
Norwalk, CT	6,264	5,000
Education-Atlanta	300	2,900
e-Business	6,000	-
Geothermal	12,080	-
Allocated Depreciation and Amortization	130,947	135,967
Unallocated	93,622	59,182

Edgar Filing: EMTEC INC/NJ - Form 10-Q

Total Depreciation and Amortization	\$ 224,569	\$ 195,149
	=====	=====
Operating Profit/(Loss)		
Mt. Laurel, NJ	\$ (239,859)	\$ (215,999)
Cranford, NJ	589,740	399,017
Atlanta, GA	(284,223)	(118,176)
Norwalk, CT	(179,055)	(212,714)
Education-Atlanta	873,383	627,520
e-Business	(357,357)	(540,831)
Geothermal	31,912	-
Income (Loss) from Continuing Operations before Litigation Settlements and Income Tax Expense	\$ 434,541	\$ (61,183)
	=====	=====

For the three months ended September 30:

External Sales

Mt. Laurel, NJ	\$ 2,880,932	\$ 4,921,556
Cranford, NJ	5,930,368	8,660,714
Atlanta, GA	3,576,833	4,419,067
Norwalk, CT	747,183	334,744
Education-Atlanta	4,250,500	4,118,577
Geothermal	45,056	-
Total External Sales	\$ 17,430,872	\$ 22,454,658
	=====	=====

8

	2001	2000
Interest Expense		
Mt. Laurel, NJ	\$ 11,259	\$ 38,722

Edgar Filing: EMTEC INC/NJ - Form 10-Q

Cranford, NJ	26,546	76,279
Atlanta, GA	17,626	27,559
Norwalk, CT	5,120	6,018
Education-Atlanta	15,086	26,524
e-Business	-	-
Geothermal	-	-
Allocated Interest Expense	75,637	175,102
Unallocated	(149)	2,500
Total Interest Expense	\$ 75,488	\$ 177,602
	=====	=====

Depreciation and Amortization

Mt. Laurel, NJ	\$ 7,662	\$ 17,550
Cranford, NJ	11,405	33,777
Atlanta, GA	27,623	15,768
Norwalk, CT	3,414	3,000
Education-Atlanta	150	1,500
e-Business	3,000	-
Geothermal	6,041	-
Allocated Depreciation and Amortization	59,295	71,595
Unallocated	48,452	42,659
Total Depreciation and Amortization	\$ 107,747	\$ 114,254
	=====	=====

Operating Profit/(Loss)

Mt. Laurel, NJ	\$ (173,857)	\$ (34,533)
Cranford, NJ	279,294	165,231
Atlanta, GA	(220,874)	(180,823)
Norwalk, CT	(132,235)	(207,620)
Education-Atlanta	517,935	457,157
e-Business	(123,941)	(202,325)
Geothermal	13,721	-
Income (Loss) from Continuing Operations before Litigation Settlements and Income Tax Expense	\$ 160,043	\$ (2,913)
	=====	=====

## Edgar Filing: EMTEC INC/NJ - Form 10-Q

Identifiable Assets:	September 30, 2001	March 31, 2001
Mt. Laurel, NJ	\$ 1,986,789	\$ 2,691,963
Cranford, NJ	6,605,974	7,690,440
Atlanta, GA	2,464,659	2,239,838
Norwalk, CT	529,476	433,860
Education-Atlanta	1,234,968	1,401,107
e-Business	20,190	-
Geothermal	537,548	549,626
Total Identifiable Assets	13,379,604	15,006,834
Corporate And Other Assets	2,179,954	3,629,843
Total Assets	\$ 15,559,558 =====	\$ 18,636,677 =====

10

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

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

#### A. Results of Operations

##### a) Three Months Ended September 30, 2001 Compared to Three Months Ended September 30, 2000.

###### (1) Total Revenues

Total revenues from the IT business decreased by 22.57%, or \$5.06 million, to \$17.39 million for the three months ended September 30, 2001. Services and consulting revenue increased by 23.54%, or \$0.62 million, to \$3.23 million for the three months ended September 30, 2001 compared to \$2.61 million for the three months ended September 30, 2000. Product procurement revenues decreased by 28.65%, or \$5.68 million, to \$14.16 million for the three months ended September 30, 2001. This decline in product procurement revenue is mainly due to our greater emphasis on our services and consulting organization as well as a slow-down in the economy

Geothermal Revenues of \$45,056 for the three months ended September 30,

## Edgar Filing: EMTEC INC/NJ - Form 10-Q

2001 are consistent with the previous period's revenues for a comparable period.

### (2) Gross Profit

Our aggregate gross profit from the IT business declined by 15.11%, or \$426,965, to \$2.40 million for the three months ended September 30, 2001. This decrease is mainly due to lower product procurement revenues. Measured as a percentage of net sales, our overall gross profit margin increased to 13.79% for the three months ended September 30, 2001 from 12.58% for the three months ended September 30, 2000. This increase is mainly due to higher services and consulting revenues.

Gross profit margin attributable to product sales increased to 11.57% for the three months ended September 30, 2001 from 11.03% for the three months ended September 30, 2000. This increase in product procurement gross margin is attributable to lower cost of products obtained from our vendors as well as lower inventory write-offs during this period. Gross margin attributable to services and consulting revenue decreased slightly to 23.57% for the three months ended September 30, 2001 from 24.39% for the three months ended September 30, 2000. This decrease is mainly due to slightly lower utilization rates within the service and consulting group.

The geothermal gross profit of \$24,460 for the three months ended September 30, 2001 is consistent with the gross profit for comparable previous periods.

### (3) Sales, General, and Administrative Expenses

Sales, general, and administrative expenses decreased by 15.27%, or \$371,963, to \$2.06 million for the three months ended September 30, 2001 from \$2.44 million for the three months ended September

11

30, 2000. This decrease is primarily a result of lower sales commission expenses as well as our continued efforts to streamline many of our sales and operational functions.

### (4) Interest Expense

Interest expense decreased by 57.50%, or \$102,114 to \$75,488 for the three months ended September 30, 2001 from \$177,602 for the three months ended September 30, 2000. This decrease is primarily a result of lower sales volume and lower interest rates as well as our continued efforts to streamline our accounts receivable credit policies and collection functions.

### (5) Startup Costs; e-Business

Startup Costs; e-Business for the three months ended September 30, 2001 was \$123,941, or 5.48% of total operating expenses compared to \$202,325, or 7.15% of total operating expense for the three months ended September 30, 2000. This decrease is primarily due to: 1) lower head count within the group; and 2) generation of \$72,806 revenue from e-Business activities during three months ended September 30, 2001 as compared to \$0 from three months ended September 30,

## Edgar Filing: EMTEC INC/NJ - Form 10-Q

2000.

### (6) Income Taxes

Income Tax expense was \$3,020 and \$0 for the three months ended September 30, 2001 and 2000, respectively.

### b) Six Months Ended September 30, 2001 Compared to Six Months Ended September 30, 2000.

#### (1) Total Revenues

Total revenues from the IT business decreased by 26.05%, or \$12.99 million, to \$36.89 million for the six months ended September 30, 2001. Services and consulting revenue increased by 31.42%, or \$1.96 million, to \$8.19 million for the six months ended September 30, 2001 compared to \$6.23 million for the six months ended September 30, 2000. Product procurement revenues decreased by 34.25%, or \$14.95 million, to \$28.70 million for the six months ended September 30, 2001. This decline in product procurement revenue is mainly due to the continued focus on our services and consulting organization as well as a slow-down in the economy.

Geothermal Revenues of \$89,398 for the six months ended September 30, 2001 are consistent with the previous period's revenues for a comparable period.

#### (2) Gross Profit

Our aggregate gross profit from the IT business declined by 13.28%, or \$784,301, to \$5.12 million for the six months ended September 30, 2001. This decrease is mainly due to lower product procurement revenues. Measured as a percentage of net sales, our overall gross profit margin increased to 13.88% for the six months ended September 30, 2001 from 11.84% for the six months ended September 30, 2000.

12

Gross profit margin attributable to product sales increased to 11.62% for the six months ended September 30, 2001 from 10.30% for the six months ended September 30, 2000. This increase in product procurement gross margin is attributable to lower cost of products obtained from our vendors as well as lower inventory write-offs during this period. Gross margin attributable to services and consulting revenue decreased slightly to 21.81% of services and consulting revenue for the six months ended September 30, 2001 from 22.64% for the six months ended September 30, 2000. This decrease is mainly due to slightly lower utilization rates within the service and consulting group.

The geothermal gross profit of \$55,891 for the six months ended September 30, 2001 is consistent with the gross profit for comparable previous periods.

#### (3) Sales, General, and Administrative Expenses

Sales, general, and administrative expenses decreased by 16.30%, or \$821,637, to \$4.22 million for the six months ended September 30, 2001 from



## Edgar Filing: EMTEC INC/NJ - Form 10-Q

\$5.04 million for the six months ended September 30, 2000. This decrease is primarily a result of lower sales commission expenses as well as our continued efforts to streamline many of our sales and operational functions.

### (4) Interest Expense

Interest expense decreased by 49.89%, or \$167,023 to \$167,746 for the six months ended September 30, 2001 from \$334,769 for the six months ended September 30, 2000. This decrease is primarily a result of lower sales volume and lower interest rates as well as our continued efforts to streamline our accounts receivable credit policies and collection functions.

### (5) Startup Costs; e-Business

Startup Costs; e-Business for the six months ended September 30, 2001 was \$357,357, compared to \$540,831 for the six months ended September 30, 2000. This decrease is primarily due to: 1) lower head count within the group; 2) generation of \$113,119 revenue from e-Business activities during six months ended September 30, 2001 as compared to \$0 from six months ended September 30, 2000.

### (6) Income Taxes

Income Tax expense was \$6,200 and \$0 for the six months ended September 30, 2001 and 2000, respectively.

## Recently Issued Accounting Standards

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 101 "Revenue Recognition in Financial Statements." This SAB summarizes certain of the SEC staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. Adoption of SAB No. 101 did not have a material effect on the Company's results of operations.

In July 2001, the Financial Accounting Standard Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 141, "Business Combinations," which supersedes Accounting Principles Board (APB) Opinion No. 16. SFAS No. 141 requires all business combinations initiated after June 30, 2001 be accounted for under the purchase method. In addition, SFAS No. 141 establishes criteria for the recognition of intangible assets separately from goodwill. The Company does not expect the

adoption of SFAS No. 141 will have a material effect on the Company's results of operations, financial position or cash flow.

Also in July 2001, the FASB issued SFAS No. 142, "Goodwill and Other

## Edgar Filing: EMTEC INC/NJ - Form 10-Q

Intangible Assets," which supersedes APB Opinion No. 17. Under SFAS No. 142 goodwill and indefinite lived intangible assets will no longer be amortized, but rather will be tested for impairment at least annually. In addition, the amortization period of intangible assets with finite lives will no longer be limited to 40 years. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001, which for the Company means the standard will be adopted on April 1, 2002. The Company is currently assessing the impact of SFAS No. 142 on its results of operations.

### B. Liquidity and Capital Resources

Cash and cash equivalents at September 30, 2001 of \$819,239 decreased by \$1,278,959, from \$2,098,198 at March 31, 2001. We are a net borrower; consequently, we believe our cash and cash equivalents balance must be viewed along with available balance on our line of credit. Working capital at September 30, 2001, June 30, 2001 and March 31, 2001 was \$1,583,947, \$1,372,900 and \$1,002,007, respectively.

Since our inception, we have funded our operations primarily from borrowings under our credit facility. On September 24, 1999, the Company and IBM Credit Corporation ("IBM") executed an Inventory and Working Capital Financing Agreement whereby IBM expanded the Company's credit facility to enable the Company to borrow up to \$15 million. Interest on the borrowings is charged monthly at one half point above the lender's current prime rate. The loan is secured by substantially all company assets. At September 30, 2001, we had \$4.37 million outstanding under the credit facility.

Our lending agreement with IBM contains financial covenants that require us to maintain a minimum current ratio, minimum total liabilities to net tangible worth ratio, and minimum results of operations. As of September 30, 2001 the Company was not in compliance with its financial covenants. The Company and IBM have been unable to reach an agreement on the revised terms of the credit facility.

Consequently, the Company has received a verbal commitment from Fleet Capital {Fleet}, formerly Summit Business Capital Corporation {SBCC}, whereby Fleet will provide the Company a revolving credit facility up to \$10 million based on 85% of eligible accounts receivable. The Company and Fleet expect to finalize this credit facility agreement on or about November 20, 2001. Pending closing with Fleet, IBM has agreed to continue to fund the Company up to \$4.5 million through November 19, 2001. The Company believes that the credit line of \$4.5 million will be sufficient to pay its current obligations until we close the credit facility agreement with Fleet.

We have open credit lines with our primary trade vendors such as Ingram Micro, and Tech Data. As of September 30, 2001, the credit line with Ingram Micro was \$1.5 million, an 18% APR interest rate and an outstanding balance of \$181,314. As of September 30, 2001, the credit line with Tech Data was \$1.5 million, no interest charged and an outstanding balance of \$1.06 million. Under credit lines with Ingram Micro and Tech Data we are obligated to pay each invoice within 30 days from the date of such invoice. We do not have written agreements with either Ingram Micro or Tech Data.

During August 2001 we transitioned our Sun Microsystems products supplier from Ingram Micro to MRA Systems, Inc, dba GE Access. This resulted in a decrease in our Ingram Micro credit line from \$4.5 million to \$1.5 million. We now have an open credit line with GE Access of \$4.0 million, no interest

Edgar Filing: EMTEC INC/NJ - Form 10-Q

charge, and an outstanding balance of \$3.67 million. Under this credit line we are obligated to pay each invoice within 30 days from the date of such invoice.

Capital expenditures of \$43,146 during six months ended September 30, 2001, were primarily for the purchase of computer equipment for internal use.

We believe that our available funds, together with existing and anticipated credit facilities, will be adequate to satisfy our current and planned operations for at least the next 12 months.

Item 3. Quantitative and Qualitative Information About Market Risk

We do not engage in trading market risk sensitive instruments and do not purchase hedging instruments or "other than trading" instruments that are likely to expose us to market risk, whether interest rate, foreign currency exchange, commodity price or equity price risk. We have issued no debt instruments, entered into no forward or future contracts, purchased no options and entered into no swaps. Our primary market risk exposures are those of interest rate fluctuations. A change in interest rates would affect the rate at which we could borrow funds under our revolving credit facility. Our average balance on the line of credit for the last six months has been approximately \$3.80 million. Assuming no material increase or decrease in such balance, a one percent change in the interest rate would change our interest expense by approximately \$38,000 annually.

PART II - OTHER INFORMATION

Item 4. Submission of Matters to a vote by Securities Holders

The Annual Meeting of Shareholders of the Company (the "Meeting") was held on August 22, 2001. There were present at the Meeting in person or by proxy shareholders holding an aggregate of 6,774,935 shares of Common Stock of a total number of 7,080,498 shares of Common Stock issued, outstanding and entitled to vote at the Meeting. The results of the vote taken at the Meeting with respect to each nominee for director were as follows:

Nominees	For	Abstain
-----	---	-----

Edgar Filing: EMTEC INC/NJ - Form 10-Q

R. Frank Jerd	6,774,435	500
George F. Raymond	5,991,728	783,207

16

SIGNATURES

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

EMTEC, INC.

By: /s/ JOHN P. HOWLETT

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

By: /s/ SAM BHATT

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

Date: November 19, 2001