

EMTEC INC/NJ  
Form DEF 14A  
December 29, 2006

## 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

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## Emtec, Inc.

(Name of Registrant as Specified in Its Charter)

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*Philadelphia, PA 19104*

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EMTEC, INC.

525 Lincoln Drive West

5 Greentree Center, Suite 117

Marlton, New Jersey 08053

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**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**TO BE HELD ON January 22, 2007**

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Dear Stockholders,

The Annual Meeting of Stockholders of Emtec, Inc. (the Company) will be held at 309 Fellowship Road, 2nd Floor, Mt. Laurel, NJ 08054, on Monday, January 22, 2007, commencing at 10:00 a.m for the following purposes:

- To elect one Class A director to the Board of Directors to serve for a term ending at the 2010 Annual Meeting and until his respective successor has been elected and qualified;
- To elect one Class B director to the Board of Directors to serve for a term ending at the 2008 Annual Meeting and until his successor has been elected and qualified;
- To ratify the appointment of McGladrey & Pullen, LLP as our independent registered public accounting firm for the fiscal year ending August 31, 2007; 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 record date for determining those stockholders, who will be entitled to notice of, and vote at, the Annual Meeting, or any adjournment thereof, is December 29, 2006. 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. 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

Trenton, New Jersey

December 29, 2006

EMTEC, INC.

525 Lincoln Drive West

5 Greentree Center, Suite 117

Marlton, New Jersey 08053

**PROXY STATEMENT**

**FOR ANNUAL MEETING OF STOCKHOLDERS**

**TO BE HELD ON January 22, 2007**

This proxy statement and the accompanying proxy card are being mailed beginning on or about December 29, 2006 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 22, 2007, at 10:00 a.m. at 309 Fellowship Road, 2nd Floor, Mt. Laurel, NJ 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, 2006, 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 29, 2006 (the Record Date) are entitled to vote at the Annual Meeting. On that date, 14,385,286 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, 525 Lincoln Drive West, 5 Greentree Center, Suite 117, Marlton, New Jersey, beginning January 2, 2007. 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 29, 2006. 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, directors will be elected by a plurality of the votes cast at the Annual Meeting. Ratification of the appointment of our independent registered public accounting firm requires the affirmative vote of a majority of shares present and entitled to vote at the Annual Meeting and voting 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. 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 Items 1, 2, and 3 has been cast.

**Q: WHO CAN ATTEND THE ANNUAL MEETING:**

A: All stockholders as of December 29, 2006, 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 Stephen C. Donnelly, our Chief Financial Officer, to vote on such matters at their discretion.

**Q: WHO ARE THE LARGEST PRINCIPAL STOCKHOLDERS?**

A: As of December 29, 2006, 2006, Mr. Desai owned a total of 7,622,488 shares of our Common Stock (53.0%), 7,022,488 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 Mary Margaret Gabel, spouse of Keith Gabel, President of Westwood, owned 1,905,622 shares (13.2%).

## **CORPORATE GOVERNANCE**

In accordance with the General Corporation Law of the State of Delaware and our Certificate of Incorporation and Bylaws, our business, property and affairs are managed under the direction of the Board of Directors. The Board delegates the conduct of business to the Company's senior management team. Although our 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, 2006, the board held five meetings. Each director attended all the meetings. 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 its current form in July 2004, applicable to all of its employees, including its Principal Executive Officer, Principal Financial Officer and Principal Accounting Officer, as well as the members of its 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., 525 Lincoln Drive West, 5 Greentree Center, Suite 117, Marlton, New Jersey 08053, 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 ([www.emtecinc.com](http://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. All directors attended our 2006 Annual Meeting of stockholders except Mr. Robert Mannarino, who was not our director at that date.



## Director Independence

The Board of Directors has determined that Messrs. Chandler and Mannarino are independent under the listing standards of the National Association of Securities Dealers.

**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 internal and 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 under the listing standards of the National Association of Securities Dealers and as that term is used in Section 10A(m)(3) of the Securities Exchange Act of 1934, as amended (the Exchange Act). The Audit Committee met two times during 2006. The Audit Committee has adopted a written charter, a copy of which is available on our Internet website at [www.emtecinc.com](http://www.emtecinc.com). The current members of the Audit Committee are Mr. Chandler (Chairman) and Mr. Mannarino. The Board has determined that Mr. Chandler is a 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 President and the other executive officers. The Compensation Committee also administers 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](http://www.emtecinc.com). The Compensation Committee held four meetings during 2006. The current members of the Compensation Committee are Mr. Mannarino (Chairman) and Mr. Chandler. Each member of the Compensation Committee is independent as defined under the listing standards of the National Association of Securities Dealers.

*Nominating and Corporate Governance* - - At this time, given that the Board consists of five members, two of whom are independent as defined under the listing standards of the National Association of Securities Dealers, 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 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 26 under the heading Stockholder Proposals for the 2008 Annual Meeting.

## Director Compensation

Effective June 1, 2006, our independent directors, Mr. Gregory P. Chandler and Mr. Robert Mannarino, who are not employees of the Company, became entitled to receive an annual fee of \$15,600. Non-employee directors also receive a fee for each regular meeting of the Board of Directors attended in person and a fee for each regular meeting of the Board of Directors attended telephonically. In addition, non-employee directors receive a fee for each special meeting of the Board of Directors attended. These meeting fees range from \$100 a meeting to \$1,000 per day per meeting. Independent directors receive reimbursement of out-of-pocket expenses incurred for each Board meeting or committee



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meeting attended and any other expenses incurred while working in his capacity as a Board member. Prior to June 1, 2006 and since August 5, 2005, our independent directors received an annual fee of \$20,000, plus stock options.

In fiscal 2006, Mr. Chandler received \$20,000 and Mr. Mannarino received \$5,000 for services to the Board during the fiscal year ended August 31, 2006. On October 19, 2006, each of Mr. Chandler and Mr. Mannarino received options to purchase an aggregate of 20,000 shares of Common Stock for joining the board. On November 3, 2006, Mr. Chandler received options to purchase 20,000 shares of Common Stock for services performed during the year ended August 31, 2005 and 2006 and Mr. Mannarino received option to purchase 10,000 shares of Common Stock for services performed during the year ended August 31, 2006.

Directors who are employees of the Company do not receive additional compensation for serving on the Board or committees of the Board.

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**ELECTION OF DIRECTORS**

**ITEMS 1 AND 2 ON PROXY CARD**

Our Certificate of Incorporation and Bylaws provide that our business will be managed by a Board of Directors. Our Board of Directors currently has five directors, divided into two classes. Four of the directors are Class A directors and one of the directors is Class B director. Each of the Class A directors serves for a term of three years or until his successor is elected and qualified and the Class B directors serves for a term of one year or until his successor is elected and qualified.

Director candidates are nominated by the Board of Directors. The Board of Directors did not receive any stockholder recommendations for a director candidate to be considered for election at the Annual Meeting.

At the Annual Meeting, one Class A director and one Class B director are to be elected. Mr. Mannarino, and Mr. Grabel have consented to being named as nominees for director of the Company and have agreed to serve if elected. We do not anticipate that either of them will be unable to stand for election. If that occurred, the Board would designate a substitute. If a substitute were designated, the shares represented by proxy will be voted for the substituted candidate designated by the Board of Directors. You may vote for or withhold from voting on this matter. Assuming a quorum is present, director elections are determined by a plurality of the votes cast at the Annual Meeting.

**Information about the Nominees**

*Nominee for election to the Board of Directors as a Class A director, for a three-year term expiring in 2010.*

**Robert Mannarino** **Director since May 24, 2006**

*Director.* Mr. Mannarino, age 49, is currently the President of Boardroom Associates, a strategy consulting firm. Prior to this, Mr. Mannarino served as the Chairman, CEO and President of RewardsPlus, a benefits administration outsourcing firm. Mr. Mannarino has 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 has held senior positions at ADP and Citigroup. Mr. Mannarino has an MBA from the University of Chicago Graduate School of Business and a Bachelor of Science Degree in Computer Science from Union College.

*Nominee for election to the Board of Directors, as a Class B director, for a one-year term expiring in 2008.*

**Keith Grabel** **Director since August 5, 2005**

*Director and President of Sales and Marketing.* Since August 5, 2005, Mr. Grabel has been Director and President of Sales and Marketing of the Company. Prior to August 2005 and from 2000, Mr. Grabel held the positions of president and director of Westwood Computer Corporation. Mr. Grabel graduated from the University of Miami School of Business in 1974.

**Board Recommendation**

**Your Board of Directors unanimously recommends a vote FOR the election of Mr. Mannarino, as a Class A director and FOR the election of Mr. Grabel as a Class B director.**

**Current Directors whose terms expire in 2009**

**Dinesh R. Desai**

**Director since August 5, 2005**

*Chairman, Chief Executive Officer and President.* Since August 5, 2005, Mr. Desai, age 56, has been Chairman of the Board, Chief Executive Officer and President of the Company. Prior to August 2005 and from 1986, Mr. Desai has been the Chairman and CEO of DARR Global Holdings, Inc., a management consulting firm. Since 2004, he has served as Chairman on the Board of Directors of Westwood Computer Corporation. Mr. Desai was a President, CEO, Co-Chairman and an owner of a privately-held manufacturer, Western Sky Industries ( Western Sky ), of highly engineered, proprietary component parts used primarily in aerospace applications. Western Sky grew from approximately \$3mm in revenues to over \$170 million in revenues during the 1990 s prior to being sold to McKechnie in 1999. 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.

**Brian McAdams**

**Director since August 5, 2005**

*Director and Vice Chairman.* Since August 5, 2005, Mr. McAdams, age 64, has been Director and Vice Chairman of the Company. Prior to August 2005 and from 2001, Mr. McAdams served as a Senior Partner with DARR Global Holdings, as the Vice Chairman of Westwood Computer Corporation, the CEO of Passport Express Services, Inc., and the CEO of My Help Desk, Inc. He has held prior positions as director at two public companies: Crusader Bank Corporation and National Media Corporation, where he served as both Chairman and CEO.

**Gregory Chandler**

**Director since August 5, 2005**

*Director.* Mr. Chandler, age 40, currently works as the Managing Director of the Business and IT Services Investment Banking Practice at Janney Montgomery Scott LLC, where he has been employed since 1999. Prior to this, he worked as a manager in the Office of the CFO consulting practice at PricewaterhouseCoopers. He has also worked in the Business Assurance Practice at Coopers & Lybrand, and served as an officer in the United States Army. Mr. Chandler received his undergraduate degree from the United States Military Academy at West Point and a Masters in Business Administration from Harvard University.

**RATIFICATION OF INDEPENDENT PUBLIC ACCOUNTANTS**

**ITEM 3 ON PROXY CARD**

Subject to stockholder ratification, the Audit Committee of the Board of Directors has appointed the firm of McGladrey & Pullen, LLP ( McGladrey ), as the independent registered public accounting firm, to audit and report on our consolidated financial statements for our fiscal year ended August 31, 2007.

As previously disclosed, on March 29, 2006, the Company dismissed Ernst & Young LLP ( EY ) as the Company s independent registered public accounting firm. The Company s board of directors, then functioning as the audit committee, unanimously approved the dismissal of EY.

EY s reports on the Company s financial statements for each of our two fiscal years ended August 31, 2005 and 2004, respectively (collectively, the Prior Fiscal Years ), contained no adverse opinion or disclaimer of opinion, nor were such reports qualified or modified as to uncertainty, audit scope or accounting principles.

McGladrey was retained as our independent registered public accounting firm. We did not consult with McGladrey during (i) either the Prior Fiscal Years or the Interim Period with respect to (i) either the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on our financial statements, or (ii) any matter that was either the subject of a Disagreement or a Reportable Event.

Pursuant to Item 304(a)(3) of Regulation S-K, we have provided EY and McGladrey with a copy of this proxy statement. If either of these accounting firms believes the statements made in this proxy statement is incorrect or incomplete, it is entitled to present its views in a brief statement to be included in this proxy statement.

One or more representatives of McGladrey are expected to attend the Annual Meeting. They will have the opportunity to speak at the meeting if they desire to do so and will also be available to respond to appropriate questions.

**Audit Fees; Audit-Related Fees; Tax Fees; All Other Fees**

The following table sets forth the aggregate fees incurred by us for the fiscal years ended August 31, 2006 and 2005 to our principal auditing firm:

	<u>2006</u>		<u>2005</u>
Audit Fees	\$ 282,356	(1)	\$ 450,000
Audit Related Fees	0		0
Tax Fees	0		38,530
All Other Fees	0		145,000
Total	\$ 282,356		\$ 633,530

(1) Includes \$45,242 paid to EY in connection with the SAS 100 review of Form 10-Q for three months ended November 30, 2005.

*Audit Fees:* The Audit Fees for the fiscal years ended August 31, 2006 and August 31, 2005 were for professional services rendered for the audits of the financial statements of the Company, quarterly reviews, and assistance with the review of documents filed with the Securities and Exchange Commission.



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*Audit Related Fees:* The Audit Related Fees for the fiscal years ended August 31, 2006 and August 31, 2005 were for attendance at the annual stockholders meeting.

*Tax Fees:* The Tax Fees for the fiscal years ended August 31, 2006 and August 31, 2005 were for services performed in connection with income tax compliance.

*All Other Fees:* All Other Fees for the fiscal years ended August 31, 2006 and August 31, 2005 were for professional services rendered relating to acquisitions and other technical services.

Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditor.

All the services described above were approved by our Audit Committee. In accordance with the charter of our Audit Committee and consistent with the policies of the Securities and Exchange Commission, all auditing services and all non-audit services to be provided by any independent auditor of the Company shall be pre-approved by the Audit Committee. In assessing requests for services by the independent auditor, the Audit Committee considers whether such services are consistent with the auditor's independence, whether the independent auditor is likely to provide the most effective and efficient service based upon their familiarity with the Company, and whether the service could enhance the Company's ability to manage or control risk or improve audit quality.

In making its recommendation to ratify the appointment of McGladrey as our auditor for the current fiscal year, the Audit Committee has considered whether the non-audit services provided by McGladrey are compatible with maintaining the independence of McGladrey.

**Your Board of Directors unanimously recommends a vote FOR the ratification of the selection of McGladrey & Pullen, LLP as the auditors of the Company.**

### REPORT OF THE AUDIT COMMITTEE

The information contained in this report shall not be deemed to be soliciting material or filed or incorporated by reference in future filings with the Securities and Exchange Commission, or subject to the liabilities of Section 18 of the Exchange Act, except to the extent that we specifically incorporate it by reference into a document filed under the Securities Act of 1933, as amended, or the Exchange Act.

The Audit Committee ( Audit Committee ) oversees the Company's financial reporting process on behalf of the Board of Directors, and is composed of two independent Directors who are not officers or employees of the Company. In 2006, the Audit Committee consisted of Gregory Chandler and, upon his appointment as Director on May 24, 2006, Robert Mannarino. The Audit Committee operates under a written charter that was adopted in July 2006 by the Board of Directors. The Audit Committee held two official meetings between the date the Charter was adopted and the end of the fiscal year. The Audit Committee Charter can be accessed on the Internet via the Company's website at [www.emtecinc.com](http://www.emtecinc.com).

All current members of the Company's Audit Committee are independent within the meaning of the rules of the Securities and Exchange Commission. Gregory Chandler, the Chairman of the Audit Committee meets the definition of audit committee financial expert (as defined by the Securities and Exchange Commission).

The Audit Committee oversees the Company's financial reporting process on behalf of the board. Management is responsible for the Company's financial reporting process including its system of internal control, and for the preparation of consolidated financial statements in accordance with accounting principals generally accepted in the United States ( GAAP ). The Company's independent auditors are responsible for auditing those financial statements.





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Our responsibility is to monitor and review these processes. It is not our duty or our responsibility to monitor and review these processes. It is not our duty or our responsibility to conduct auditing or accounting reviews or procedures.

In fulfilling its oversight responsibilities, the Audit Committee reviewed the audited financial statements in the Annual Report on Form 10-K with management, including a discussion of the quality and the acceptability of the Company's financial reporting and controls and procedures and the certifications by the Company's Chief Executive Officer and Chief Financial Officer, which are required by the Securities and Exchange Commission under the Sarbanes-Oxley Act of 2002 for certain of the Company's filings with the Securities and Exchange Commission.

The Audit Committee reviewed with the independent auditors, who are responsible for expressing an opinion on the conformity of those audited financial statements with GAAP, their judgments as to the quality and the acceptability of the Company's financial reporting and such other matters as are required to be discussed with the Audit Committee under the standards of the Public Company Accounting Oversight Board (United States). In fulfilling its oversight responsibilities, the Audit Committee reviewed the audited financial statements in the Annual Report on Form 10-K with the independent auditors. The Audit Committee has also discussed with the independent auditors for the Company the matters required to be discussed by Statement on Auditing Standards No. 61, Communication with Audit Committees, as amended.

The Audit Committee has received the written disclosures and the letter required by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees, and has discussed with the independent auditors their independence. The Audit Committee reviews and approves any non-auditing services to be provided by McGladrey & Pullen, LLP prior to the firm being retained to perform such services.

We are not employees of the Company and we are not accountants or auditors by profession. Therefore, we have relied, without independent verification, on management's representation that the financial statements have been prepared with integrity and objectively and in conformity with GAAP and on the representations of the independent auditors included in their report on the Company's financial statements. Our oversight does not provide us with an independent basis to determine that management has maintained appropriate accounting and financial reporting principles or policies, or appropriate internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. Furthermore, our considerations and discussions with management and the independent auditors do not assure that the Company's financial statements are presented in accordance with GAAP, that the audit of the Company's financial statements has been carried out in accordance with the standards of the Public Company Accounting Oversight Board (United States) or that our Company's independent accountants are in fact independent.

The Audit Committee has reappointed, subject to stockholder ratification, the firm of McGladrey & Pullen, LLP, certified public accountants, as the Company's independent registered public accounting firm to audit and report upon the Company's financial statements for 2007. In appointing McGladrey & Pullen, LLP as the Company's auditors for the year ending August 31, 2007, the Audit Committee has considered whether McGladrey & Pullen, LLP's provision of services other than audit services are compatible with maintaining their independence.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Annual Report on Form 10-K for the fiscal year ended August 31, 2006 for filing with the Securities and Exchange Commission.

AUDIT COMMITTEE

GREGORY CHANDLER, CHAIRMAN

ROBERT J. MANNARINO



**EXECUTIVE COMPENSATION**

The following table sets forth the aggregate compensation that we paid for services rendered by our Chief Executive Officer and our four most highly paid executive officers other than our Chief Executive Officer, during the fiscal year ended August 31, 2006 and to our former chief executive officer and president:

**Summary Compensation Table**

Name and Principal Position	Fiscal Year	Annual Compensation		Other Annual Compensation	Awards		Long Term Compensation		All Other Compensation
		Salary	Bonus		Restricted Stock Awards	Number of Options	Long Term Incentive Payouts	Incentive Payouts	
Dinesh R. Desai (1) Chief Executive Officer	2006	\$ 285,000							\$ 350,000(4)
	2005	\$ 19,731							\$ 350,000(4)
	2004								\$ 116,664(4)
Keith Grabel (2) President Sales and	2006	\$ 283,654	\$ 410,000(8)						