

EMTEC INC/NJ
Form PRE 14A
December 17, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934
(Amendment No.)

Filed by the Registrant Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
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Emtec, Inc.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

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EMTEC, INC.
11 Diamond Road
Springfield, New Jersey 07081

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON JANUARY 20, 2011

Dear Stockholders,

The Annual Meeting of Stockholders of Emtec, Inc. (the “Company”) will be held at The Enterprise Center at BCC, 3331 Route 38, Mt. Laurel, New Jersey 08054, on Thursday, January 20, 2011, commencing at 9:30 a.m. EST for the following purposes:

- To amend the Company’s Certificate of Incorporation, as amended, to increase the number of authorized shares of our Common Stock;
- To approve an amendment to the Company’s 2006 Stock-Based Incentive Compensation Plan to increase the number of shares authorized for issuance from 2,543,207 to 9,543,207, as well as to increase other award limits contained therein;
- To approve the Emtec, Inc. 2011 Annual Incentive Plan;
- To ratify the appointment of McGladrey & Pullen, LLP as our independent registered public accounting firm for the fiscal year ending August 31, 2011; and
- To attend to any other business properly brought before the Annual Meeting or any adjournment or postponement thereof.

The foregoing items of business are more fully described in the Proxy Statement accompanying this notice. The proxy statement, form of proxy and annual report are also available at www.emtecinc.com. The record date for determining those stockholders who will be entitled to notice of and to vote at the Annual Meeting or any adjournment thereof is December 16, 2010. The stock transfer books of the Company will not be closed between the record date and the date of the Annual Meeting. A list of stockholders entitled to vote at the Annual Meeting will be available for inspection at the offices of the Company.

You are cordially invited to attend the meeting in person. We maintain contact information for stockholders, both by telephone and email, on our website at www.emtecinc.com under the heading “About Us – Investor Relations” if you require directions to the meeting. By following the link, you will be given access to our telephone number and mailing address as well as a link for providing email correspondence to Investor Relations. Whether or not you plan to attend the Annual Meeting, please sign and date the enclosed proxy, which is solicited by us and our Board of Directors, and promptly return it in the pre-addressed envelope provided for that purpose. Any stockholder may revoke his or her proxy at any time before the Annual Meeting by giving written notice to such effect, by submitting a subsequently dated proxy or by attending the Annual Meeting and voting in person.

EMTEC, INC.

By: Sam Bhatt,

Secretary

Springfield, New Jersey
December 29, 2010

EMTEC, INC.
11 Diamond Road
Springfield, New Jersey 07081

PROXY STATEMENT

FOR ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON JANUARY 20, 2011

This proxy statement and the accompanying proxy card are being mailed beginning on or about December 29, 2010 to the owners of shares of Common Stock of Emtec, Inc., a Delaware corporation (the “Company”), in connection with the solicitation of proxies for use at the Annual Meeting of Stockholders to be held on January 20, 2011, at 9:30 a.m. EST at The Enterprise Center at BCC, 3331 Route 38, Mt. Laurel, New Jersey 08054 and any adjournment thereof (the “Annual Meeting”) for the purposes set forth in the accompanying Notice of Annual Meeting and as further discussed herein. This proxy procedure is necessary to permit all holders of our Common Stock, many of whom live throughout the United States and in foreign countries and are unable to attend the Annual Meeting, to vote. The Board of Directors (the “Board”) does not know of any business to be presented for consideration at the Annual Meeting or any adjournment thereof other than as stated in the Notice of Annual Meeting.

A copy of the Company’s Annual Report to Stockholders for the fiscal year ended August 31, 2010, accompanies this proxy statement.

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QUESTIONS AND ANSWERS

Your vote is very important. Your shares can only be voted at the Annual Meeting if you are present or represented by proxy. Whether or not you plan to attend the Annual Meeting, you are encouraged to vote by proxy to assure that your shares will be represented. You may revoke your proxy at any time before it is voted by written notice to the Secretary of the Company, by submission of a proxy bearing a later date or by casting a ballot at the Annual Meeting. Properly executed proxies that are received before the Annual Meeting's adjournment will be voted in accordance with the directions provided. If no directions are given, your shares will be voted by one of the individuals named on your proxy card as recommended by the Board of Directors. If you wish to give a proxy to someone other than those named on the proxy card, you should cross out those names and insert the name(s) of the person(s), not more than two, to whom you wish to give your proxy.

Q: WHO IS SOLICITING MY VOTE?

A: This proxy solicitation is being made on behalf of us and our Board of Directors. Proxies are being solicited by mail, and all expenses of preparing and soliciting such proxies will be paid by us. In addition to the use of mail, proxies may be solicited by our directors, officers and regular employees, without additional compensation, in person or by telephone or other electronic means. We will reimburse brokerage houses and other nominees for their expenses in forwarding proxy materials to beneficial owners of our Common Stock.

Q: WHO IS ENTITLED TO VOTE?

A: Stockholders as of the close of business on December 16, 2010 (the "Record Date") are entitled to vote at the Annual Meeting. On that date, 16,283,691 shares of our Common Stock were outstanding and eligible to vote. Every holder of Common Stock is entitled to one vote for each share held. A list of stockholders eligible to vote will be available at our principal place of business, 11 Diamond Road, Springfield, New Jersey, beginning December 20, 2011. Stockholders may examine this list during normal business hours for any purpose relating to the Annual Meeting.

Q: WHO WILL COUNT THE VOTE?

A: Representatives of our transfer agent, Zions Bank, will count the votes.

Q: IS MY VOTE CONFIDENTIAL?

A: Proxy cards, ballots and voting tabulations that identify individual stockholders are mailed or returned directly to Zions Bank, and handled in a manner that protects your voting privacy. Your vote will not be disclosed except (1) as needed to permit Zions Bank to tabulate and certify the vote and (2) as required by law. Additionally, all comments written on the proxy card or elsewhere will be forwarded to management. Your identity will be kept confidential unless you ask that your name be disclosed.

Q: WHAT IS A QUORUM?

A: A "quorum" is a majority of the outstanding shares of our Common Stock entitled to vote on December 16, 2010. These shares must be present at the Annual Meeting, in person or by proxy, for the meeting to be held for the transaction of business.

Broker non-votes, votes withheld and abstentions will be counted for purposes of determining whether a quorum has been reached. A broker "non-vote" occurs when a nominee holding shares for a beneficial owner does not vote on a

particular proposal because the nominee does not have the discretionary voting power with respect to that item and has not received instructions from the beneficial owner.

Q: HOW MANY VOTES ARE REQUIRED FOR THE APPROVAL OF THE PROPOSALS?

A: Assuming a quorum is present, the adoption of the proposed amendment to the Company's Certificate of Incorporation, as amended, the approval of Amendment No. 2 to the Company's 2006 Stock-Based Incentive Compensation Plan, the approval of the Emtec, Inc. 2011 Annual Incentive Plan and the ratification of the appointment of our independent registered public accounting firm each require the affirmative vote of a majority of the votes cast at the Annual Meeting by the holders of shares entitled to vote thereon. Because abstentions will be included in tabulations of the votes entitled to vote for purposes of determining whether a proposal has been approved, abstentions have the same effect as negative votes on Item 1, Item 2, Item 3 and Item 4. Broker non-votes, however, are not counted as shares present and entitled to be voted with respect to the matters which the broker has not expressly voted. Broker non-votes are not counted in determining whether the affirmative vote required for the approval of Item 1, Item 2, Item 3 or Item 4 is achieved.

Q: HOW DOES THE BOARD RECOMMEND I VOTE?

A: The Board recommends a vote "FOR" approval of the amendment to the corporate charter to increase the number of authorized shares of Common Stock (Item 1), "FOR" approval of Amendment No.2 to the Company's 2006 Stock-Based Incentive Compensation Plan (Item 2), "FOR" approval of the Emtec, Inc. 2011 Annual Incentive Plan (Item 3) and "FOR" the ratification of the Board of Directors' appointment of McGladrey & Pullen, LLP as the independent, registered certified public accountants of the Company for the upcoming year (Item 4).

Q: WHO CAN ATTEND THE ANNUAL MEETING?

A: All stockholders as of December 16, 2010, the record date, can attend. If your shares are held through a broker and you would like to attend, please bring a copy of your brokerage account statement or an omnibus proxy (which you can obtain from your broker) to gain entrance to the Annual Meeting.

Q: HOW WILL VOTING ON ANY OTHER BUSINESS BE CONDUCTED?

A: We do not know of any business to be considered at the Annual Meeting other than the proposals described in this proxy statement. If any other business is presented at the Annual Meeting, your signed proxy card gives authority to Dinesh R. Desai, our Chairman, President and Chief Executive Officer, and Gregory P. Chandler, our Chief Financial Officer, to vote on such matters at their discretion.

Q: WHO ARE THE LARGEST PRINCIPAL STOCKHOLDERS?

A: As of December 16, 2010, Mr. Desai beneficially owned a total of 8,839,964 shares of our Common Stock (approximately 51.7% of our outstanding Common Stock), 8,437,215 of which are owned through DARR Westwood LLC, in which he is a sole member and 600,000 of which are owned through DARR Emtec LLC, in which he is a member, and Keith Grabel beneficially owned 2,043,051 shares (approximately 12.5% of our outstanding Common Stock).

CORPORATE GOVERNANCE

In accordance with the General Corporation Law of the State of Delaware, our Certificate of Incorporation, as amended, and our Amended and Restated Bylaws, our business, property and affairs are managed under the direction of the Board of Directors (the “Board”). The Board delegates the conduct of business to the Company’s senior management team. Although our non-employee directors are not involved in our day-to-day operating details, they are kept informed of our business through written reports and documents provided to them regularly, as well as by operating, financial and other reports presented by our officers at meetings of the Board of Directors and committees of the Board of Directors.

Board and Committee Meetings

Our Board usually meets four times a year in regularly scheduled meetings. It may meet more often if necessary. During the fiscal year ended August 31, 2010, the Board held seven meetings. Each director attended at least 75% of the Board meetings and any respective committee meetings of which they are a member. The Chairman usually determines the agenda for the meetings. Board members receive the agenda and supporting information in advance of the meetings. Board members may also raise other matters at the meetings.

We have a Code of Ethics, which was adopted in July 2004 and amended and adopted in its current form in July 2009, applicable to all of the Company’s employees, including our Principal Executive Officer, Principal Financial Officer and Principal Accounting Officer, as well as the members of our Board. The Code of Ethics seeks to ensure compliance with all applicable laws and to maintain the highest standards of ethical conduct. The Code of Ethics sets out basic principles and methodology to help guide all of our officers, directors and employees in the attainment of this common goal.

Qualifications for consideration as a Board nominee may vary according to the particular areas of expertise being sought as a complement to the existing Board composition. However, in making its nominations, the Board of Directors considers, among other things, an individual’s business experience, industry experience, breadth of knowledge about issues affecting our company, time available for meetings and consultation regarding company matters and other particular skills and experience possessed by the individual.

Any stockholder recommendation of a director candidate should include the candidate’s name, biographical data and a detailed description of the candidate’s qualifications for Board membership, and should be sent to Emtec, Inc., 11 Diamond Road, Springfield, New Jersey 07081, Attention: Sam Bhatt. Any stockholder recommendations must be submitted in sufficient time for an appropriate evaluation by the Board.

Stockholder Communication with Board Members

We maintain contact information for stockholders, both by telephone and email, on our website at www.emtecinc.com under the heading “About Us – Investor Relations.” By following the link, a stockholder will be given access to our telephone number and mailing address as well as a link for providing email correspondence to Investor Relations. Communications sent to Investor Relations and specifically marked as a communication for our Board will be forwarded to the Board or specific members of the Board as directed in the stockholder communication. In addition, communications received via telephone or mail that are directed to the Board are forwarded to the Board by one of our officers.

Board Member Attendance at Annual Meetings

Our Board of Directors does not have a formal policy regarding attendance of directors at our annual stockholder meetings, although all directors are encouraged to attend the meeting. All directors who were directors at the time

attended our 2010 Annual Meeting of Stockholders held on February 4, 2010.

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Director Independence

The Board of Directors has determined that two of its members, Robert Mannarino and Gregory L. Cowan, would be considered independent under the current NASDAQ listing standards if those standards were applicable to the Company.

Committees of the Board of Directors. The Board of Directors has established two standing committees.

Audit Committee - - assists the Board of Directors in monitoring: (i) the integrity of the consolidated financial statements of the Company; (ii) the Company's compliance with legal and regulatory requirements related to the financial statements, including the Company's systems of internal controls regarding finance, accounting, legal compliance and ethics that have been established relating to such financial statements; and (iii) the independence and performance of the Company's external auditors. In addition, the Audit Committee maintains the sole responsibility to appoint, determine funding for, and oversee the independence and performance of our external auditors and has the authority to engage independent counsel and other advisors to assist in such responsibility. Each of the members of the Audit Committee is independent as that term is used in Section 10A(m)(3) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and would be independent under the NASDAQ listing standards if those standards were applicable to the Company. The Audit Committee met twelve times during 2010. The Audit Committee has adopted a written charter, a copy of which is available on our Internet website at www.emtecinc.com. Please note that information on our website is not incorporated by reference into this Proxy Statement. The current members of the Audit Committee are Mr. Cowan (Chairman) and Mr. Mannarino. The Board has determined that Mr. Cowan is an audit committee financial expert, as described in Rule 401(h) of Regulation S-K promulgated under the Securities Act of 1933, as amended.

Compensation Committee - - reviews and determines compensation arrangements for the Chief Executive Officer and President and the other executive officers. The Compensation Committee also oversees our equity compensation plans and makes recommendations to the Board of Directors regarding the compensation to be provided to the directors. The Compensation Committee has adopted a written charter, a copy of which is available on our Internet website at www.emtecinc.com. The Compensation Committee held sixteen meetings during 2010. The current members of the Compensation Committee are Mr. Mannarino (Chairman) and Mr. Cowan. Each member of the Compensation Committee would be "independent" as defined under the NASDAQ listing standards if those standards were applicable to the Company.

Nominating and Corporate Governance

At this time, given that the Board currently consists of four members, two of whom would be considered "independent" under the current NASDAQ listing standards if those standards were applicable to the Company, the Board has concluded that all members of the Board of Directors should convene for purposes of considering potential candidates to the Board. We expect that the Board will continue to review whether formation of a nominating and governance committee is appropriate.

The directors who would be considered "independent" under the current NASDAQ listing standards if those standards were applicable to the Company (the "Independent Directors") will consider director candidates recommended by stockholders. A description of the procedures a stockholder must follow to submit a director candidate and the criteria the Independent Directors will use to evaluate candidates is set forth on page 3 under the subheading "Board and Committee Meetings" and on page 38 under the heading "Stockholder Proposals for the 2011 Annual Meeting."

While the Company does not have a formal policy with regard to the consideration of diversity in identifying director nominees, the Company and the Board of Directors believe it is essential that the Board of Directors is able to draw on

a wide variety of backgrounds and professional experiences among its members. The Company desires to maintain the Board of Directors' diversity through the consideration of factors such as education, skills and relevant professional experience. The Company does not intend to nominate representational directors, but instead considers the entirety of each candidate's credentials in the context of these standards and the characteristics of the Board of Directors in its entirety.

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Board Leadership Structure and Role in Oversight Risk

Combining the positions of Chairman and Chief Executive Officer provides the Company with decisive and effective leadership. The Board believes that Mr. Desai's in-depth long-term knowledge of the Company's operations and vision for its strategic development and growth, along with his significant ownership position in the Company that provides him with a focus on maximizing stockholder value, make him well qualified to serve as both Chairman and Chief Executive Officer. The Board retains the authority to modify this structure to best advance the interests of all stockholders, if circumstances warrant such a change.

The Company faces a number of risks, including regulatory risk, credit risk, liquidity risk, reputational risk and risk from adverse fluctuations in interest rates. Management is responsible for the day-to-day management of risks faced by the Company, while the Board of Directors, as a whole and through its committees, has responsibility for the oversight of risk management. In its risk oversight role, the Board of Directors seeks to ensure that the risk management processes designed and implemented by management are adequate. The Board of Directors periodically consults with management regarding the Company's risks.

While the Board of Directors is ultimately responsible for risk oversight, the Company's two board committees assist the Board of Directors in fulfilling its oversight responsibilities in certain areas of risk. The Audit Committee assists the Board of Directors in overseeing risk management in the areas of financial reporting, internal controls and compliance with legal and regulatory requirements, and periodically reviews with management, internal auditors and independent auditors the adequacy and effectiveness of the Company's policies for assessing and managing risk. The Compensation Committee assists the Board of Directors in oversight and management of risks related to the Company's compensation policies and programs.

DIRECTORS

Our Certificate of Incorporation, as amended, and our Amended and Restated Bylaws provide that our business will be managed by a Board of Directors. Prior to the 2011 Annual Meeting, our Board of Directors has four directors. Each director serves for a term of three years or until his successor is elected and qualified. For the 2011 Annual Meeting, there are no director candidates being nominated by the Board of Directors.

Effective December 8, 2010, Mr. McAdams resigned as Director and Officer of the Company and all of its subsidiaries and affiliates. Mr. McAdams has continued as an employee of the Company in the areas of technology and strategic initiatives.

The Board of Directors believes that each of the current directors has the sound character, integrity, judgment and record of achievement necessary to be a member of the Board of Directors. In addition, each of the directors has exhibited during his prior service as a director the ability to operate cohesively with the other members of the Board of Directors and to challenge and question management in a constructive way. Moreover, the Board of Directors believes that each director brings a strong and unique background and skill set to the Board of Directors, giving the Board of Directors as a whole competence and experience in diverse areas, including corporate governance and board service, finance, management and healthcare industry experience. Set forth below are certain specific experiences, qualifications and skills that led to the Board of Directors' conclusion that each of the directors should continue to serve as a director.

Current Directors whose terms expire in 2012

Dinesh R. Desai

Director since August 5, 2005

Chairman, Chief Executive Officer and President. Mr. Desai, age 61, has served as the Chairman of the Board, Chief Executive Officer and President of the Company since August 2005. From 1986 to August 2005, Mr. Desai was the Chairman and CEO of DARR Global Holdings, Inc., a management consulting firm. Since 2004, he has also served as Chairman on the Board of Directors of Emtec Federal, Inc. (formerly Westwood Computer Corporation). Mr. Desai was a President, CEO, Co-Chairman and an owner of Western Sky Industries ("Western Sky"), a manufacturer of highly engineered, proprietary component parts used primarily in aerospace applications. Prior to 1986, Mr. Desai spent twelve years with American Can and Arco Chemical in various management positions, including marketing, manufacturing, finance, planning and research and development. Mr. Desai has also served as a member of the Board of Directors of the Enterprise Center, a Nonprofit Organization. Mr. Desai holds a Bachelor of Science Degree in chemical engineering from the Indian Institute of Technology in Bombay, India, and a Masters of Science Degree in both chemical and industrial engineering from Montana State University. He earned a Masters in Business Administration from Temple University in 1978. As the majority owner of the Company, Mr. Desai brings to the Board leadership and other executive skills and industry knowledge from his extensive experience.

Gregory Chandler

Director since August 5, 2005

Director, Chief Financial Officer and President of Emtec Global Services Division: Mr. Chandler, age 44, has been a Director since August 2005 and since April 2009, Mr. Chandler has been Chief Financial Officer of the Company and President of the Company's Global Services division. Prior to April 2009 and from February 1999, Mr. Chandler served as the Managing Director and Group Head of Janney Montgomery Scott LLC's Business Services Investment Banking Practice. Prior to February 1999 and from August 1995, Mr. Chandler was a consultant at PricewaterhouseCoopers advising companies in restructuring their back office financial operations. Mr. Chandler received his MBA from Harvard Business School, a B.S. in Engineering from the United States Military Academy at West Point and is also a Certified Public Accountant. Mr. Chandler brings both experience with the Company and

financial expertise, having come to the Company from Janney Montgomery Scott LLC where he was a Managing Director.

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Current Directors whose terms expire in 2013

Robert Mannarino

Director since May 24, 2006

Director. Mr. Mannarino, age 53, is currently the President of Boardroom Associates, a strategy consulting firm. Mr. Mannarino has held this position since 2005. From 2003 to 2006, Mr. Mannarino served as the Chairman, CEO and President of RewardsPlus, a benefits administration outsourcing firm. From 1997 to 2003, Mr. Mannarino also previously served as the President and Chief Operating Officer of two public companies, ICT Group and CDI Corporation, respectively. Mr. Mannarino has also served as the Chief Operating Officer of Checkfree's Investment Services business and held senior positions at ADP and Citigroup. Mr. Mannarino received an MBA from the University of Chicago Graduate School of Business and a Bachelor of Science Degree in Computer Science from Union College. Mr. Mannarino brings to the Board management, industry and compensation experience, as well as the advantage of being an independent director. He also utilizes his in-depth management experience in his service on the Audit Committee and Compensation Committee.

Gregory L. Cowan

Director since July 10, 2009

Director. Mr. Cowan, age 57, is currently the Senior Vice President and Chief Financial Officer of VWR Funding, Inc. ("VWR"). Mr. Cowan has held this position at VWR since June 2009. Mr. Cowan joined VWR in December 2004. Prior to assuming his current position, he served as Vice President and Corporate Controller at VWR. Before joining VWR, Mr. Cowan spent approximately five years at CDI Corporation in various senior financial positions, including Corporate Controller, Senior Vice President and Chief Accounting Officer and Chief Financial Officer. Prior to CDI Corporation, he was Vice President of Internal Audit at Crown Cork and Seal Company, Inc. for approximately six years and a senior manager at PricewaterhouseCoopers, LLC, where he served in various audit capacities, for eleven years. Mr. Cowan graduated from Rutgers University with a degree in Accounting. Mr. Cowan brings to the Board both management and accounting experience, as well as the advantage of being an independent director. He also has in-depth knowledge of finance, accounting and compensation policies in the industry, which he utilizes in his service on the Audit Committee and Compensation Committee.

APPROVAL OF AMENDMENT TO CORPORATE CHARTER TO INCREASE THE AUTHORIZED SHARES OF
COMMON STOCK
ITEM 1 ON PROXY CARD

The Board of Directors recommends that Article IV of the Company's Certificate of Incorporation, as amended, be further amended to increase the number of shares of authorized Common Stock by 5,000,000 shares, from 25,000,000 shares, par value \$0.01 per share, to 30,000,000 shares, par value \$0.01 per share, thereby increasing the total number of authorized capital stock from 25,000,000 shares, par value \$0.01 per share, to 30,000,000 shares, par value \$0.01 per share. The following description of this proposal is qualified in its entirety by reference to the proposed amendment to Article IV of the Company's Certificate of Incorporation, set forth below.

At its meeting held on December 16, 2010, the Board of Directors adopted a resolution recommending to the stockholders an amendment (the "Amendment") to the Company's Certificate of Incorporation to increase the number of shares of authorized capital stock from 25,000,000 shares, par value \$0.01 per share, to 30,000,000 shares, par value \$0.01 per share. These shares would consist of 30,000,000 shares of Common Stock, par value \$0.01 per share.

The Amendment will not have any material impact on the aggregate capital represented by the shares of capital stock for financial statement purposes.

Reasons for the Amendment

There are several reasons why the Company is seeking approval from its stockholders for the amendment to increase the authorized shares. The Company uses equity-based incentives and awards to attract, retain and motivate valuable employees and may desire to increase shares available for equity compensation in the future, including pursuant to the Emtec, Inc. 2011 Annual Incentive Plan and the 2006 Stock Based Incentive Plan, as amended. The Board of Directors also believes it is important to have the flexibility to use Common Stock or a combination of cash and stock as consideration in potential acquisitions and other strategic corporate transactions, to the extent such opportunities arise and for which the issuance of shares may be deemed advisable. It is intended that the additional shares of Common Stock created by the Amendment would be subject to issuance at the discretion of the Board of Directors from time to time for any proper corporate purpose without further action by the stockholders, except as may be required by law or regulation or by the rules of any stock exchange on which the Company's securities may then be listed.

The affirmative vote of the holders of a majority of the outstanding shares of Common Stock is required to adopt the proposed amendment to the Company's Certificate of Incorporation, as amended. If the amendment to Article IV of the Company's Certificate of Incorporation is authorized, the first paragraph of Article IV will read as follows:

"The total number of shares of capital stock that the Corporation shall have the authority to issue is thirty million (30,000,000) shares, which shall be shares of Common Stock and shall have a par value of \$0.01 per share."

The Board of Directors unanimously recommends a vote FOR the proposal to amend the Company's Certificate of Incorporation to increase the number of authorized shares.

APPROVAL OF AN INCREASE IN AUTHORIZED SHARES AND AWARD LIMITS UNDER
THE COMPANY'S 2006 STOCK-BASED INCENTIVE COMPENSATION PLAN
ITEM 2 ON PROXY CARD

At our Annual Meeting on May 8, 2006, the stockholders approved the Emtec, Inc. 2006 Stock-Based Incentive Compensation Plan (the "Plan"), which is the plan under which the Company presently grants stock options, restricted stock and other stock based awards to its employees and non-employee directors. In addition, at our Annual Meeting on February 2, 2009, the stockholders approved Amendment No. 1 to the Plan to increase the number of shares authorized for issuance thereunder from 1,400,000 to 2,543,207. On December 16, 2010, the Board of Directors approved Amendment No. 2 to the Plan ("Amendment No. 2), subject to stockholder approval, to (i) increase the number of shares authorized for issuance from 2,543,207 to 9,543,207, (ii) increase from 500,000 to 2,000,000 the maximum number of shares that may be issued pursuant to incentive stock options and (iii) increase from 500,000 to 2,000,000 the maximum number of shares that may be awarded to any participant as "qualified performance-based awards" during any performance period. If Amendment No. 2 is approved by the stockholders, the Company will file a Form S-8 to register the additional shares. As the Company's executive officers may participate in and receive benefits under the Plan, our executive officers have an interest in this proposal.

The Board of Directors believes that the Plan helps the Company attract, retain and motivate employees and non-employee directors, encourages them to devote their best efforts to the business and financial success of the Company and aligns their interests closely with those of the other stockholders. As of November 30, 2010, the Company had granted, net of cancellations, awards with respect to 1,143,207 shares of the Company's Common Stock. The Board of Directors believes it is in the best interest of the Company to increase the number of shares that are available for awards under the Plan, as well as the award limits describes in the preceding paragraph, because the increase will allow the Company to continue to grant stock-based compensation at levels it deems appropriate. In addition, because the Board of Directors is considering the future implementation of an incentive structure involving grants of stock options under the Plan to employees, including the chief executive officer and the executive officers of the officers of the Company, the vesting of which would occur only in the event of increases in stockholder value, the Board of Directors believes that the proposed increase in the number of shares authorized for issuance under the Plan is necessary and appropriate. Please note that the Board of Direct