

EMTEC INC/NJ  
Form 10-K  
November 26, 2010

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-K

(MARK ONE)

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

For the fiscal year ended August 31, 2010

OR

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

For the transition period from.....to.....

Commission file number: 0-32789

EMTEC, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State of incorporation or organization)

87-0273300

(I.R.S. Employer Identification No.)

11 Diamond Road

Springfield, New Jersey 07081

(Address of principal executive offices, including zip code)

(973) 376-4242

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Title of  
class  
Common  
Stock  
\$0.01 par  
value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):  Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of February 28, 2010 was approximately \$8,356,396 computed by reference to the closing price of the common stock for that date.

As of November 9, 2010, there were outstanding 16,119,931 shares of the registrant's common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following document are incorporated by reference in the Part of this report indicated below:

Part III – Registrant's Proxy Statement for the 2011 Annual Meeting of Stockholders

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EMTEC, INC.

2010 FORM 10-K ANNUAL REPORT

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

#### Cautionary Statement Regarding Forward-Looking Statements

You should carefully review the information contained in this Annual Report and in other reports or documents that we file from time to time with the Securities and Exchange Commission (the “SEC”). In this Annual Report, we state our beliefs of future events and of our future financial performance. In some cases, you can identify those so-called “forward-looking statements” by words such as “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “believes,” “predicts,” “potential,” or “continue” or the negative of those words and other comparable words. You should be aware that those statements are only our predictions. Actual events or results may differ materially. In evaluating those statements, you should specifically consider various factors, including the risks discussed in this Annual Report for the year ended August 31, 2010 and other reports or documents that we file from time to time with the SEC. Those factors may cause our actual results to differ materially from any of our forward-looking statements. All forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by this cautionary statement.

Assumptions relating to budgeting, marketing, and other management decisions are subjective in many respects and thus susceptible to interpretations and periodic revisions based on actual experience and business developments, the impact of which may cause us to alter our marketing, capital expenditure, or other budgets, which may in turn affect our business, financial position, results of operations and cash flows.

## PART I

### Item 1. Business

#### Introduction

Emtec, Inc., a Delaware corporation, was formed on January 17, 2001 and is an information technology (“IT”) services provider. We provide consulting, application services and infrastructure services to public sector and commercial clients. The Company’s client base is comprised of departments of the United States and Canada’s federal, state/provincial and local governments, schools and commercial businesses throughout the United States and Canada.

Over the last year, we have transformed the business by structuring our sales efforts to specific client niche groups referred to as vertical industry practices (“verticals”) such as the federal government, school districts, state and local governments and commercial business as well as adding and acquiring new technology practices (“horizontal”) in the areas of strategic IT consulting, business application services and infrastructure consulting and services. This restructuring has helped transform our business into broad based IT services of lifecycle technology services and managed technology services.

Our primary business objective is to become a leading single-source provider of high quality and innovative consulting, business application services, managed services and IT infrastructure.

We service our client base from leased facilities in California, Georgia, Florida, Illinois, New Jersey, Pennsylvania, Virginia in the United States, India and Canada.

Our headquarters and principal offices are located at 11 Diamond Road, Springfield, New Jersey; telephone: (973) 376-4242. Our website is [www.emtecinc.com](http://www.emtecinc.com). We have made available free of charge through our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, other reports and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after such material was electronically filed with, or furnished to, the SEC. The information on our website is not part of or incorporated by reference in this Annual Report.

#### Recent Acquisitions

On March 20, 2008, the Company acquired, through its subsidiary Emtec Global Services LLC (“Emtec Global Services”), all of the outstanding stock of Luceo, Inc. (“Luceo”) headquartered in Naperville, IL. During 2009, we rebranded Luceo into the Emtec Enterprise Resource Planning (“ERP”) and Application Development Practice. This practice offers a broad range of consulting/contracting services to clients throughout the United States including IT project management services, packaged software implementation, web technologies/client server application development and support.

On August 13, 2008, the Company acquired, through its subsidiary Emtec Global Services, all of the outstanding stock of eBusiness Application Solutions, Inc. (“eBAS”) and Aveeva, Inc. (“Aveeva”) headquartered in Fremont, CA and their Indian subsidiary Aviance Software India Private Limited (“Aviance”) headquartered in Bangalore, India. During 2009, eBAS and Aveeva were rebranded in 2009 into the Emtec Business Analysis and Quality Assurance Practice. This practice offers a broad range of business and software consulting services, including process reengineering, business analysis, quality assurance, testing and training. Many of our consultants have applied their skills in this practice in technologies such as ERP, customer relationship management, Oracle Applications, business intelligence and Java based solutions throughout the United States. In 2010, we rebranded Aviance into Emtec Software India.



On February 12, 2009, the Company acquired through its subsidiary, Emtec Infrastructure Services Corporation (“EIS-US”), all of the outstanding stock of KOAN-IT Corp. headquartered in Ottawa, Canada (“KOAN-IT”) and KOAN-IT (US) Corp. (“KOAN-IT (US)”). KOAN-IT is a consulting firm specializing in business service management methodologies for its clients in Canada and the United States. As of March 1, 2009 KOAN-IT Corp. and 7119747 Canada Inc., a subsidiary of EIS-US, were amalgamated to form Emtec Infrastructure Services Canada Corporation (“EIS-Canada”), which is referred to in this report as KOAN-IT.

On May 12, 2009, the Company acquired through its subsidiary, KOAN-IT (US), certain assets of Enterprise Management Solutions, Inc. (“EMS”), a company under Chapter 11 bankruptcy protection in the Middle District of Florida. Prior to the acquisition, EMS was a consulting firm, headquartered in Clearwater, Florida, specializing in business service management methodologies for its clients throughout the United States.

On April 1, 2010, Emtec India acquired certain assets of SARK Infotech Private Limited (“SARK”) based in Mumbai, India. SARK is a software consulting firm.

On June 4, 2010, the Company acquired through its subsidiary, Emtec Federal, Inc., all of the outstanding stock of Secure Data, Inc. (“SDI”) headquartered in O’Fallon, Illinois. SDI is an application services consulting firm specializing in developing financial and custom web business applications. SDI’s focus has been on agencies within the federal government, primarily the Department of Defense and select commercial clients.

#### Industry Background

We compete in the technology services market. We provide our clients with a broad array of technology services including IT infrastructure and process consulting; development, implementation and maintenance and support of custom and packaged business applications; planning, managing, maintaining and supporting IT infrastructure; aligning their IT infrastructure with the needs of their businesses and operations, and advice, design and selection of their business process technology needs. We also provide our clients with IT staff augmentation needs in a select set of business application skills. We can provide full lifecycle services as well as point solutions for our clients depending on their needs.

During the economic downturn in 2009 and 2010, the overall global market for technology services faced significant growth challenges. The market for distributors of technology products has been consolidating and manufacturers have intensified direct selling efforts. While this product market has matured, the market for IT services has expanded from proliferation of technology hardware, software and networking. Many organizations are increasingly dependent on the use of IT as a competitive tool in today’s business environment. The need to distribute and access information on a real-time basis throughout an organization and between organizations has led to the rapid growth in network computing infrastructures that connect numerous and geographically dispersed end users through local and wide area networks. This growth has been driven by the emergence of industry standard hardware, software and communications tools, as well as the significant improvement in the performance, capacity and utility of such network-based equipment and applications.

The decision-making process that confronts companies when planning, selecting and implementing their IT needs continues to grow more complex. Organizations are continually faced with new business challenges which are not only driven by the markets they operate in but by the rapid change of technology itself. Many organizations today face intense competitive pressure and rapidly changing market dynamics, driven by such factors as changes in government regulations, globalization and technology innovation. In response to these challenges, many organizations are focused on improving productivity, increasing service levels, lowering costs and expediting delivery times. In order to achieve these goals, organizations are focusing on improving applications and infrastructure to facilitate faster, more responsive, lower-cost business operations. The development, integration and on-going maintenance of improved operations can present major challenges and require highly skilled professionals trained in

diverse technologies, and many companies are now outsourcing these function to independent providers of IT services. Additionally, organizations also require additional technical resources to maintain, enhance and re-engineer their core legacy IT systems to address application maintenance projects.



Increasingly, many IT departments have shifted all or a portion of their IT development, integration and maintenance requirements to outside service providers operating with on-site and/or offshore IT resources. Global demand for high quality, lower cost IT services from outside providers has created a significant opportunity for IT service providers that can successfully leverage the benefits of and address the challenges in using offshore talent. The delivery of IT services has shifted to a global sourcing model, where companies can choose from a wide array of technology partners and effectively manage their technology costs through the use of round the clock support and best delivery.

We serve clients in various vertical markets including governments at the federal (both U.S. and foreign governments), state, and local level, the K-12 education market, and various commercial businesses including healthcare and life sciences, financial services, retail and telecommunications industries.

Currently our largest source of revenue is the U.S. federal government, which is one of the largest purchasers of IT products and services in the world and one of the largest users of outside contractors. The use of outside contractors is driven primarily by an effort to address specific skills needed by the federal government. Engagements support mission-specific goals rather than routine and deferrable office automation efforts. The U.S. federal government tends to use procurement vehicles to purchase its IT needs which fosters partnering relationships that the federal government encourages in order to promote small businesses with opportunities to serve the government, while at the same time not forgoing shifting risk and management of large projects to larger companies.

We also service the K-12 education market, which is becoming a high-volume adopter of technology. School districts have been typically slow to adapt to the needs of their student base and often have infrastructure that cannot currently support a broader use of technology by students. We believe that the arrival of broad-band wireless delivery will eventually overcome some of these infrastructure challenges, and as delivery of technology and systems becomes more widespread and available the education market will be able to adapt more quickly to provide students, instructors and administrators with technology. We also believe that the delivery of content through technology will eventually enable schools to reduce other expenses such as textbooks. These shifts should enable technology to capture a larger share of the budget of a school system. We have focused our education strategy on larger suburban school districts with growing populations that have a greater ability to fund their technology needs. In particular, we work with school systems that have emphasized technology as an important part of their future curriculum. As the technology expertise of students becomes more prolific, we expect the demand for services in this market to increase.

### Our Strategy

Our business objective is to maximize value for all our stakeholders including our associates, our clients and our stockholders. We strive to be considered by our clients as one of their most trusted advisors and be recognized as the premier IT services company by our partners. We offer high-end practices as a wedge to penetrate and deliver a broad array of services to our clients. Our wedges on our application services business include IT strategy & planning, IT security consulting, functional expertise such as federal agency finance and accounting, and our Information Management practice. Our Infrastructure Services, led by our Information Technology Service Management (“ITSM”) practice, views itself as a partner to our client’s CIO, assisting them in enhancing their value to their companies, as well as helping them reduce their overall infrastructure costs through innovative solutions. We intend to shift the services we deliver to managed infrastructure services through our broader infrastructure offerings over time. We will continue to enhance our practice areas in both our infrastructure and applications services, adding practices through organic growth, development of our existing consultants and hiring. We expect our applications services business to become a larger percentage of our service offering in the future and for Emtec eventually to be a go-to source of application development maintenance and managed services. We believe that by working with a single-source provider, organizations will be able to adapt more quickly to technological changes and reduce their overall IT costs.



To this end, we are pursuing the following strategies:

#### Organic Growth through a Verticalized Professionalized Sales Force

We have hired professional sales executives and experienced sales professionals who have significant experience selling IT solutions and managed services into vertical practices. We have trained these professionals in differentiating the Company by offering a unique set of solutions that provide a value proposition for our clients. We focus our sales professionals on expanding our services within our existing client base, many of whom are Fortune 100 companies or government agencies of similar size. Our sales force is enhanced by solution specialists who demonstrate agility in adjusting to the needs of our clients.

#### Pursuing Strategic Acquisitions

We are seeking to expand our service offerings. We plan to enhance our technical expertise and our delivery capabilities and to nurture and expand client relationships by means of acquisitions of companies whose businesses complement our businesses and, in particular, expand into the area of business application services. We intend to focus on companies with management teams who are willing to commit to long-term participation in our organization and who share our vision of continued growth.

#### Capitalizing on Existing Relationships

We believe that our history of satisfying the IT product requirements of our larger clients is facilitating the marketing of our broad range of services to this important segment of our clientele. The addition of our acquisition partners has expanded our service offerings in areas of custom application development, ERP and programming technologies and business service management along with enriching our client base in a variety of industry verticals including government, retail, telecommunications, financial services, pharmaceutical, insurance and manufacturing.

#### Our Business

##### Strategic IT Consulting

We provide consulting around managing technology and business transformation, information management strategies, security and compliance and risk management services. We help clients to address business and technology issues in the areas of information technology optimization and value extraction, integrated business and technology architecture, process and planning, and transformational program management. We provide solutions for business and technology problems, such as information management, transformational technology platforms, supply chain processes and data analytics.

### Business Application Services

We work with our clients to analyze and redesign their business processes, identify new process requirements, select business applications that are engineered to best fit their processes, implement support and maintain their business applications. We deliver these services through project consulting assignments and staff augmentations. Currently, we have associates skilled in process redesign and analysis, custom application development, independent validation and verification (i.e., quality assurance and testing), ERP and CRM solutions, and Information Management (i.e., Business Intelligence, Analytics and Data Warehousing) and web-based business applications.

### Infrastructure Consulting Services

Our infrastructure consulting services are designed to align the needs of our clients' CIOs and IT organizations with the needs of their businesses. We offer these services in the following areas:

- **IT Business Alignment and Planning Services:** These services help clients see the value that IT provides to the organization creating cost savings in IT through effective management of projects and focus on IT service management.
- **IT Operations and Support Services:** Our services are designed to provide clients with tools and methods to improve internal IT service delivery while becoming effective and efficient on a daily basis. IT departments can then reduce costs while becoming more proactive in providing internal service and support.
- **IT Practices & Governance:** Using industry standards based on an Information Technology Infrastructure Library ("ITIL"), we assist clients to measure and assess their IT performance against their peer groups. Our services also include strategies for implementation, improvement and continued governance to maintain an IT department that follows best practices.
- **Data Storage Solutions:** We offer storage needs assessments, solution recommendations with hardware, software and implementation project requirements, implementation and integration services, post-sales training, maintenance and support services.

### Infrastructure Managed Services

Our managed infrastructure services provide ongoing monitoring and support of our clients' networks through the utilization of help desk and network monitoring services as well as through our own on-site engineering resources. This allows our clients to focus the majority of their efforts on their businesses – rather than managing their IT infrastructures. We offer these services in following areas:

- **Lifecycle Management Services:** Our lifecycle management services are designed to provide clients with continuous availability of service and support throughout the lifecycle of their IT investments, including the full spectrum of IT product acquisition and support services needed to support server environments. Our services include:

- evaluation and prioritization of business objectives to determine the best course of action for our clients;
  - consultation with clients to identify the right IT products and services for their needs;
  - leveraging our vendor relationships to quickly source the right combination of products;
  - providing logistical support needed to deploy a major technology roll out; and
- providing continuous support to enable a client to improve end-user satisfaction, minimize downtime and lower the total cost of ownership.
- Support Services Contracts: We offer both manufacturer and our own support service contracts that provide our clients with extended technical support, on-site hardware service and access to new software releases at a fixed price.
- Training: We offer a dynamic IT training program that keeps abreast of industry trends and market requirements. Areas of study include: ITIL, software quality assurance, software development life cycle, IT project management, unified modeling language, software test automation, IT business analysis, data warehousing and business intelligence, ERP and web application development.
- Enterprise Computing Solutions: We offer a full spectrum of IT product acquisition and support services needed to support client/server environments, including product sourcing, network design and implementation, technical support, server consolidation, virtualization and clustering and load balancing for high availability.
- Data Communications Solutions: We offer Local Area Network / Wide Area Network and data wireless connectivity, voice over IP and cabling solutions that are designed to enhance communication capabilities while decreasing costs.
- Data Access Solutions: We enable on-demand access to information from anywhere over any network; our mobility, messaging, and management solutions provide secure data access, which we believe will increase business productivity and reduce IT costs for our clients.

#### Procurement services

Procurement services include planning, designing, procuring, deploying, installing the software on and maintaining the hardware and networks of our clients. Typically, our clients go through 3-5 year cycles on their equipment and they stagger the deployments throughout their organization. This leads to a more predictable and steady procurement cycle for our practice area. We are product agnostic and for an organization of our scale we feel this differentiates us from many of our competitors because we can offer them the best solution for their IT spend without creating conflicts. We offer products from a broad array of technology, from both hardware manufacturers and software providers. Equipment we deploy and maintain includes workstations, servers, networking and communications equipment, enterprise computing products and application software. We minimize inventory risk by ordering products primarily on an as-needed basis. We utilize electronic ordering and pricing systems that provide real-time status checks on the aggregators' inventories and maintain electronic data interchange links to other suppliers. Our sales team is thereby able to schedule shipments more accurately and to provide electronically-generated client price lists.

## K-12 Specialized Services for Student and Faculty Needs

We integrate top-quality curriculum software and computer products into the classroom. We have significant experience in building local area networks that link campuses together. We also provide district-wide support and sustain internet access to educational resources worldwide. We tailor our array of services to make the best use of limited funds.

## Marketing

Our marketing efforts are focused on:

- Brand Building: broadening our public image as an IT services provider
- Lead Generation and focused marketing campaigns: promoting our offerings to current clients, prospects, partners and investors; increasing overall inquiries and sales from all sources
- Increasing Awareness: maintaining a constant flow of marketing communications to increase and maintain our market presence
  - Increasing traffic to our web site
  - Providing sales tools and research to support our sales team

Our marketing group is charged with sales lead generation. Through diverse efforts that include print and electronic advertising, seminars and webinars, tradeshow, direct mail, public relations, telemarketing, a bi-monthly newsletter and through our website we create multiple and frequent contacts with existing and prospective clients. The primary goal is to increase the number of face to face meeting opportunities between our account team and prospective clients, and to drive additional opportunities through our sales pipeline. During the upcoming fiscal year we will continue to consolidate our offerings under the Emtec brand name and promote our full line of capabilities to current and prospective clients.

## Customers

Our clients are primarily large business organizations, departments of the United States and Canada's federal, state and local governments, local school districts and other large and mid-sized companies throughout the United States and Canada. The majority of our sales are drawn from various civilian and military U.S. governmental departments and agencies. We service our client base from leased facilities in California, Georgia, Florida, Illinois, New Jersey, Pennsylvania and Virginia in the United States, Bangalore and Mumbai in India and Ottawa and other offices in Canada.

Our governmental agency clients include the Department of Defense, Department of Justice, Department of Homeland Security, Department of Health and Human Services, Department of Commerce and the General Service Administration ("GSA"). Our state and local government clients include various state agencies and other local government units. Educational institution clients primarily include K-12 school districts.

The government utilizes a variety of contracting methods when purchasing from us, including negotiated bids, pre-negotiated blanket purchase agreement contracts and open-market procurements. We participate in formal government bids for all contract types, and also process orders received on existing contracts on an ongoing basis.



Substantially all of these bids are awarded on a “best value” to the government basis (which, depending on the bid, can be a combination of price, technical expertise, past performance on other government and commercial contracts and other factors). We seek to use contacts, purchasing power, distribution strength, value-added services and procurement expertise to compete successfully on these bids. These major procurements can generate millions of dollars in annual revenue, span multiple years and provide government personnel with an expedited method of purchasing from us.

We hold a GSA contract for the sale of IT products and services that runs through September 2015. Schedule 70 contracts are multi-award schedule contracts managed by the GSA IT Acquisition Center. Additionally, we hold two Indefinite Delivery Indefinite Quantity (“IDIQ”) contracts that are valid for all federal government agencies. An Army Desktop and Mobile Computing – 2 (“ADMC-2”) prime contract issued to us by the Army Small Computer Program provides all military departments (and other authorized government agencies) the ability to purchase desktops, laptops, thin clients, ruggedized computers, peripheral devices and related accessories. The ADMC-2 contract is valid thru April 2016. A National Aeronautics and Space Administration - Solutions for Enterprise-Wide Procurement IV (“SEWP IV”) prime contract issued to us by NASA provides all governmental agencies with the means to purchase a wide variety of IT products and related integration and installation services. Specifically for the SEWP IV contract, we are considered a large business; and the SEWP IV contract is valid through April 2014. We also hold a contract to provide the National Institute of Health with IT products and services that runs through November 2012.

It is expected that federal government business revenues will continue to represent a large portion of our total revenues and that the consulting services to the federal government will become an increasingly important part of our business as we continue to strive to penetrate wider and deeper into various civilian and military agencies.

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

	For the Years Ended					
	August 31, 2010			August 31, 2009		
Departments of the U.S.						
Government	\$ 104,598	46.6	%	\$ 85,044	38.0	%
Canadian Government						
Agencies	2,509	1.0	%	771	0.3	%
State and Local						
Governments	4,105	1.8	%			