

EMTEC INC/NJ
Form PRE 14C
May 06, 2013

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

Schedule 14C
(Rule 14c-101)

INFORMATION REQUIRED IN INFORMATION STATEMENT
SCHEDULE 14C INFORMATION

Information Statement Pursuant to Section 14(c) of the
Securities Exchange Act of 1934

Check the appropriate box:

- Preliminary Information Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14c-5(g))
- Definitive Information Statement

EMTEC, INC.
(Name of Registrant as Specified in its Charter)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14c-5(g) and 0-11.
 - 1) Title of each class of Securities to which Transaction applies:
 - 2) Aggregate number of securities to which Transaction applies:
 - 3) Per unit price or other underlying value of Transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):
 - 4) Proposed maximum aggregate value of Transaction:
 - 5) Total fee paid:
- Fee paid previously with preliminary materials.
- Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.
 - 1) Amount Previously Paid:
 - 2) Form, Schedule or Registration Statement No.:
 - 3) Filing Party:
 - 4) Date Filed:

EMTEC, INC.
11 Diamond Road
Springfield, New Jersey 07081
(973) 376-4242

Dear Stockholder:

This letter and accompanying information statement is being furnished to the stockholders of Emtec, Inc., a Delaware corporation (the “Company,” “we,” or “our”), to inform them of certain corporate actions intended to be taken by the Company which are designed to permit the Company to file for termination of registration of its common stock under the federal securities laws.

We Are Not Asking You for a Proxy and You are Requested Not To Send Us a Proxy. The corporate actions described in the accompanying information statement were recommended by a special committee of our independent non-management directors and approved by our Board of Directors (the “Board”) and by the written consent of holders of a majority of our issued and outstanding common stock. Under applicable law and our Amended and Restated Bylaws, as amended, we may effect the corporate actions described in the accompanying information statement without a meeting or vote of our stockholders if stockholders holding a majority of our issued and outstanding common stock have consented to such actions in writing. Accordingly, we are not asking for your vote on these matters and the accompanying information statement is being furnished solely for the purpose of informing you of the corporate actions described therein before they take effect.

The corporate actions described in the accompanying information statement include an amendment to the Company’s Certificate of Incorporation to effect a 20,000-for-1 reverse split of our common stock, followed immediately by a second amendment to the Company’s certificate of incorporation to effect a 1-for-20,000 forward stock split of our common stock. The transactions will not result in any change in the number of shares of common stock held by stockholders of the Company other than stockholders who, immediately before the effective time of the reverse stock split, own fewer than 20,000 shares of our common stock. Stockholders who own fewer than 20,000 shares of our common stock immediately before the effective time of the reverse stock split will no longer hold any of such shares after the transactions and instead will be entitled to receive \$1.05 cash for each such share. The Company expects to pay approximately \$1.05 million in the aggregate to purchase approximately 1.0 million shares of common stock in the transactions (approximately 5% of our total outstanding shares), and to thereby reduce the number of record stockholders of the company from approximately 525 to approximately 64. Each of these estimates uses the mean of a range of possible outcomes that we calculated using certain assumptions about shares held in street name.

With fewer than 300 stockholders of record expected after the transactions, the Company will be permitted to, and intends to, file for termination of registration of its common stock under the federal securities laws. Deregistration is expected to result in significant annual cost savings to the Company; however, deregistration would also, after a 90 day waiting period, result in the Company no longer being subject to certain disclosure and other requirements under the federal securities laws that are applicable to SEC reporting companies. Accordingly, stockholders of the Company after a deregistration will likely receive less, and less frequent, financial, business and other information about the Company than they received when we were an SEC reporting company. In addition, deregistration could negatively affect stockholders’ ability to buy or sell our common stock in the public markets as our outstanding shares will no longer be quoted on the Over-the-Counter Bulletin Board, although our common stock may continue to trade on the “pink sheets” after deregistration.

The accompanying information statement contains details of the corporate actions described above. You are urged to read it carefully and in its entirety.

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The accompanying information statement is first being mailed to our stockholders on or after May 6, 2013 to stockholders of record as of that date. The corporate actions described therein will take effect no earlier than 20 calendar days after the accompanying information statement is first mailed to our stockholders, or on or after May 27, 2013.

Thank you for your continued support.

Sincerely,

/s/ Dinesh R. Desai

Chairman, President and Chief Executive Officer

May 6, 2013

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS: APPROVED OR DISAPPROVED OF THE CORPORATE ACTION; PASSED UPON THE MERITS OR FAIRNESS OF THE CORPORATE ACTION; OR PASSED UPON THE ADEQUACY OR ACCURACY OF THE DISCLOSURE IN THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

EMTEC, INC.
11 Diamond Road
Springfield, New Jersey 07081
(973) 376-4242

PRELIMINARY

INFORMATION STATEMENT

INTRODUCTION

This Information Statement is furnished to the holders of common stock, par value \$.01 per share, of Emtec, Inc., a Delaware corporation (the “Company” or “Emtec”), having an address at 11 Diamond Road, Springfield, NJ 07081, in connection with the following corporate actions that have been recommended by the Special Committee (as hereinafter defined), unanimously approved by the Board of the Company on April 30, 2013, and approved by written consent in lieu of a meeting, dated May 1, 2013, of the holders of a majority of the Company’s issued and outstanding shares of common stock:

an amendment to the Company’s certificate of incorporation to effect a 20,000-for-1 reverse stock split of the Company’s common stock (the “Reverse Stock Split”); and

an amendment to the Company’s certificate of incorporation immediately following the Reverse Stock Split to effect a 1-for-20,000 forward stock split (the “Forward Stock Split”).

We refer to the Reverse Stock Split and the Forward Stock Split collectively as the “Transaction.”

The Reverse Stock Split will become effective at 4:58 p.m. (New York City time) on the date of filing with the Secretary of State of the State of Delaware of the certificate of amendment for the Reverse Stock Split, and the Forward Stock Split will become effective at 4:59 p.m. (New York City time) on the date of filing with the Secretary of State of the State of Delaware of the certificate of amendment for the Forward Stock Split. Emtec intends to file the certificates of amendment on or after May 27, 2013. We refer to the date and time that the Reverse Stock Split becomes effective as the “effective time of the Reverse Stock Split,” and we refer to the date and time that the Forward Stock Split becomes effective as either the “effective time of the Forward Stock Split” or the “effective time of the Transaction.”

The form of certificate of amendment for the Reverse Stock Split is attached as Appendix A to this Information Statement and the form of certificate of amendment for the Forward Stock Split is attached as Appendix B to this Information Statement.

The Transaction will not result in any change in the number of shares of common stock held by stockholders of Emtec other than stockholders who, immediately prior to the effective time of the Reverse Stock Split, own fewer than 20,000 shares of Emtec’s common stock. Stockholders owning fewer than 20,000 shares of common stock immediately before the effective time of the Reverse Stock Split will no longer own such shares after the effective time of the Reverse Stock Split and, in lieu thereof, will be entitled to receive from the Company \$1.05 in cash, without interest, for each such share of common stock. Based on current holdings of stockholders of record and our current knowledge of the ownership of Emtec’s shares held in street name, we estimate that approximately 1.0 million shares will be purchased from stockholders (approximately 5% of Emtec’s total outstanding shares), for an aggregate purchase price of approximately \$1.05 million, and that the number of record stockholders of the company will be

reduced from approximately 525 to approximately 64. Each of these estimates uses the mean of a range of possible outcomes that the Company calculated using certain assumptions about shares held in street name.

With fewer than 300 stockholders of record expected after the transactions, Emtec will be permitted to, and intends to, file for termination of registration of its common stock under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Deregistration is expected to result in significant annual cost savings to Emtec. Deregistration would also terminate Emtec’s obligation to file annual and periodic reports and proxy statements with the SEC. Accordingly, stockholders of Emtec after a deregistration will receive less, and less frequent, financial, business and other information about Emtec than they received when Emtec was an SEC reporting company. After a 90 day waiting period following deregistration of Emtec’s common stock, which we sometimes refer to as “the 90 day waiting period,” certain other provisions of the federal securities laws will no longer be applicable to Emtec and/or its directors, executive officers and stockholders. In addition, deregistration could negatively affect stockholders’ ability to buy or sell Emtec’s common stock in the public markets as our common stock will cease to be quoted on the Over-the-Counter Bulletin Board (“OTCBB”), although our common stock may continue to trade on the “pink sheets” after deregistration.

This document provides you with detailed information about the Transaction. Please see “Where You Can Find More Information” for additional information about Emtec on file with the Securities and Exchange Commission (the “SEC”).

This Information Statement was first mailed to stockholders on or after May 6, 2013, and the Transaction will take effect no earlier than 20 calendar days after this information statement was first mailed to our stockholders, or on or after May 27, 2013.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS: APPROVED OR DISAPPROVED OF THE CORPORATE ACTION; PASSED UPON THE MERITS OR FAIRNESS OF THE CORPORATE ACTION; OR PASSED UPON THE ADEQUACY OR ACCURACY OF THE DISCLOSURE IN THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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SUMMARY TERM SHEET

THIS SUMMARY TERM SHEET PROVIDES AN OVERVIEW OF THE MATERIAL TERMS OF THE CORPORATE ACTION DESCRIBED IN THIS INFORMATION STATEMENT. FOR A MORE COMPLETE DESCRIPTION WE URGE YOU TO CAREFULLY READ THIS INFORMATION STATEMENT AND ITS APPENDICES. FOR YOUR CONVENIENCE, WE HAVE CROSS-REFERENCED TO THE LOCATION IN THIS INFORMATION STATEMENT WHERE YOU CAN FIND A MORE COMPLETE DISCUSSION OF THE ITEMS DISCUSSED BELOW.

AS USED IN THIS INFORMATION STATEMENT, “EMTEC,” THE “COMPANY,” “WE,” “OUR,” “OURS” AND “US” REFER TO EMTEC, INC., A DELAWARE CORPORATION. REFERENCES TO OUR “CONTROLLING STOCKHOLDER” MEAN DINESH R. DESAI AND CERTAIN OF HIS AFFILIATES.

THE TRANSACTION

Emtec expects that, in connection with, or as a result of, the Transaction:

Emtec’s stockholders holding fewer than 20,000 shares of Emtec’s common stock immediately prior to the effective time of the Reverse Stock Split will no longer own such shares after the Transaction and instead will be entitled to receive a cash payment from Emtec of \$1.05 for each such share, without interest (see “Questions and Answers About the Transaction and the Form of your Share Ownership,” “Special Factors – Effects of the Transaction” and “The Transaction – The Amendments”);

All stockholders of Emtec other than stockholders holding fewer than 20,000 shares of Emtec’s common stock immediately prior to the effective time of the Reverse Stock Split (discussed above) will continue to hold the same number of shares of Emtec’s common stock after completion of the Transaction and such stockholders will not be entitled to receive any cash in the Transaction (see “Questions and Answers About the Transaction and the Form of your Share Ownership,” “Special Factors – Effects of the Transaction” and “The Transaction – The Amendments”);

Approximately 1.0 million shares of Emtec’s common stock, representing approximately 5% of Emtec’s total outstanding shares, are expected to be purchased from stockholders in the Transaction for an aggregate purchase price of approximately \$1.05 million (see “Special Factors – Effects of the Transaction – Effects on Emtec”); each of these estimates uses the mean of a range of possible outcomes that we calculated using certain assumptions about shares held in street name;

Emtec will terminate registration of its common stock under federal securities laws, thereby terminating Emtec’s obligation to file annual and periodic reports and proxy statements with the SEC, which will result in stockholders receiving less, and less frequent, business, financial and other information about Emtec. Emtec intends to continue to have its financial statements audited by an independent registered public accountant on an annual basis following the Transaction (see “Special Factors – Purpose of and Reasons For the Transaction” and “Special Factors – Effects of the Transaction”);

After the 90 day waiting period, certain other provisions of the federal securities laws will no longer be applicable to Emtec and/or its directors, executive officers and stockholders, including:

- provisions obligating persons acquiring 5% or more of Emtec’s common stock to file beneficial ownership reports with the SEC,
-

provisions regulating cash tender offers for more than 5% of Emtec's common stock, including tender offers by the issuer or its affiliates (other than Regulation 14E under the Exchange Act, which will continue to apply to all tender offers); and

provisions subjecting trading in Emtec's securities by directors, executive officers and 10% stockholders to reporting obligations and, in certain instances, disgorgement of profits from trading.

See “Special Factors – Purpose of and Reasons For the Transaction,” “Special Factors – Effects of the Transaction” and “Special Factors – Fairness of the Transaction – Interests of Emtec’s Directors and Executive Officers and Affiliates in the Transaction.”

Emtec anticipates cost savings of approximately \$825,000 per year, or approximately 2.5% of our total selling, general and administrative expenses and more than 22% of our operating income for the year ended August 31, 2012, as a result of the deregistration of its common stock, including compliance costs associated with the Sarbanes-Oxley Act of 2002 and related regulations (See “Special Factors – Purpose of and Reasons For the Transaction” and “Special Factors – Effects of the Transaction”);

Deregistration of Emtec’s common stock and the anticipated reduction of publicly available information for Emtec will likely negatively affect stockholders’ ability to buy or sell Emtec’s common stock as Emtec’s outstanding shares will no longer be quoted on the OTCBB, although our stock may continue to trade on the “pink sheets” after deregistration (See “Special Factors – Effects of the Transaction”).

Our Board appointed a special committee (the “Special Committee”) composed of our three non-management directors Gregory L. Cowan, Robert Mannarino and Christopher M. Formant, each of whom would be considered an independent director under the current NASDAQ listing standards if those standards were applicable to the Company, to evaluate, review, reject, or recommend to the Board the approval of the Transaction. The Special Committee retained the firm Murray, Devine & Co., Inc. (“Murray Devine”) to render an opinion to the Special Committee and the Board as to the fairness, from a financial point of view, of the price to be paid to the holders of fewer than 20,000 shares of common stock including unaffiliated stockholders (the “Fractional Stockholders”). See “Special Factors – Fairness of the Transaction.”

Based on the considerations described in this Information Statement, the Board, including the members of the Special Committee, as well as our Controlling Stockholder have determined that the Transaction is substantively and procedurally fair to Emtec’s stockholders, including Fractional Stockholders and stockholders, including unaffiliated stockholders, who will remain stockholders of Emtec after the Transaction is consummated. See “Special Factors – Fairness of the Transaction.” As used in this Information Statement, the terms “affiliated stockholder” and “affiliate” mean any stockholder who is a director or executive officer of Emtec, or who owns 10% or more of Emtec’s outstanding common stock (including our Controlling Stockholder) and the term “unaffiliated stockholder” means any stockholder other than an affiliated stockholder.

QUESTIONS AND ANSWERS ABOUT THE TRANSACTION AND THE FORM OF YOUR SHARE OWNERSHIP

Many of our stockholders hold their shares through a broker, bank or other nominee rather than directly in their own name. If you own shares through a brokerage account or bank or other nominee, you are considered the “beneficial owner” of the shares and the shares are commonly referred to as being held in “street name.” If you hold shares of our common stock in “street name,” then your broker, bank or other nominee is considered the stockholder of record with respect to those shares and not you. We intend to treat stockholders holding shares of our common stock in street name through a nominee (such as a bank or broker) in the same manner as stockholders whose shares are registered in their own name. If you hold 20,000 or more shares of common stock in street name, your shares will not be purchased in the Reverse Stock Split and you will remain a stockholder after consummation of the Transaction. On the other hand, if you hold fewer than 20,000 shares of common stock in street name, it is our intention that you receive cash for your shares. Notwithstanding anything to the contrary contained in this Information Statement, if you hold your shares in street name, the bank, broker or other nominee holding your shares may have its own internal procedures with respect to transactions like the Reverse Stock Split that may lead to a different result. For example, your nominee may also hold shares for other beneficial owners of our common stock such that, in the aggregate, the nominee holds 20,000 or more shares, and the nominee may not be obligated to treat the Transaction as affecting the holdings of each individual beneficial owner. In that case, you would not receive cash for your shares. IF YOU HOLD FEWER THAN 20,000 SHARES OF OUR COMMON STOCK IN STREET NAME, WE ENCOURAGE YOU TO CONTACT YOUR BANK, BROKER OR OTHER NOMINEE DIRECTLY AS SOON AS POSSIBLE TO DETERMINE HOW THEY INTEND TO TREAT YOUR SHARES AND, IF DESIRED, TO MAKE ARRANGEMENTS TO CHANGE THE FORM OF OWNERSHIP OF YOUR SHARES.

The following questions and answers are intended to serve as a guide to understanding how your shares will be treated in the Transaction. The answers below assume that brokers or other nominees of street name holders will apply the Transaction to each street name holder’s account independent of other accounts maintained by that nominee.

Q: IF I OWN LESS THAN 20,000 COMMON SHARES, HOW WILL I BE AFFECTED BY THE TRANSACTION?

A: Emtec’s stockholders holding fewer than 20,000 shares immediately prior to the effective time of the Reverse Stock Split will no longer own such shares after the Transaction and instead will be entitled to receive a cash payment from Emtec of \$1.05 for each such share, without interest.

Q: IF I OWN LESS THAN 20,000 COMMON SHARES, IS THERE ANY WAY I CAN CONTINUE TO OWN MY SHARES AFTER THE TRANSACTION?

A: Yes. If you own fewer than 20,000 shares, you can avoid having those shares purchased in the Reverse Stock Split, and continue to hold those shares after the Transaction, by purchasing additional shares and holding those shares such that you are the owner of 20,000 or more shares in the same discrete account. However, there has been very limited historical trading in Emtec’s shares so you may not be able to acquire additional shares at prices you would consider to be reasonable, or at all. Your increased holdings would need to be reflected prior to the effective time of the Reverse Stock Split.

Q: IF I OWN 20,000 OR MORE COMMON SHARES, HOW WILL I BE AFFECTED BY THE TRANSACTION?

A:

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If you own 20,000 or more shares immediately prior to the effective time of the Reverse Stock Split, following the Transaction, you will continue to hold the same number of shares of Emtec's common stock. You will not be entitled to receive any cash in the Transaction.

Q: WHAT HAPPENS IF I OWN 20,000 OR MORE COMMON SHARES, BUT THE SHARES ARE SPLIT AMONG DISTINCT ACCOUNTS AND I HOLD LESS THAN 20,000 COMMON SHARES IN EACH ACCOUNT?

A: We do not intend to pay cash to holders of 20,000 shares or more; however, there can be no assurance that our transfer agent will be able to successfully compare your holdings across multiple brokerage and/or record accounts. Accordingly, there is a significant risk that shares held by you in accounts with less than 20,000 shares will be purchased in the Reverse Stock Split even though you collectively own more than 20,000 shares of our common stock. To ensure that your shares will not be purchased in the Reverse Stock Split, you should contact your broker for shares held by you in street name, and our transfer agent for shares held by you of record, in order to register all of your holdings of record and/or consolidate your holdings in a single account.

Q: WHY IS THE COMPANY PROPOSING TO DO THE FORWARD STOCK SPLIT FOLLOWING THE REVERSE STOCK SPLIT?

A: The purpose of the Forward Stock Split is to make the Transaction as non-disruptive as possible to stockholders who are not receiving cash in the Transaction. Stockholders who are not entitled to receive cash in the Transaction will not be required to turn in their share certificates, if any, or otherwise take any action in connection with the Transaction. The Forward Stock Split is also intended to guard against an excessive increase in the Company's share price following the Transaction which could otherwise potentially result from the Reverse Stock Split. See "Special Factors – Purpose and Reasons for the Transaction" and "The Transaction – Exchange of Certificates."

Q: DO THE OFFICERS AND DIRECTORS OF EMTEC THAT CONSIDERED THE TRANSACTION AND THE CONTROLLING STOCKHOLDER THAT APPROVED THE TRANSACTION HAVE ANY POTENTIAL CONFLICTS OF INTEREST THAT THE COMPANY'S STOCKHOLDERS SHOULD BE AWARE OF?

A: Certain of our officers, certain of our directors and the Controlling Stockholder own more than 20,000 shares of Emtec's common stock and will remain stockholders of Emtec following the consummation of the Transaction. Following the Transaction and subsequent deregistration of Emtec's common stock, Emtec's officers, directors and the Controlling Stockholder will no longer be subject to certain filing requirements under the Exchange Act. Although these circumstances may create potential conflicts of interest, our officers, directors and the Controlling Stockholder will be treated identically in the Transaction to our other stockholders that own more than 20,000 shares of common stock, including unaffiliated stockholders. See "Special Factors – Fairness of the Transaction – Interests of Emtec's Directors and Executive Officers and Affiliates in the Transaction."

Q: AM I ENTITLED TO APPRAISAL RIGHTS IN CONNECTION WITH THE TRANSACTION?

A: No. Stockholders do not have appraisal or dissenters' rights under Delaware state law or Emtec's Certificate of Incorporation, as amended, or Amended and Restated Bylaws in connection with the Transaction. See "The Transaction – No Appraisal or Dissenters' Rights; Escheat Laws."

RECENT DEVELOPMENTS

On April 12, 2013, the Company entered into an exclusive non-binding letter of intent to contribute the assets, liabilities, stock and other interests of Emtec Federal, Inc. into Emtec Federal, LLC (“Federal”), which will then contribute those assets, liabilities, stock and other interests into a joint venture (the “Federal JV”) in which the Company will retain a preferred and common non-controlling ownership interest. Federal provides information technology consulting and procurement services to various agencies of the U.S. federal government. It is currently contemplated that the counterparty to the joint venture will contribute its similar business to the joint venture in exchange for a common and preferred ownership interest, and certain outside investors will also contribute cash in exchange for common and preferred ownership interests. Consummation of the Federal JV is subject to completion of due diligence, negotiation and execution of mutually acceptable definitive agreements and receipt of all necessary approvals, including approvals from the Company’s lenders and the Board. There can be no assurance that the Federal JV will be consummated on the terms currently contemplated or at all.

SPECIAL FACTORS

PURPOSE OF AND REASONS FOR THE TRANSACTION

The purpose of the Transaction is to reduce the number of common stockholders of record to fewer than 300, permitting Emtec to file for termination of registration of its common stock under the federal securities laws. Termination of such registration will terminate Emtec's obligation to file annual and periodic reports and make other filings with the SEC, which we expect will result in material cost savings for Emtec. The Board concluded, and the Special Committee and our Controlling Stockholder concurred, that the costs and time commitment of management associated with being an SEC reporting company, including, but not limited to, the costs associated with compliance with the Sarbanes-Oxley Act of 2002 and related regulations, are not justified by the benefits derived by Emtec as a result of being an SEC reporting company. Emtec estimates that it will save approximately \$825,000, or approximately 2.5% of our total selling, general and administrative expenses and more than 22% of our operating income for the year ended August 31, 2012, annually by terminating the registration of its common stock, including incremental legal, accounting and printing fees attributable to complying with the reporting requirements. Emtec expects to save this amount even though it intends to continue to have its financial statements audited by an independent registered public accountant on an annual basis following the Transaction.

The reduction in the number of stockholders of record is being effectuated by the Reverse Stock Split which will result in stockholders holding fewer than 20,000 shares of common stock receiving \$1.05 per share. The Special Committee established the 20,000-for-1 ratio for the Reverse Stock Split in an effort to: first, establish a ratio that was reasonably likely to reliably reduce the number of stockholders of record to less than 300 and to a sufficiently low level that it was unlikely we would need to register our shares with the SEC in the foreseeable future; and second, limit the cost associated with purchasing fractional shares to a reasonable amount.

The Reverse Stock Split will be immediately followed by the Forward Stock Split. The ratio applicable to the Forward Stock Split is 1-for-20,000. Accordingly, a stockholder who owns 20,000 or more shares of common stock immediately prior to the effective time of the Reverse Stock Split will hold the same number of shares of common stock immediately following the Transaction. The purpose of the Forward Stock Split is to make the Transaction as non-disruptive as possible to stockholders who are not receiving cash in the Transaction. Stockholders who are not entitled to receive cash in the Transaction will not be required to turn in their share certificates, if any, or otherwise take any action in connection with the Transaction. The Forward Stock Split is also intended to guard against an excessive increase in the Company's share price following the Transaction which could otherwise potentially result from the Reverse Stock Split.

The Transaction was structured to include a reverse stock split because the Board, including the members of the Special Committee, determined (and our Controlling Stockholder concurred) that it was the most effective means for ensuring that, following the Transaction, Emtec would sufficiently reduce the number of record holders to deregister Emtec's common stock (see "– Alternatives Considered"). Although the Reverse Stock Split does not provide for appraisal or dissenters' rights under Delaware law or under our certificate of incorporation or bylaws, Emtec, our Board, including the Special Committee, and our Controlling Stockholder believe that the Transaction is procedurally and substantively fair to Emtec's stockholders, including unaffiliated stockholders, who will be cashed out in the Transaction, and Emtec's stockholders, including unaffiliated stockholders, who will remain stockholders of Emtec following the consummation of the Transaction. Accordingly, neither the Board, including the members of the Special Committee, nor the Controlling Stockholder considered the absence of appraisal rights to be a material factor in determining to structure the Transaction to include the Reverse Stock Split.

The Transaction is being undertaken at this time because the Board, including the members of the Special Committee, believes that it is in the best interests of Emtec and its stockholders, including unaffiliated stockholders, to obtain the cost savings expected to be derived from the Transaction. The Company believes that it and its stockholders have derived only minimal benefits from being an SEC reporting company. Our common stock has failed to attract substantial institutional investor or market research attention. This has resulted in a minimal trading volume and low market capitalization, which has limited the liquidity benefit to our stockholders. Our management does not believe that we should continue to pay the expense of complying with the requirements of being an SEC reporting company in light of the fact that we have not realized many of the benefits normally presumed to result from being an SEC reporting company such as the development or existence of an active trading market for our common stock in a meaningful way or an enhanced corporate image. See “Special Factors – Fairness of the Transaction – Background of the Transaction.”

EFFECTS OF THE TRANSACTION

As a result of the Reverse Stock Split, Emtec’s stockholders holding fewer than 20,000 shares of Emtec’s common stock before the effective time of the Reverse Stock Split, subject to special considerations described below for holders of common stock in street name, will be entitled to receive a cash payment from Emtec of \$1.05 per share, without payment of interest, for each share of common stock held immediately