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Consolidated Financial Results for the Year Ended October 31, 2024 [Japanese GAAP]

December 13, 2024

Company name: SCAT Inc.
Listing: Tokyo
Securities code: 3974
URL: https://www.scat.inc/
Representative: Nagashima Hideo President and CEO
Inquiries: Nishio Shinobu Director,General Manager of Accounting and Finance Division
Telephone: +81-3(6275)1130

Scheduled date of annual general meeting of shareholders: January 30, 2025
Scheduled date to commence dividend payments: January 14, 2025
Scheduled date to file annual securities report: January 31, 2025
Preparation of supplementary material on financial results: Yes
Holding of financial results briefing: None

(Yen amounts are rounded down to millions, unless otherwise noted.)

1. Consolidated Financial Results for the Fiscal Year Ended October 31, 2024 (November 1, 2023 to October 31, 2024)

(1) Consolidated Operating Results (Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Fiscal year ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
October 31, 2024	2,594	(5.4)	147	(35.1)	156	(32.1)	100	(36.6)
October 31, 2023	2,742	6.0	227	1.7	230	3.5	157	56.9

(Note) Comprehensive income: Fiscal year ended October 31, 2024: ¥ 101 million [(37.2)%]
Fiscal year ended October 31, 2023: ¥ 161 million [64.4%]

	Basic earnings per share	Diluted earnings per share	Rate of return on equity	Ordinary profit to total assets ratio	Operating profit to net sales ratio
Fiscal year ended	Yen	Yen	%	%	%
October 31, 2024	35.87	-	5.3	5.3	5.7
October 31, 2023	52.79	-	7.9	7.2	8.3

(Reference) Equity in earnings (losses) of affiliated companies: Fiscal year ended October 31, 2024: ¥ - million
Fiscal year ended October 31, 2023: ¥ - million

(2) Consolidated Financial Position

	Total assets	Net assets	Capital adequacy ratio	Net assets per share
As of	Millions of yen	Millions of yen	%	Yen
October 31, 2024	2,938	1,946	66.2	686.19
October 31, 2023	2,976	1,844	62.0	668.18

(Reference) Equity: As of October 31, 2024: ¥ 1,946 million
As of October 31, 2023: ¥ 1,844 million

(3) Consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at the end of period
Fiscal year ended	Millions of yen	Millions of yen	Millions of yen	Millions of yen
October 31, 2024	230	(112)	(67)	1,258
October 31, 2023	339	(135)	(760)	1,209

2. Dividends

	Annual dividends					Total dividends	Payout ratio (consolidated)	Dividends to net assets (consolidated)
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total			
Fiscal year ended	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
October 31, 2023	-	4.50	-	6.00	10.50	31	19.9	1.7
October 31, 2024	-	6.00	-	7.00	13.00	39	36.2	1.9
Fiscal year ending October 31, 2025 (Forecast)	-	6.00	-	7.00	13.00		-	

3. Consolidated Financial Results Forecast for the Fiscal Year Ending October 31, 2025 (November 1, 2024 to October 31, 2025)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	2,718	4.8	215	45.8	215	37.5	136	36.6	48.26

* Notes:

(1) Significant changes in the scope of consolidation during the period: None

Newly included: - (Company name:)

Excluded: - (Company name:)

(2) Changes in accounting policies, changes in accounting estimates, and restatement

1) Changes in accounting policies due to revisions to accounting standards and other regulations: None

2) Changes in accounting policies due to other reasons: None

3) Changes in accounting estimates: None

4) Restatement: None

(3) Number of issued shares (common shares)

1) Total number of issued shares at the end of the period (including treasury shares):

October 31, 2024: 5,240,000 shares

October 31, 2023: 5,240,000 shares

2) Number of treasury shares at the end of the period:

October 31, 2024: 2,403,211 shares

October 31, 2023: 2,479,476 shares

3) Average number of shares outstanding during the period:

Fiscal Year ended October 31, 2024: 2,793,989 shares

Fiscal Year ended October 31, 2023: 2,991,744 shares

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1. Qualitative Information on Financial Results for the Period under Review

(1) Overview of business results for the current quarter.

During the current consolidated fiscal year (November 1, 2023 to October 31, 2024), the Japanese economy was on a recovery trend due to the classification shift of the COVID-19 infection diminishes, but the geopolitical situation in Ukraine and Israel the future remains uncertain due to soaring crude oil and raw material prices due to economic risks, as well as the weak yen in the foreign exchange market.

In the information and communications industry, our core business, DX (digital transformation), which is being promoted as a national policy, is accelerating during the coronavirus pandemic. Users place importance on attracting customers online, digitizing office work, and data security, and it is expected that IT investments will continue to increase in order to enhance corporate competitiveness and improve operational efficiency.

In this environment, our company has announced a three-year medium-term plan from November 2023 to October 2026, and is working on measures to improve shareholder value and corporate value, as well as mechanisms for growth strategies.

In the beauty ICT business, we have been certified by METI as a DX certified business and an IT implementation support business. Furthermore, the market environment continues to be favorable, with demand expected to increase in response to legal revisions such as ERRL (Electronic Record Retention Law) and the invoice system.

However, in the beauty industry, where we sell products, the number of beauty salon bankruptcies in 2024 has reached 139 by August, approximately 1.5 times the number in the same period in 2023.
The main reasons for this are intensifying competition among stores, soaring prices for beauty supplies, and difficulty attracting stylists. (Excerpt from Teikoku Databank "Beauty Salon Bankruptcy Trends January-August 2024".)

Under this business environment, our company's business performance for the second quarter of the current consolidated cumulative period was in line with plan. In the third quarter, we have seen an increase in the number of cases in which system sales orders have been postponed or delivery dates have been postponed at user salons. The factors include the consolidation of existing stores due to a shortage of hairdressers, the postponement of new store opening plans, soaring prices, and the increased burden of repayments on loans provided during the coronavirus pandemic. Furthermore, due to a major customer's cancellation just before delivery due to customer circumstances, all non-reusable products, licenses, and customization work in progress were lost.

In the business services business, we have been certified as a "management innovation support organization" by METI, and are working to support the formulation and implementation of clients' business plans and management improvement plans, and to expand our consulting services.

Furthermore, we have increased the number of new business partners through customer introductions from existing customers and alliances with local financial institutions and professional businesses, and our base monthly business sales and profits have improved.

Regarding the business environment surrounding the nursing care service business, the number of bankruptcies of nursing care providers that have occurred in 2024 is 114 as of August, approximately 1.5 times (44.3% increase) compared to the same period in 2023. The main factors are a prolonged shortage of nursing care workers, high prices, and the accumulation of damage caused by the coronavirus pandemic. (Excerpt from Tokyo Shoko Research “Bankruptcy Investigation of Elderly Welfare and Nursing Care Businesses, January-August 2024”)

Under such a difficult business environment, the profit and loss of paid nursing homes with assisted living had been significantly affected since the previous fiscal year due to a combination of hospitalizations and deaths of residents due to worsening of their chronic illnesses. However, the number of residents gradually exceeded the number of residents moving out, and the facility's occupancy rate had recovered to over 90% at the end of the fourth quarter.

As a result of the above, in the current consolidated fiscal year, we achieved net sales of ¥2,594,934 thousand (down 5.4% year-on-year), operating income of ¥147,812 thousand (down 35.1% year-on-year), ordinary income of ¥156,798 thousand (down 32.1% year-on-year), and profit attributable to owners of parent of ¥100,209 thousand (down 36.6% year-on-year).

The reason for the decrease in quarterly net income attributable to owners of the parent company is the gain on rent exemption (extraordinary income) associated with the eviction of the former Tokyo headquarters office in the same quarter of the previous year. Large-scale cancellation cases are settled through lawyers, and while the settlement money (settlement money) associated with cancellation is recorded as extraordinary income, the related expenses are recorded as an extraordinary loss as a loss on disposal of inventory assets.

Operating results by business segment are as follows. Segment income is based on operating income.

Additionally, from the first quarter consolidated accounting period, the segment names have been changed from "ICT business for beauty salons" to "Beauty ICT business" and "Business services business for SMEs" to "Business services business." This change is a change in segment name and has no effect on segment information.

a) Beauty ICT business.

In the beauty ICT business, we are working to further improve the stock revenue of maintenance, content, and new fee-based services, in addition to system sales, which are our main source of revenue.

In the current consolidated fiscal year, although progress was generally in line with initial plans until the second quarter, profits and losses decreased significantly in the third quarter. This is due to the fact that the planned system sales orders have been moved to the second half of next year, as well as last-minute cancellations of deliveries due to customer convenience from large users. Support for Windows 10 may end in October 2025, so we are working to propose an early replacement starting from the fourth quarter of this year.

On the other hand, in terms of stock-type revenue, in addition to web content sales, we have been steadily accumulating maintenance contract sales. Sales management system "i-SCAP/EX" option "Smartphone Terminal", "Sacla PREMIUM" content "LINE Mini App", "Rakuten Points Linkage", "Reserve with Google", smartphone app "Salon Appli", etc.

Additionally, mailing paper invoices is still the mainstream in the beauty industry, and promoting DX of billing and payment operations is an issue for the industry as a whole.

Our company is promoting the sale of "Invoice Cloud for Beauty" in cooperation with "M.H. Group LTD. (TSE: 9439)." The company operates a hair salon called "Mod's Hair."

As a result of the above, in the current third quarter consolidated cumulative period, sales were ¥1,518,948 thousand (down 9.8% year-on-year), and segment profit was ¥62,033 thousand (down 62.2% year-on-year).

b) Business service business.

In the business service business, we provide various services centered on accounting and accounting office work that support the management of SMEs. The company have been certified by METI as a "Support agencies for business innovation" and provide consulting services such as formulating plans to improve management capabilities and supporting business restructuring to improve customers' management issues.

Our core business accounting services are centered on financial reports such as monthly settlements, providing cash flow support, bookkeeping and payroll calculation outsourcing (BPO) services, and IT system operation of related accounting, payroll, and sales management software, and we provide support and risk management (life and non-life insurance agency business).

By providing these services, we have strengthened our relationships with existing customers, and our alliances with referral partner companies, local financial institutions and professionals have led to stable acquisition of new customers.

In the current consolidated fiscal year, core businesses such as monthly accounting and settlement agency services achieved stable growth due to measures such as acquiring new corporate customers that we have been promoting since the previous fiscal year. We will continue to strive to expand various services for corporate backyard operations, such as improving efficiency using DX for clients, business succession, and providing consulting services as a certified "Support agencies for business innovation".

As a result of the above, in the current consolidated fiscal year, net sales were ¥318,194 thousand (up 1.6% year-on-year), and segment profit was ¥29,982 thousand (up 153.3% year-on-year).

c) Nursing care service business.

In the nursing care service business, we operate three paid nursing homes with nursing care (Sano City, Tochigi Prefecture, Tatebayashi City, Gunma Prefecture, and Komoro City, Nagano Prefecture), and also operate a home support business in Komoro City, Nagano Prefecture.

At paid nursing homes with nursing care, from around the second half of the previous consolidated fiscal year to the first half of the current consolidated fiscal year, vacancies increased as customers passed away due to deterioration of chronic illness or moved out due to long-term inpatient treatment, which had an impact on profit and loss.

However, since April, we have resumed in-house events and facility tours, which had been suspended due to the coronavirus pandemic, and the number of residents has greatly increased. As a result, the facility occupancy rate recovered to over 90% in the fourth quarter. Furthermore, the occupancy rate of home care services such as day care services has fully recovered and is maintaining the high occupancy rate of before the coronavirus outbreak.

Due to the nature of the industry, there were limits to the ability to reduce and save costs due to increases in various prices, including food prices, and increases in expenses due to the recruitment of nursing care personnel. We are responding appropriately by making use of subsidies from local governments and by having residents and their families agree to a partial increase in actual costs.

As a result of the above, in the current consolidated fiscal year, net sales were ¥739,806 thousand (up 1.9% year-on-year), and segment profit was ¥44,739 thousand (up 5.4% year-on-year).

(2) Future outlook

Regarding the future outlook, the outlook for the economy remains uncertain due to factors such as the economic recovery trend after the coronavirus, a weak yen, difficulties in recruiting human resources, and a prolonged period of soaring prices.

However, due to users' awareness of promoting DX, which has accelerated during the coronavirus pandemic, emphasis has been placed on attracting customers online, digitizing office work, and data security. IT investment to enhance corporate competitiveness and improve operational efficiency is expected to continue to increase.

In the beauty ICT business, sales are expected to increase due to system sales orders for projects whose replacement was postponed by one year due to re-leasing during the current fiscal year, as well as user replacement demand due to the end of support for Windows10. Furthermore, we will steadily accumulate orders by planning large-scale version upgrades and releases tailored to customer requests. We are also planning to release new content services to support our customers' management, and will expand our charge-based stock business. Furthermore, we will actively promote and expand our business through alliances with other companies.

In our business services business, we will expand our customer management improvement consulting services as a " Support agencies for business innovation." By providing backyard services for small and medium-sized businesses, mainly accounting services, we ensure stable profits from ongoing projects, mainly from existing customers. We will further expand our solution services.

In the nursing care services business, we secure residents by operating nursing care facilities in collaboration with local communities and maintain high occupancy rates at each nursing care facility.

In addition, day care and other home care services are expected to maintain the high occupancy rates that had recovered before the coronavirus outbreak. Furthermore, we will strengthen services outside of nursing care insurance.

Based on these circumstances, we have made predictions regarding the outlook for the next consolidated fiscal year(November 1, 2024 to October 31, 2025), net sales of 2,718 million yen (up 4.8% year-on-year), operating income of 215 million yen(up 45.8% year-on-year), ordinary income of 215 million yen(up 37.5% year-on-year), and profit attributable to owners of parent of 136 million yen(up 36.6% year-on-year).

(3) Basic policy regarding profit distribution and dividends for the current period.

The company recognizes that returning profits to our shareholders is one of our most important management issues, and our basic policy is to provide "continuous shareholder returns based on stable dividends." Furthermore, we pay dividends twice a year (interim dividend and year-end dividend) in order to enhance opportunities to return profits to shareholders. On the other hand, from the perspective of the principle of shareholder equality, we will abolish the shareholder benefit system from the fiscal year ending October 2024 and strive to directly return profits to all shareholders through dividends.

As a result of the above, the dividend for the current consolidated fiscal year (FY 2024) is scheduled to be 13 yen per share (6 yen interim dividend, 7 yen year-end dividend). The annual dividend for the previous fiscal year (FY 2023) was 10.50 yen (interim dividend 4.50 yen, year-end dividend 6 yen (ordinary dividend 5 yen, commemorative dividend 1 yen)), increased by 2.50 yen.

We will carefully consider the next consolidated fiscal year (FY2025) while keeping an eye on business performance and the market environment, but based on the current business forecast for the next fiscal year, we have set an annual dividend forecast of 13 yen per share (interim dividend 6 yen and year-end dividend of 7 yen).

Consolidated Financial Statements

Consolidated Balance Sheets

(Thousands of yen)

	As of October 31, 2023	As of October 31, 2024
Assets		
Current assets		
Cash and deposits	1,209,125	1,258,499
Accounts receivable - trade	246,601	236,605
Merchandise	39,719	24,400
Work in process	1,904	1,206
Other	23,261	57,789
Allowance for doubtful accounts	(211)	(109)
Total current assets	1,520,400	1,578,391
Non-current assets		
Property, plant and equipment		
Buildings and structures	1,056,248	1,036,446
Accumulated depreciation	(435,701)	(433,409)
Buildings and structures, net	620,547	603,037
Land	245,830	210,813
Other	140,267	138,681
Accumulated depreciation	(121,527)	(122,034)
Other, net	18,739	16,647
Total property, plant and equipment	885,117	830,498
Intangible assets		
Software	208,191	128,760
Software in progress	42,608	84,970
Goodwill	37,049	22,229
Other	3,507	2,427
Total intangible assets	291,357	238,388
Investments and other assets		
Investment securities	30,400	63,240
Deferred tax assets	159,838	161,450
Other	104,747	82,477
Allowance for doubtful accounts	(15,808)	(15,697)
Total investments and other assets	279,178	291,470
Total non-current assets	1,455,652	1,360,358
Total assets	2,976,052	2,938,749

(Thousands of yen)

	As of October 31, 2023	As of October 31, 2024
Liabilities		
Current liabilities		
Accounts payable - trade	45,958	51,257
Current portion of long-term borrowings	61,680	61,680
Accrued expenses	114,605	112,907
Income taxes payable	71,663	22,560
Provision for bonuses	77,934	71,174
Other	151,553	106,934
Total current liabilities	523,396	426,513
Non-current liabilities		
Long-term borrowings	178,520	116,840
Provision for retirement benefits for directors (and other officers)	16,685	16,685
Provision for share awards	30,296	36,693
Retirement benefit liability	326,535	338,883
Asset retirement obligations	40,446	40,810
Other	15,650	15,741
Total non-current liabilities	608,133	565,654
Total liabilities	1,131,530	992,168
Net assets		
Shareholders' equity		
Share capital	200,000	200,000
Capital surplus	338,339	348,199
Retained earnings	2,174,072	2,238,524
Treasury shares	(865,331)	(838,724)
Total shareholders' equity	1,847,081	1,947,999
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(2,559)	(1,418)
Total accumulated other comprehensive income	(2,559)	(1,418)
Total net assets	1,844,522	1,946,580
Total liabilities and net assets	2,976,052	2,938,749

Consolidated Statements of Income and Comprehensive Income

Consolidated Statements of Income

(Thousands of yen)

	For the fiscal year ended October 31, 2023	For the fiscal year ended October 31, 2024
Net sales	2,742,420	2,594,934
Cost of sales	1,655,924	1,597,243
Gross profit	1,086,495	997,691
Selling, general and administrative expenses	858,628	849,878
Operating profit	227,866	147,812
Non-operating income		
Interest income	12	103
Dividend income	6	316
Insurance claim income	-	2,023
Institution expenses	1,460	1,589
Subsidy income	5,420	4,207
Reversal of allowance for doubtful accounts	220	240
Other	1,149	1,809
Total non-operating income	8,269	10,290
Non-operating expenses		
Interest expenses	2,239	1,290
Settlement payments	1,529	-
Other	1,529	13
Total non-operating expenses	5,298	1,303
Ordinary profit	230,837	156,798
Extraordinary income		
Gain on sale of non-current assets	-	982
Gain on exemption from rent	34,956	-
Settlement income	-	4,000
Total extraordinary income	34,956	4,982
Extraordinary losses		
Loss on retirement of non-current assets	3,050	33
Loss on abandonment of inventories	-	2,484
Impairment losses	5,738	-
Office relocation expenses	14,276	-
Other	-	200
Total extraordinary losses	23,065	2,717
Profit before income taxes	242,728	159,063
Income taxes - current	92,830	60,964
Income taxes - deferred	(8,037)	(2,110)
Total income taxes	84,792	58,854
Profit	157,936	100,209
Profit attributable to owners of parent	157,936	100,209

Consolidated Statements of Comprehensive Income

(Thousands of yen)

	For the fiscal year ended October 31, 2023	For the fiscal year ended October 31, 2024
Profit	157,936	100,209
Other comprehensive income		
Valuation difference on available-for-sale securities	3,337	1,140
Total other comprehensive income	3,337	1,140
Comprehensive income	161,274	101,349
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	161,274	101,349

Consolidated Statements of Changes in Equity

For the fiscal year ended October 31, 2023

(Thousands of yen)

	Shareholders' equity					Accumulated other comprehensive income		Total net assets
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total accumulated other comprehensive income	
Balance at beginning of period	200,000	338,339	2,048,152	(403,149)	2,183,343	(5,896)	(5,896)	2,177,446
Changes during period								
Dividends of surplus			(32,016)		(32,016)			(32,016)
Profit attributable to owners of parent			157,936		157,936			157,936
Purchase of treasury shares				(462,636)	(462,636)			(462,636)
Disposal of treasury shares					-			-
Disposal of treasury stock by ownership plan trust				454	454			454
Net changes in items other than shareholders' equity						3,337	3,337	3,337
Total changes during period	-	-	125,920	(462,182)	(336,261)	3,337	3,337	(332,924)
Balance at end of period	200,000	338,339	2,174,072	(865,331)	1,847,081	(2,559)	(2,559)	1,844,522

For the fiscal year ended October 31, 2024

(Thousands of yen)

	Shareholders' equity					Accumulated other comprehensive income		Total net assets
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total accumulated other comprehensive income	
Balance at beginning of period	200,000	338,339	2,174,072	(865,331)	1,847,081	(2,559)	(2,559)	1,844,522
Changes during period								
Dividends of surplus			(35,758)		(35,758)			(35,758)
Profit attributable to owners of parent			100,209		100,209			100,209
Purchase of treasury shares					-			-
Disposal of treasury shares		9,859		23,168	33,027			33,027
Disposal of treasury stock by ownership plan trust				3,438	3,438			3,438
Net changes in items other than shareholders' equity						1,140	1,140	1,140
Total changes during period	-	9,859	64,451	26,606	100,917	1,140	1,140	102,057
Balance at end of period	200,000	348,199	2,238,524	(838,724)	1,947,999	(1,418)	(1,418)	1,946,580

Consolidated Statements of Cash Flows (Thousands of yen)

	For the fiscal year ended October 31, 2023	For the fiscal year ended October 31, 2024
Cash flows from operating activities		
Profit before income taxes	242,728	159,063
Depreciation	152,302	164,489
Impairment losses	5,738	-
Amortization of goodwill	14,819	14,819
Increase (decrease) in allowance for doubtful accounts	(145)	(213)
Interest and dividend income	(19)	(420)
Interest expenses	2,239	1,290
Loss (gain) on sale of property, plant and equipment	-	(982)
Loss on retirement of non-current assets	3,050	33
Remission of house rent	(34,956)	-
Settlement income	-	(4,000)
Increase (decrease) in provision for retirement benefits for directors (and other officers)	(1,680)	-
Increase (decrease) in retirement benefit liability	354	12,348
Increase (decrease) in provision for share awards	8,952	6,396
Increase (decrease) in provision for bonuses	(2,403)	(6,760)
Decrease (increase) in trade receivables	(25,231)	9,996
Decrease (increase) in inventories	(3,449)	15,669
Increase (decrease) in trade payables	(8,835)	5,298
Increase (decrease) in accrued expenses	1,566	(1,698)
Increase (decrease) in advances received	(1,161)	2,679
Other, net	38,561	(40,169)
Subtotal	392,432	337,841
Interest and dividends received	19	420
Interest paid	(2,187)	(1,285)
Income taxes paid	(50,532)	(111,044)
Income taxes refund	9	357
Settlement received	-	4,000
Net cash provided by (used in) operating activities	339,742	230,288
Cash flows from investing activities		
Purchase of property, plant and equipment	(9,100)	(48,394)
Proceeds from sale of property, plant and equipment	-	36,000
Purchase of intangible assets	(85,109)	(92,614)
Purchase of investment securities	-	(31,200)
Payments of guarantee deposits	(41,799)	(600)
Proceeds from refund of guarantee deposits	75	23,551
Other, net	224	258
Net cash provided by (used in) investing activities	(135,709)	(112,998)
Cash flows from financing activities		
Repayments of short-term borrowings	(200,000)	-
Repayments of long-term borrowings	(63,680)	(61,680)
Repayments of lease liabilities	(2,052)	(1,261)
Purchase of treasury shares	(462,801)	-
Proceeds from sale of treasury shares	-	30,680
Dividends paid	(32,082)	(35,655)
Net cash provided by (used in) financing activities	(760,616)	(67,916)
Net increase (decrease) in cash and cash equivalents	(556,583)	49,373
Cash and cash equivalents at beginning of period	1,765,709	1,209,125
Cash and cash equivalents at end of period	1,209,125	1,258,499