

AEROCENTURY CORP
Form 10-Q
November 14, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2014

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: 001-13387

AeroCentury Corp.
(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of Incorporation or
Organization)

94-3263974
(I.R.S. Employer Identification No.)

1440 Chapin Avenue, Suite 310
Burlingame, California 94010
(Address of Principal Executive Offices)

(650) 340-1888
(Registrant's Telephone Number Including Area Code)

None
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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 submit and post such files).

Yes No

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 the 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 Exchange Act).
Yes No

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date: As of November 14, 2014 the issuer had 1,606,557 shares of common stock, par value \$0.001 per share, issued, of which 63,300 are held as treasury stock.

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PART I
FINANCIAL INFORMATION

Forward-Looking Statements

This Quarterly Report on Form 10-Q includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended ("the Exchange Act"). All statements in this Report other than statements of historical fact are "forward-looking statements" for purposes of these provisions, including any statements of plans and objectives for future operations and any statements of assumptions underlying any of the foregoing. Statements that include the use of terminology such as "may," "will," "expects," "plans," "anticipates," "estimates," "potential," or "continue," or the negative thereof, or other comparable terminology are forward-looking statements. Forward-looking statements include these statements: (i) in Part 1, Item 1, "Notes to Financial Statements," that the Company expects to deliver a Saab 340B in November 2014; and that the Company will be in compliance with all of its credit facility covenants at future calculation dates; (ii) in Part 1, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Credit Facility" that the Company will be in compliance with all of its credit facility covenants at future calculation dates; (iii) in Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations – Cash Flow," that the Company will have adequate cash flow to meet its ongoing operational needs; (iv) in Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Outlook," that the Company could experience a delay in remarketing its off-lease assets; that the customers for several of the leases that expire in 2015 will choose to return the assets; that additional customers may choose to return leased assets in the future; that an engine on lease may be returned at lease expiration; that the Company will be in compliance with all of its credit facility covenants at future calculation dates; and that the available borrowings under the Credit Facility will be sufficient to meet the Company's continuing obligations and fund anticipated acquisitions; (v) in Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Factors that May Affect Future Results," that the Company will be in compliance with all of its credit facility covenants at future calculation dates; that the Company will have sufficient cash funds to make any required principal repayment that arise due to borrowing base limitations; that most of the Company's growth will be outside the United States; that the overall industry experience of JMC's personnel and its technical resources should permit the Company to effectively manage new aircraft types and engines; that effective mitigating factors exist against undue compensation-incented risk-taking by JMC; that it is contemplated that the burden and cost of complying with regulatory requirements will fall primarily upon lessees of equipment or the Company as owner of the equipment; that the costs of complying with environmental regulations will not have a material adverse effect on the Company; that the Company has sufficient cyber-security measures in place; and that sufficient replacement mechanisms exist in the event of an interruption in its internet communications ability that there would not be a material adverse financial impact on the Company's business.

These forward-looking statements involve risks and uncertainties, and it is important to note that the Company's actual results could differ materially from those projected or assumed in such forward-looking statements. Among the factors that could cause actual results to differ materially are the factors detailed under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations — Factors That May Affect Future Results," including the lack of any unexpected lessee defaults or insolvency; a deterioration of the market values of aircraft types owned by the Company; compliance by the Company's lessees with obligations under their respective leases; no sudden current economic downturn or unanticipated future financial crises; the continued availability of financing for acquisitions under the Credit Facility; the Company's success in finding appropriate assets to acquire with such financing; deviations from the assumption that future major maintenance expenses will be relatively evenly spaced over the entire portfolio; and future trends and results which cannot be predicted with certainty. The cautionary statements made in this Report should be read as being applicable to all related forward-looking statements wherever they appear herein. All forward-looking statements and risk factors included in this document are made as of the date

hereof, based on information available to the Company as of the date hereof, and the Company assumes no obligation to update any forward-looking statement or risk factor. You should consult the risk factors listed from time to time in the Company's filings with the Securities and Exchange Commission.

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Item 1. Financial Statements.

AeroCentury Corp.
Balance Sheets
(Unaudited)

ASSETS		
	September 30, 2014	December 31, 2013
Assets:		
Cash and cash equivalents	\$2,588,100	\$2,112,700
Accounts receivable, including deferred rent of \$32,100 and \$217,200 at September 30, 2014 and December 31, 2013, respectively	2,726,300	3,303,800
Finance leases receivable	945,400	1,895,200
Aircraft and aircraft engines held for lease, net of accumulated depreciation of \$37,665,700 and \$50,679,300 at September 30, 2014 and December 31, 2013, respectively	159,408,600	152,954,600
Assets held for sale	6,561,200	735,000
Prepaid expenses and other	4,296,700	3,633,000
Total assets	\$ 176,526,300	\$ 164,634,300
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Accounts payable and accrued expenses	\$2,239,700	\$1,202,700
Notes payable and accrued interest	108,352,400	77,527,300
Maintenance reserves	13,777,200	16,671,800
Accrued maintenance costs	1,778,400	1,612,100
Security deposits	5,579,300	6,265,000
Unearned revenues	2,121,400	646,700
Deferred income taxes	7,540,700	14,573,800
Taxes payable	800,100	-
Total liabilities	142,189,200	118,499,400
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.001 par value, 2,000,000 shares authorized, no shares issued and outstanding	-	-
Common stock, \$0.001 par value, 10,000,000 shares authorized, 1,606,557 shares issued and outstanding	1,600	1,600
Paid-in capital	14,780,100	14,780,100
Retained earnings	20,059,500	31,857,300
	34,841,200	46,639,000
Treasury stock at cost, 63,300 shares	(504,100)	(504,100)
Total stockholders' equity	34,337,100	46,134,900
Total liabilities and stockholders' equity	\$ 176,526,300	\$ 164,634,300

The accompanying notes are an integral part of these statements.

AeroCentury Corp.
Statements of Operations
(Unaudited)

	For the Nine Months Ended September 30,		For the Three Months Ended September 30,	
	2014	2013	2014	2013
Revenues and other income:				
Operating lease revenue, net	\$15,998,500	\$13,941,200	\$4,815,400	\$4,368,200
Maintenance reserves revenue, net	3,393,600	13,866,000	-	6,146,000
Net gain on disposal of assets	2,963,900	4,147,700	1,809,400	1,985,200
Other income	151,800	644,500	700	37,800
	22,507,800	32,599,400	6,625,500	12,537,200
Expenses:				
Provision for impairment in value of aircraft	18,518,700	-	11,718,700	-
Maintenance	5,819,800	4,883,700	2,173,200	1,413,800
Depreciation	5,609,900	5,376,600	1,731,500	1,803,600
Management fees	3,864,900	3,231,000	1,205,000	1,058,400
Interest	3,793,000	3,034,300	1,225,000	966,200
Professional fees, general and administrative and other	1,488,000	881,000	360,200	256,400
Insurance	1,034,100	827,900	413,600	276,300
Other taxes	407,600	67,600	362,500	22,500
Bad debt expense	-	357,600	-	357,600
	40,536,000	18,659,700	19,189,700	6,154,800
(Loss)/income before income tax provision	(18,028,200)	13,939,700	(12,564,200)	6,382,400
Income tax (benefit)/provision	(6,230,400)	4,764,300	(4,317,200)	2,361,200
Net (loss)/income	\$(11,797,800)	\$9,175,400	\$(8,247,000)	\$4,021,200
(Loss)/earnings per share:				
Basic	\$(7.64)	\$5.95	\$(5.34)	\$2.61
Diluted	\$(7.64)	\$5.78	\$(5.34)	\$2.53
Weighted average shares used in (loss)/earnings per share computations:				
Basic	1,543,257	1,543,257	1,543,257	1,543,257
Diluted	1,543,257	1,587,329	1,543,257	1,590,164

The accompanying notes are an integral part of these statements.

AeroCentury Corp.
Statements of Cash Flows
(Unaudited)

	For the Nine Months Ended September 30,	
	2014	2013
Net cash provided by operating activities	\$3,478,000	\$7,222,400
Investing activities:		
Proceeds from sale of aircraft and aircraft engines held for lease, net of re-sale fees	15,723,700	8,173,800
Proceeds from sale of assets held for sale, net of re-sale fees	273,800	73,600
Purchases of aircraft and aircraft engines	(47,254,600)	(6,634,300)
Net cash (used in)/provided by investing activities	(31,257,100)	1,613,100
Financing activities:		
Borrowings under Credit Facility	43,900,000	4,000,000
Repayments of Credit Facility	(13,200,000)	(7,300,000)
Debt issuance costs	(2,445,500)	(2,055,000)
Net cash provided by/(used in) financing activities	28,254,500	(5,355,000)
Net increase in cash and cash equivalents	475,400	3,480,500
Cash and cash equivalents, beginning of period	2,112,700	1,596,800
Cash and cash equivalents, end of period	\$2,588,100	\$5,077,300

During the nine months ended September 30, 2014 and 2013, the Company paid interest totaling \$3,029,900 and \$2,260,100, respectively. The Company paid income taxes of \$800 and \$800 during the nine months ended September 30, 2014 and 2013, respectively.

The accompanying notes are an integral part of these statements.

AeroCentury Corp.
Notes to Financial Statements (Unaudited)
September 30, 2014

1. Organization and Summary of Significant Accounting Policies

(a) The Company and Basis of Presentation

AeroCentury Corp., a Delaware corporation incorporated in 1997, acquires used regional aircraft and engines for lease to foreign and domestic regional carriers.

The condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information, the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month and nine-month periods ended September 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

As discussed in Note 2, the Company has adopted an alternate method of accounting for non-refundable maintenance reserves and certain lessor maintenance obligations. The Company has applied this change in accounting principle retrospectively in accordance with ASC 250, Accounting Changes and Error Corrections (“ASC 250”).

For further information, refer to the financial statements and footnotes thereto included in the Company’s annual report on Form 10-K for the year ended December 31, 2013.

(b) Use of Estimates

The Company’s financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable for making judgments that are not readily apparent from other sources.

The most significant estimates with regard to these financial statements are the residual values and useful lives of the assets, the amount and timing of cash flows associated with each asset that are used to evaluate whether assets are impaired, accrued maintenance costs, accounting for income taxes, and the amounts recorded as allowances for doubtful accounts.

(c) Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs, to the extent possible. The fair value hierarchy under GAAP is based on three levels of inputs.

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

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AeroCentury Corp.
Notes to Financial Statements (Unaudited)
September 30, 2014

1. Organization and Summary of Significant Accounting Policies (continued)

(c) Fair Value Measurements (continued)

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Assets and Liabilities Measured and Recorded at Fair Value on a Recurring Basis

The following table shows by level, within the fair value hierarchy, the fair value of the Company's assets that are measured and recorded at fair value on a recurring basis:

	September 30, 2014				December 31, 2013			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Money market funds included in cash and cash equivalents	\$443,700	\$443,700	\$-	\$-	\$1,842,000	\$1,842,000	\$-	\$-
Total	\$443,700	\$443,700	\$-	\$-	\$1,842,000	\$1,842,000	\$-	\$-

As of September 30, 2014 and December 31, 2013, there were no liabilities that were required to be measured and recorded at fair value on a recurring basis.

Assets Measured and Recorded at Fair Value on a Nonrecurring Basis

The Company determines fair value of long-lived assets held and used, such as aircraft and aircraft engines held for lease and held for sale, by reference to independent appraisals, quoted market prices (e.g., offers to purchase) and other factors. An impairment charge is recorded when the Company believes that the carrying value of an asset will not be recovered through future net cash flows and that the carrying value exceeds its fair value.

During the third quarter ended September 30, 2014, the Company determined that the carrying values of its seven Fokker 100 aircraft were not recoverable and consequently recorded an impairment charge of \$11,385,300 based on the appraised values and management's estimate of realizable value of those aircraft, in addition to the \$6,800,000 impairment charge recorded for five of these aircraft during the second quarter ended June 30, 2014. During the third quarter of 2014, the Company also recorded an impairment charge of \$333,400 for one of its Fokker 50 aircraft. Of these aircraft, five Fokker 100 aircraft and the Fokker 50 aircraft were reclassified as held for sale at September 30, 2014, in addition to two Saab 340B airframes that were previously classified as held for sale. The Company's other two Fokker 100 aircraft are held for lease.

Fair Value of Other Financial Instruments

The Company's financial instruments, other than cash and cash equivalents, consist principally of finance leases receivable and amounts borrowed under its credit facility (the "Credit Facility," as defined in Note 5). The fair value of accounts receivable, finance leases receivable, accounts payable and the Company's maintenance reserves and accrued maintenance costs approximates the carrying value of these financial instruments.

AeroCentury Corp.
Notes to Financial Statements (Unaudited)
September 30, 2014

1. Organization and Summary of Significant Accounting Policies (continued)

(c) Fair Value Measurements (continued)

Borrowings under the Company's Credit Facility bear floating rates of interest that reset periodically to a market benchmark rate plus a credit margin. The Company believes the effective interest rate of this debt agreement approximates current market rates for such indebtedness at the balance sheet date, and therefore that the carrying amount of its floating rate debt at the balance sheet dates approximates its fair value. The fair value of the Company's outstanding balance of its Credit Facility would be categorized as Level 3 under the GAAP fair value hierarchy.

(d) Finance Leases

The lease for one of the Company's aircraft contains a lessee purchase option at a price substantially below the assets' estimated residual values at the exercise date for the option. Consequently, the Company considers the purchase option to be a "bargain purchase option" and has classified the lease as a finance lease for financial accounting purposes. The Company does not include the value, purchase price or accumulated depreciation of finance lease assets on its balance sheet. Instead, the discounted present value of (i) future minimum lease payments (including the bargain purchase option) and (ii) any residual value not subject to a bargain purchase option are reported as a finance lease receivable. Rental revenue and depreciation expense are not recognized on finance leases. Rather, the Company accrues interest on the balance of the finance lease receivable based on the interest rate inherent in the applicable lease.

Two engines that were previously subject to finance leases were returned to the Company during the second quarter of 2014 and the finance lease receivable balances were reclassified to aircraft and aircraft engines held for lease on the Company's balance sheet.

The Company recognized interest earned on finance leases as "other income" in the amount of \$0 and \$37,100 in the quarters ended September 30, 2014 and 2013, respectively, and \$150,000 and \$102,100 in the nine months ended September 30, 2014 and 2013, respectively.

(e) Recent Accounting Pronouncements

On May 28, 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-09 (the "ASU") that created the new Topic 606 in the Accounting Standards Codification ("ASC"). The ASU also included numerous conforming additions and amendments to other Topics within the ASC. Topic 606 establishes new rules that affect the amount and timing of revenue recognition for contracts with customers, but does not affect lease accounting and reporting. As such, adoption of these provisions will not affect the Company's lease revenues but may affect the reporting of other of the Company's revenues. The provisions included in the ASU are effective for years commencing after December 15, 2016, cannot be adopted early, and may be reflected using either a full retrospective method or a simplified method that does not recast prior periods but does disclose the effect of the adoption on the current period financial statements. The Company has not determined either the potential impact on its financial statements nor the method it will elect to use in connection with the adoption of the changes included in the ASU.

AeroCentury Corp.
Notes to Financial Statements (Unaudited)
September 30, 2014

1. Organization and Summary of Significant Accounting Policies (continued)

(e) Recent Accounting Pronouncements (continued)

On August 27, 2014, the FASB issued ASU 2014-15, "Presentation of Financial Statements - Going Concern," which added Subtopic 205-40 to the ASC (the "Subtopic"). This Subtopic requires management to determine whether substantial doubt exists concerning the reporting entity's ability to continue as a going concern, in which case certain disclosures will be required. The Subtopic affects financial statement presentation but not methods of accounting, and is effective on a prospective basis for annual periods ending after December 2016 and each reporting period thereafter, although early adoption is permitted. The Company has not currently early adopted the Subtopic.

2. Adjustment of Previously Reported Financial Information

The Company adopted the direct expensing method under Financial Accounting Standards Board ("FASB") Staff Position AUG AIR-1, Accounting for Planned Major Maintenance Activities ("FSP AUG AIR-1") on January 1, 2007. Under FSP AUG AIR-1, non-refundable maintenance reserves were recorded as maintenance reserves revenue (assuming cash was received or collection was reasonably assured), and associated maintenance work was recorded as maintenance expense when the work was performed. The Company evaluated its method of accounting for maintenance reserves and lessor maintenance obligations and elected to change its method of accounting, effective January 1, 2014, to:

- (i) Recognize non-refundable maintenance reserves as liabilities for deposits against future maintenance reimbursements of maintenance reserves received in the normal course of ongoing leases;
- (ii) Recognize reimbursements from such collected reserves as disbursements against the liability when claims are submitted for payment against previously collected maintenance reserves;
- (iii) Reflect as liabilities non-refundable reserves received by the prior lessor upon acquisition of an aircraft, which are claimable by the lessee when maintenance is performed;
- (iv) Recognize as income non-refundable reserves not refunded to lessees upon termination of the lease and return of the aircraft to the Company in accordance with all lease return requirements; and
- (v) Record lessor maintenance obligations as liabilities upon acquisition of an aircraft subject to a lease under which the Company assumes the prior lessor's obligation to pay a portion of a first-time maintenance event.

In management's judgment, the change to this accounting method is preferable in that it will provide the user of the Company's financial statements a better understanding of the underlying business terms of the Company's leasing transactions and provide additional clarity with respect to the Company's sources of income, its non-refundable reserve obligations, and its lessor maintenance obligations. The change in accounting method resulted in a cumulative net decrease of \$8,088,200 in stockholders' equity as of January 1, 2013.

AeroCentury Corp.
Notes to Financial Statements (Unaudited)
September 30, 2014

2.Adjustment of Previously Reported Financial Information (continued)

The effects on the Company's December 31, 2013 balance sheet as a result of the retroactive application of the change in accounting principle in accordance with ASC 250 were as follows:

	December 31, 2013		
	As reported previously	As adjusted	Effect of change
Cash and cash equivalents	\$2,112,700	\$2,112,700	\$-
Accounts receivable, net	3,313,700	3,303,800	(9,900)
Finance leases receivable	1,895,200	1,895,200	-
Aircraft and aircraft engines held for lease, net	152,375,200	152,954,600	579,400
Assets held for sale	735,000	735,000	-
Prepaid expenses and other	3,633,000	3,633,000	-
Total assets	\$164,064,800	\$164,634,300	\$569,500
Accounts payable and accrued expenses	\$1,175,300	\$1,202,700	\$27,400
Notes payable and accrued interest	77,527,300	77,527,300	-
Maintenance reserves and accrued maintenance costs	13,254,100	18,283,900	5,029,800
Security deposits	6,265,000	6,265,000	-
Unearned revenues	646,700	646,700	-
Deferred income taxes	16,099,700	14,573,800	(1,525,900)
Total liabilities	114,968,100	118,499,400	3,531,300
Preferred stock	-	-	-
Common stock	1,600	1,600	-
Paid-in capital	14,780,100	14,780,100	-
Retained earnings	34,819,100	31,857,300	(2,961,800)
Treasury stock	(504,100)	(504,100)	-
Total stockholders' equity	49,096,700	46,134,900	(2,961,800)
Total liabilities and stockholders' equity	\$164,064,800	\$164,634,300	\$569,500

AeroCentury Corp.
Notes to Financial Statements (Unaudited)
September 30, 2014

2.Adjustment of Previously Reported Financial Information (continued)

The effects on the Company's statements of operations for the nine months and three months ended September 30, 2013 as a result of the retroactive application of the change in accounting principle in accordance with ASC 250 were as follows:

	For the Nine Months Ended September 30, 2013			For the Three Months Ended September 30, 2013		
	As reported previously	As adjusted	Effect of change	As reported previously	As adjusted	Effect of change
Operating lease revenue, net	\$ 13,941,200	\$ 13,941,200	\$-	\$ 4,368,200	\$ 4,368,200	\$-
Maintenance reserves income, net	8,260,500	13,866,000	5,605,500	556,900	6,146,000	5,589,100
Gain on disposal of assets and other income	4,792,200	4,792,200	-	2,023,000	2,023,000	-
	26,993,900	32,599,400	5,605,500	6,948,100	12,537,200	5,589,100
Maintenance	6,239,900	4,883,700	(1,356,200)	2,451,100	1,413,800	(1,037,300)
Depreciation	5,339,700	5,376,600	36,900	1,790,300	1,803,600	13,300
Management fees	3,218,500	3,231,000	12,500	1,054,000	1,058,400	4,400
Interest	3,034,300	3,034,300	-	966,200	966,200	-
Professional fees, general and administrative and other	948,600	948,600	-	278,900	278,900	-
Insurance	827,900	827,900	-	276,300	276,300	-
Bad debt expense	357,600	357,600	-	357,600	357,600	-
	19,966,500	18,659,700	(1,306,800)	7,174,400	6,154,800	(1,019,600)
Income before taxes	7,027,400	13,939,700	6,912,300	(226,300)	6,382,400	6,608,700
Tax provision	2,414,100	4,764,300	2,350,200	114,300		