

ADVANT E CORP  
Form 10-Q  
November 12, 2010

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington D. C. 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, 2010

**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: 0-30983

**ADVANT-E CORPORATION**

(Exact name of registrant as specified in its charter)

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**DELAWARE**  
(State or other jurisdiction of  
incorporation or organization)

**88-0339012**  
(IRS Employer  
Identification No.)

**2680 Indian Ripple Rd.**

**Dayton, Ohio 45440**

(Address of principal executive offices)

**(937) 429-4288**

(Registrant's telephone number, including area code)

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 past 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 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 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.

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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

As of November 12, 2010 the issuer had 66,722,590 outstanding shares of Common Stock, \$.001 Par Value.

## PART I. FINANCIAL INFORMATION

## ITEM 1. Financial Statements

## ADVANT-E CORPORATION AND SUBSIDIARIES

## CONSOLIDATED CONDENSED STATEMENTS OF INCOME (Unaudited)

|   | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |            |
|---|-------------------------------------|------------|------------------------------------|------------|
|   | 2010                                | 2009       | 2010                               | 2009       |
| Revenue   | \$ 2,380,510                        | 2,158,016  | 6,918,147                          | 6,514,265  |
| Cost of revenue                                       | 913,522                             | 858,522    | 2,769,072                          | 2,688,352  |
| Gross margin  | 1,466,988                           | 1,299,494  | 4,149,075                          | 3,825,913  |
| Marketing, general and administrative expenses        | 803,341                             | 801,355    | 2,478,280                          | 2,526,143  |
| Operating income                                      | 663,647                             | 498,139    | 1,670,795                          | 1,299,770  |
| Other income (expense), net                           | (2,964)                             | (3,376)    | (959)                              | 2,459      |
| Income before income taxes                            | 660,683                             | 494,763    | 1,669,836                          | 1,302,229  |
| Income tax expense                                    | 226,452                             | 178,085    | 571,486                            | 439,611    |
| Net income  | \$ 434,231                          | 316,678    | 1,098,350                          | 862,618    |
| Earnings per share basic and diluted                  | \$ .006                             | .005       | .016                               | .013       |
| Weighted average shares outstanding basic and diluted | 66,722,590                          | 66,746,560 | 66,722,590                         | 66,919,220 |

The accompanying notes are an integral part of the consolidated condensed financial statements.

**ADVANT-E CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED CONDENSED BALANCE SHEETS**

|  | September 30,<br>2010<br>(Unaudited) | December 31,<br>2009 |
|--|--------------------------------------|----------------------|
| <b>Assets</b>  |                                      |                      |
| Current Assets:  |                                      |                      |
| Cash and cash equivalents  | \$ 3,353,328                         | 2,713,996            |
| Accounts receivable, net   | 746,909                              | 634,055              |
| Prepaid software maintenance costs   | 194,241                              | 162,507              |
| Prepaid expenses and deposits  | 56,178                               | 75,519               |
| Prepaid income taxes   |                                      | 39,798               |
| Deferred income taxes  | 167,588                              | 139,144              |
| <b>Total current assets</b>  | <b>4,518,244</b>                     | <b>3,765,019</b>     |
| Software development costs, net  | 267,937                              | 149,956              |
| Property and equipment, net  | 250,970                              | 312,821              |
| Goodwill   | 1,474,615                            | 1,474,615            |
| Other intangible assets, net   | 265,686                              | 329,220              |
| <b>Total assets</b>  | <b>\$ 6,777,452</b>                  | <b>6,031,631</b>     |
| <b>Liabilities and Shareholders' Equity</b>  |                                      |                      |
| Current liabilities:   |                                      |                      |
| Accounts payable   | \$ 103,845                           | 115,546              |
| Dividend payable   | 667,226                              | 1,334,452            |
| Accrued salaries and other expenses  | 322,612                              | 146,699              |
| Income taxes payable   | 35,901                               |                      |
| Deferred revenue   | 707,691                              | 582,298              |
| <b>Total current liabilities</b>   | <b>1,837,275</b>                     | <b>2,178,995</b>     |
| Deferred income taxes  | 250,215                              | 261,024              |
| <b>Total liabilities</b>   | <b>2,087,490</b>                     | <b>2,440,019</b>     |
| <b>Shareholders' equity:</b>   |                                      |                      |
| Common stock, \$.001 par value; 100,000,000 shares authorized; 66,722,590 shares issued and outstanding at September 30, 2010; 66,951,010 shares issued and 66,722,590 shares outstanding at December 31, 2009 | 66,723                               | 66,951               |
| Paid-in capital  | 1,936,257                            | 1,964,221            |
| Retained earnings  | 2,686,982                            | 1,588,632            |
| Treasury shares at cost, 228,420 shares at December 31, 2009   |                                      | (28,192)             |
| <b>Total shareholders' equity</b>  | <b>4,689,962</b>                     | <b>3,591,612</b>     |
| <b>Total liabilities and shareholders' equity</b>  | <b>\$ 6,777,452</b>                  | <b>6,031,631</b>     |

The accompanying notes are an integral part of the consolidated condensed financial statements.



## ADVANT-E CORPORATION AND SUBSIDIARIES

## CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (Unaudited)

|  | Nine Months Ended<br>September 30, |           |
|--|------------------------------------|-----------|
|  | 2010                               | 2009      |
| Cash flows from operating activities:  |                                    |           |
| Net income   | \$ 1,098,350                       | 862,618   |
| Adjustments to reconcile net income to net cash flows from operating activities: |                                    |           |
| Depreciation   | 158,995                            | 190,127   |
| Amortization of software development costs                                       | 30,669                             | 61,338    |
| Amortization of other intangible assets  | 63,534                             | 63,534    |
| Loss on disposal of property and equipment                                       | 4,688                              |           |
| Deferred income taxes  | (39,253)                           | (78,107)  |
| Purchases of trading securities  |                                    | (99,922)  |
| Proceeds from sales of trading securities  |                                    | 327,193   |
| Net unrealized gain on trading securities  |                                    | (34,546)  |
| Net realized loss on sales of securities   |                                    | 39,996    |
| Increase (decrease) in cash arising from changes in assets and liabilities:      |                                    |           |
| Accounts receivable  | (112,854)                          | (13,448)  |
| Prepaid software maintenance costs   | (31,734)                           | (9,468)   |
| Prepaid expenses and deposits  | 19,341                             | (19,308)  |
| Prepaid income taxes   | 39,798                             | (21,295)  |
| Accounts payable   | (11,701)                           | (63,356)  |
| Accrued salaries and other expenses  | 175,913                            | 16,868    |
| Income taxes payable   | 35,901                             |           |
| Deferred revenue   | 125,393                            | 6,637     |
| Net cash flows from operating activities   | 1,557,040                          | 1,228,861 |
| Cash flows from investing activities:  |                                    |           |
| Purchases of property and equipment  | (101,832)                          | (88,550)  |
| Software development costs   | (148,650)                          | (60,705)  |
| Net cash flows from investing activities   | (250,482)                          | (149,255) |
| Cash flows from financing activities:  |                                    |           |
| Purchase of treasury shares  |                                    | (48,273)  |
| Dividends paid   | (667,226)                          |           |
| Net cash flows from financing activities   | (667,226)                          | (48,273)  |
| Net increase in cash and cash equivalents  | 639,332                            | 1,031,333 |
| Cash and cash equivalents, beginning of period                                   | 2,713,996                          | 2,090,005 |
| Cash and cash equivalents, end of period   | \$ 3,353,328                       | 3,121,338 |
| Supplemental disclosures of cash flow items:                                     |                                    |           |
| Income taxes paid  | \$ 535,000                         | 539,013   |
| Non-cash transaction: retirement of treasury shares                              | 28,192                             | 623       |

The accompanying notes are an integral part of the consolidated condensed financial statements.



**ADVANT-E CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Unaudited)**

**September 30, 2010**

**Note 1: Basis of Presentation, Organization and Other Matters**

The accompanying unaudited interim consolidated condensed financial statements as of September 30, 2010 and for the three and nine month periods ended September 30, 2010 and 2009, together with the accompanying consolidated condensed balance sheet as of December 31, 2009, which has been derived from audited financial statements, have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations, although management believes that the disclosures made are adequate to make the information not misleading. In the opinion of management, the unaudited consolidated condensed financial statements include all adjustments, which were normal and recurring in nature, considered necessary for a fair presentation of financial position, results of operations, and cash flows for the interim periods.

Results of operations for the three and nine months ended September 30, 2010 are not necessarily indicative of the results to be expected for the full year ending December 31, 2010. These unaudited consolidated condensed financial statements should be read in conjunction with the consolidated financial statements, accounting policies, and financial notes thereto included in Advant-e Corporation's 2009 Form 10-K filed with the Securities and Exchange Commission.

***Nature of Operations***

Advant-e Corporation through its wholly-owned subsidiaries, Edict Systems, Inc. and Merkur Group, Inc. (collectively, the Company), develops, markets, resells, and hosts software and provides services that allow its customers to send and receive business documents electronically in standard and proprietary formats. Edict Systems specializes in providing hosted Electronic Data Interchange solutions that utilize the Internet as the primary communications method. Customers use Edict Systems solutions to connect with business partners, integrate data with internal systems, expand and manage electronic trading communities, and validate data via a hosted business rule service. Merkur Group develops and resells software, provides professional services, and provides technical maintenance and support that enables customers to automate delivery and receipt of business documents. Merkur Group provides proprietary software that integrates and connects large Supply Chain Management (SCM), Customer Relationship Management (CRM), and Enterprise Resource Planning (ERP) systems with third party software that provides multiple delivery and document capture options. Customers consist of businesses across a number of industries primarily throughout the United States, and to a much lesser extent some foreign locations, principally Canada, Mexico, and Puerto Rico.

***Principles of Consolidation***

The consolidated financial statements include the accounts of Advant-e Corporation and its wholly-owned subsidiaries, Edict Systems, Inc., and Merkur Group, Inc. Inter-company accounts and transactions are eliminated in consolidation.

***Use of Estimates***

The preparation of financial statements in conformity with U. S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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. Significant estimates used in preparing these financial statements include those considered in the assessment of recoverability of capitalized software development costs, the assessment of potential impairment of goodwill, the assessment of the collectability of accounts receivable and the recording of prepaid software maintenance costs and deferred revenue. A reasonable possibility exists that estimates used will change within the next year.

**Note 2: Stock Split and Dividend**

In 2009 the Company completed a ten-for-one stock split of the Company's common stock, wherein shareholders of record on November 30, 2009 received on December 2, 2009 nine additional shares of stock for each share held on that date. As a result, the Company issued 60,255,909



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additional shares. All references to shares and per share amounts in the accompanying consolidated condensed financial statements and notes to consolidated financial statements report the effect of the stock split retrospectively.

In 2009 the Company's Board of Directors declared a dividend of \$0.03 per share (after the aforementioned ten-for-one stock split), payable in three installments of \$0.01 each. The first installment was paid in December 2009 and the second installment was paid in June 2010. The third and final installment is payable by December 31, 2010. The Company reported as a current liability on the accompanying consolidated condensed balance sheet the third dividend installment totaling \$667,226 (\$0.01 per share).

**Note 3: Line of Credit**

At September 30, 2010, the Company has a \$1,500,000 bank line of credit. Any borrowings under the line of credit accrue interest at the bank's prime commercial rate, are collateralized by substantially all of the assets of the Company's subsidiaries, and are payable in full when the line of credit expires on June 29, 2011. Interest is payable monthly. The line of credit is guaranteed by the Company's Chief Executive Officer. No borrowings were outstanding at September 30, 2010.

**Note 4: Income taxes**

Income tax expense consists of the following:

|                                 | Three Months Ended<br>September 30, |                | Nine Months Ended<br>September 30, |                |
|---------------------------------|-------------------------------------|----------------|------------------------------------|----------------|
|                                 | 2010                                | 2009           | 2010                               | 2009           |
| Current expense                 | \$ 235,600                          | 181,414        | 610,739                            | 517,718        |
| Deferred benefit                | (9,148)                             | (3,329)        | (39,253)                           | (78,107)       |
| <b>Total income tax expense</b> | <b>\$ 226,452</b>                   | <b>178,085</b> | <b>571,486</b>                     | <b>439,611</b> |

The difference between total income tax expense and the amount computed at the federal statutory rate of 34% is attributable to the effects of certain non-deductible expenses in the three and nine months ended September 30, 2010 and to the effect of state income taxes in the three and nine months ended September 30, 2009.

**Note 5: Operating Segment Information**

The Company has two reportable segments: Internet-based electronic commerce document processing (Edict Systems, Inc.) and software-based electronic commerce document processing (Merkur Group, Inc.). The Company evaluates the performance of each reportable segment on income before income taxes excluding the effects of acquisition-related amortization of other intangible assets and related income taxes. The accounting policies of the segments are the same as those for the Company. The Company's reportable segments are managed as separate business units. The following segment information is for the three months ended September 30, 2010 and 2009:

|                                      | Three Months Ended September 30, 2010 |           |                          |                       |
|--------------------------------------|---------------------------------------|-----------|--------------------------|-----------------------|
|                                      | Internet-based                        | Software  | Reconciling<br>Items (a) | Total<br>Consolidated |
| Revenue                              | \$ 2,000,599                          | 379,911   |                          | 2,380,510             |
| Income before income taxes           | 587,797                               | 94,064    | (21,178)                 | 660,683               |
| Income tax expense                   | 201,633                               | 32,020    | (7,201)                  | 226,452               |
| Net income                           | 386,164                               | 62,044    | (13,977)                 | 434,231               |
| Segment assets at September 30, 2010 | 3,234,496                             | 1,740,775 | 1,802,181                | 6,777,452             |

|                                      | Three Months Ended September 30, 2009 |           |                          |                       |
|--------------------------------------|---------------------------------------|-----------|--------------------------|-----------------------|
|                                      | Internet-based                        | Software  | Reconciling<br>Items (a) | Total<br>Consolidated |
| Revenue                              | \$ 1,796,045                          | 361,971   |                          | 2,158,016             |
| Income before income taxes           | 434,682                               | 81,259    | (21,178)                 | 494,763               |
| Income tax expense                   | 160,584                               | 24,702    | (7,201)                  | 178,085               |
| Net income                           | 274,098                               | 56,557    | (13,977)                 | 316,678               |
| Segment assets at September 30, 2009 | 3,261,526                             | 1,414,541 | 1,863,145                | 6,539,212             |

The following segment information is for the nine months ended September 30, 2010 and 2009:

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Nine Months Ended September 30, 2010

|                            | Internet-based | Software  | Reconciling<br>Items (a) | Total<br>Consolidated |
|----------------------------|----------------|-----------|--------------------------|-----------------------|
| Revenue                    | \$ 5,795,291   | 1,122,856 |                          | 6,918,147             |
| Income before income taxes | 1,497,229      | 236,141   | (63,534)                 | 1,669,836             |
| Income tax expense         | 512,742        | 80,348    | (21,604)                 | 571,486               |
| Net income                 | 984,487        | 155,793   | (41,930)                 | 1,098,350             |

## Nine Months Ended September 30, 2009

|                            | Internet-based | Software  | Reconciling<br>Items (a) | Total<br>Consolidated |
|----------------------------|----------------|-----------|--------------------------|-----------------------|
| Revenue                    | \$ 5,276,643   | 1,237,622 |                          | 6,514,265             |
| Income before income taxes | 1,131,354      | 234,409   | (63,534)                 | 1,302,229             |
| Income tax expense         | 396,347        | 73,146    | (29,882)                 | 439,611               |
| Net income                 | 735,007        | 161,263   | (33,652)                 | 862,618               |

(a) Reconciling items generally consist of goodwill, other intangible assets and related amortization in connection with the Merkur Group, Inc. acquisition.

Revenue from customers located in areas outside the United States, principally in Canada, Mexico, and Puerto Rico, totaled less than 3% of consolidated revenue in the nine months ended September 30, 2010 and 2009.

### Note 6: Recently Issued Accounting Pronouncements

In October 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2009-13,

Multiple-Deliverable Revenue Arrangements, which amends Accounting Standards Codification (ASC) Topic 605, Revenue Recognition. ASU 2009-13 amends the ASC to eliminate the residual method of allocation for multiple-deliverable revenue arrangements, and requires that arrangement consideration be allocated at the inception of an arrangement to all deliverables using the relative selling price method. The ASU also establishes a selling price hierarchy for determining the selling price of a deliverable, which includes: (1) vendor-specific objective evidence if available, (2) third-party evidence if vendor-specific objective evidence is not available, and (3) estimated selling price if neither vendor-specific nor third-party evidence is available. Additionally, ASU 2009-13 expands the disclosure requirements related to a vendor's multiple-deliverable revenue arrangements. The changes to the ASC as a result of this update are effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The Company does not anticipate the adoption of this guidance will have a material impact on the consolidated condensed financial statements.

In October 2009, the FASB issued ASU No. 2009-14, Certain Revenue Arrangements That Include Software Elements, which amends ASC Topic 985, Software. ASU 2009-14 amends the ASC to change the accounting model for revenue arrangements that include both tangible products and software elements, such that tangible products containing both software and non-software components that function together to deliver the tangible product's essential functionality are no longer within the scope of software revenue guidance. The changes to the ASC as a result of this update are effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The Company does not anticipate the adoption of this guidance will have a material impact on the consolidated condensed financial statements.

In December 2009, the FASB issued ASU 2009-17, which codifies Statement of Financial Accounting Standards No. 167, Amendments to FASB Interpretation No. 46(R) issued in June 2009. ASU 2009-17 requires a qualitative approach to identifying a controlling financial interest in a variable interest entity (VIE), and requires ongoing assessment of whether an entity is a VIE and whether an interest in a VIE makes the holder the primary beneficiary of the VIE. ASU 2009-17 was effective for annual reporting periods beginning after November 15, 2009. The adoption of this guidance had no material impact on the Company's consolidated condensed financial statements.

## ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Forward Looking Statements

This Form 10-Q contains forward-looking statements, including statements regarding the expectations of future operations. For this purpose, any statements contained in this Form 10-Q that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, words such as may, will, expect, believe, anticipate, estimate, or continue or comparable terminology are intended to identify forward-looking statements. These statements by their nature involve substantial risks and uncertainties, and actual results may differ materially depending on a variety of factors, many of which are not within the Company's control. These factors include, but are not limited to, economic conditions generally and in the industries in which the Company may participate, competition within the chosen industry, including competition from much larger competitors, technological advances, and the failure to successfully develop business relationships. In light of these risks and uncertainties, you are cautioned not to place undue reliance on these forward-looking statements. This item should be read in conjunction with Item 1. Financial Statements and other items contained elsewhere in this report.



## **Products and services**

Advant-e Corporation through its wholly-owned subsidiaries, Edict Systems, Inc. and Merkur Group, Inc. (collectively, the Company), develops, markets, resells, and hosts software and provides services that allow its customers to send and receive business documents electronically in standard and proprietary formats. Edict Systems specializes in providing hosted Electronic Data Interchange solutions that utilize the Internet as the primary communications method. Customers use Edict Systems solutions to connect with business partners, integrate data with internal systems, expand and manage electronic trading communities, and validate data via a hosted business rule service. Merkur Group develops and resells software, provides professional services, and provides technical maintenance and support that enables customers to automate delivery and receipt of business documents. Merkur Group provides proprietary software that integrates and connects large Supply Chain Management (SCM), Customer Relationship Management (CRM), and Enterprise Resource Planning (ERP) systems with third party software that provides various delivery and document capture options. Customers consist of businesses across a number of industries primarily throughout the United States, and to a much lesser extent some foreign locations, principally Canada, Mexico and Puerto Rico.

## **Critical Accounting Policies and Estimates**

### ***Revenue recognition***

The Company recognizes revenues when, in addition to other criteria, delivery has occurred or services have been rendered.

Revenues from Internet-based products and services are comprised of four components: account activation and trading partner set-up fees, monthly subscription fees, usage-based transactional fees and customer payments for the Company's development of applications designed to meet specific customer specifications.

Revenues earned from account activation and trading partner set-up fees are recognized after the Company performs consultative work required in order to establish an electronic trading partnership between the customer and their desired trading partners. Trading partnerships, once established, require no ongoing effort on the part of the Company and customers are able to utilize the electronic trading partnerships either directly with their customers or via a service provider other than the Company.

Revenue from monthly subscription fees is recognized over the period to which the subscription applies.

Revenue from usage based transaction fees is recognized in the period in which the transactions are processed.

Revenue from customer payments for the Company's development of applications designed to meet specific customer specifications is recognized over the contract period, generally twelve months.

Revenue from the sale of software and related products is recognized upon delivery of the software to the customer when title and risk of loss are transferred. Additionally, the Company records revenue from the sale of software and related products at gross, and the related software purchases are included in cost of sales. Customers have a 30-day period in which they can choose to accept or return the software. Historically, customer returns have not been significant.

Revenue from maintenance contracts is recognized over the life of the maintenance and support contract period, generally twelve months. Revenue from professional services is recognized upon performance of those services.

### ***Software Development Costs***

The Company accounts for the costs of computer software that it develops for internal use and costs associated with operation of its web sites in accordance with the Accounting Standards Codification (ASC) Topic 350, Intangibles-Goodwill and Other, by capitalizing those costs. Such capitalized costs represent solely the salaries and benefits of employees working on the graphics and content development stages, or adding functionality or features. In accordance with ASC Topic 350, overhead, general and administrative and training costs are not capitalized. The Company accounts for the costs of computer software that it sells, leases and markets as a separate product in accordance with ASC Topic 985. Capitalized costs are amortized by the straight-line method over the remaining estimated economic lives of the software application, generally three years, and are reported at the lower of unamortized cost or net realizable value.

The ongoing assessment of recoverability of capitalized software development costs requires considerable judgment by management with respect to certain external factors, including, but not limited to, anticipated future revenues, estimated economic life and changes in software and

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hardware technologies. Impairment of asset value is considered whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

**Goodwill and Other Intangible Assets**

Management assesses goodwill related to the July 2, 2007 acquisition of Merkur Group, Inc. for impairment on an annual basis at year-end, and between annual tests if an event occurs or circumstances change that may more likely than not reduce the fair value of a reporting unit below its carrying value. Significant management judgment is required in assessing the impairment of goodwill, including the assignment of assets and liabilities and determination of fair value. Management uses the discounted cash flow method, which requires significant judgments and assumptions for estimates of future cash flows, growth rate, and useful life of the cash flows, and determination of the cost of capital. Changes in these estimates and assumptions could materially affect the determination of fair value and goodwill impairment, if any.

**Recently Issued Accounting Pronouncements**

For a description of recently issued accounting pronouncements, including the expected dates of adoption and estimated effects, if any, on the Company's consolidated condensed financial statements, see Note 6: Recently Issued Accounting Pronouncements in the Notes to Consolidated Condensed Financial Statements of this Form 10-Q.

**Results of Operations: Third Quarter of 2010 Compared to Third Quarter of 2009****Revenue**

Revenue for the Company in the third quarter of 2010 increased 10% compared to the third quarter of 2009. Revenue for Edict Systems increased by 11% and revenue for Merkur Group increased by 5%.

|                      | Q3 2010             |            | Q3 2009          |            | Increase       |           |
|----------------------|---------------------|------------|------------------|------------|----------------|-----------|
|                      | Amount              | % of Total | Amount           | % of Total | Amount         | %         |
| Edict Systems        | \$ 2,000,599        | 84         | 1,796,045        | 83         | 204,554        | 11        |
| Merkur Group         | 379,911             | 16         | 361,971          | 17         | 17,940         | 5         |
| <b>Total revenue</b> | <b>\$ 2,380,510</b> | <b>100</b> | <b>2,158,016</b> | <b>100</b> | <b>222,494</b> | <b>10</b> |

**Edict Systems Revenue.**

Revenue in the third quarter of 2010 and 2009 from the sale of Internet based Electronic Data Interchange (EDI) products and services sold by Edict Systems is summarized below:

|                             | Q3 2010             |            | Q3 2009          |            | Increase (Decrease) |           |
|-----------------------------|---------------------|------------|------------------|------------|---------------------|-----------|
|                             | Amount              | % of Total | Amount           | % of Total | Amount              | %         |
| Web EDI                     |                     |            |                  |            |                     |           |
| GroceryEC                   | \$ 1,369,842        | 69         | 1,213,979        | 68         | 155,863             | 13        |
| AutomotiveEC                | 156,705             | 8          | 133,982          | 7          | 22,723              | 17        |
| Other Web EDI               | 48,163              | 2          | 52,139           | 3          | (3,976)             | (8)       |
| EnterpriseEC                | 378,928             | 19         | 356,742          | 20         | 22,186              | 6         |
| Other products and services | 46,961              | 2          | 39,203           | 2          | 7,758               | 20        |
| <b>Total</b>                | <b>\$ 2,000,599</b> | <b>100</b> | <b>1,796,045</b> | <b>100</b> | <b>204,554</b>      | <b>11</b> |

Revenue from GroceryEC increased 13% in the third quarter of 2010 compared to the third quarter of 2009 due to an increase in the volume of transactions processed, increased number of new customers and trading partners, and a nominal price increase in January 2010.



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Revenue from AutomotiveEC increased by 17% in the third quarter of 2010 compared to the third quarter of 2009 due to an increase in the volume of transactions and to the aforementioned price increase.

Revenue from EnterpriseEC, the Company's value added network, increased by 6% in the third quarter of 2010 compared to the third quarter of 2009 due to increased volume of EDI transactions processed for large grocery companies. Significant pricing pressures and the availability of alternate connectivity options continue to adversely affect revenue growth for EnterpriseEC. The Company is continuing its product development and sales and marketing efforts to increase activity in currently supported industries and to develop business in other industries, primarily health care and consumer packaged goods.

*Merkur Group Revenue.*

Revenue in the third quarter of 2010 and 2009 from the sale of software based products and services sold by Merkur Group is summarized below:

|                       | Q3 2010    |            | Q3 2009 |            | Increase (Decrease) |      |
|-----------------------|------------|------------|---------|------------|---------------------|------|
|                       | Amount     | % of Total | Amount  | % of Total | Amount              | %    |
| Software              | \$ 50,288  | 13         | 18,216  | 5          | 32,072              | 176  |
| Hardware              | 20,485     | 5          | 32,570  | 9          | (12,085)            | (37) |
| Maintenance contracts | 221,509    | 59         | 206,645 | 57         | 14,864              | 7    |
| Professional services | 81,010     | 21         | 100,200 | 28         | (19,190)            | (19) |
| Other                 | 6,619      | 2          | 4,340   | 1          | 2,279               | 53   |
| Total                 | \$ 379,911 | 100        | 361,971 | 100        | 17,940              | 5    |

Revenue for Merkur Group increased primarily due to increased software revenue related to version upgrades and document processing capacity upgrades, partially offset by a decrease in revenue from relatively high-margin professional services. Revenue in the third quarter of 2010, however, declined by 16% compared to revenue in the second quarter of 2010 due primarily to a decline in software and hardware revenue.

*Net income*

Net income for the third quarter of 2010 compared to the third quarter of 2009 is summarized below:

|  | Q3 2010    | Q3 2009  | Increase |    |
|--|------------|----------|----------|----|
|  |            |          | Amount   | %  |
| Edict Systems  | \$ 386,164 | 274,098  | 112,066  | 41 |
| Merkur Group   | 62,044     | 56,557   | 5,487    | 10 |
| Amortization of intangible assets, net of income tax effects | (13,977)   | (13,977) |          |    |
| Net income   | \$ 434,231 | 316,678  | 117,553  | 37 |

The increase for Edict Systems was due to revenue growth described above together with no appreciable change in overall costs and expenses.

The increase for Merkur Group was primarily due to workforce reductions, decreased sales commissions and profit-related bonuses, and reduced marketing expenses. Net income in the third quarter of 2010, however, declined by 30% compared to net income in the second quarter of 2010 due primarily to a decline in software and hardware revenue.

*Gross margin and cost of revenue*

The Company's gross margin, as a percent of revenue, increased from 60% in the third quarter of 2009 to 62% in the third quarter of 2010 primarily due to increased revenue from Edict Systems, reduced depreciation expense resulting from a declining pace of purchases of property and equipment, and reduced amortization of software development costs resulting from the full amortization of all software development costs capitalized prior to July 1, 2009, partially offset by increased technical personnel-related costs.

*Marketing, general and administrative expenses*

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Marketing, general and administrative expenses increased by \$1,986 in the third quarter of 2010 compared to the third quarter of 2009, as increased sales and marketing expenses for Edict Systems were approximately offset by reduced sales commissions, profit-related bonuses, and certain sales and marketing expenses for Merkur Group.

### **Results of Operations: Nine Months Ended September 30, 2010 compared to Nine Months Ended September 30, 2009**

#### ***Revenue***

Revenue for the Company in the first nine months of 2010 increased 6% compared to the first nine months of 2009. Revenue for Edict Systems increased by 10% and revenue for Merkur Group decreased by 9%.

|                      | Nine months ended<br>September 30, 2010 |            | Nine months ended<br>September 30, 2009 |            | Increase (Decrease) |          |
|----------------------|---|------------|---|------------|---------------------|----------|
|                      | Amount                                  | % of Total | Amount                                  | % of Total | Amount              | %        |
| Edict Systems        | \$ 5,795,291                            | 84         | 5,276,643                               | 81         | 518,648             | 10       |
| Merkur Group         | 1,122,856                               | 16         | 1,237,622                               | 19         | (114,766)           | (9)      |
| <b>Total revenue</b> | <b>\$ 6,918,147</b>                     | <b>100</b> | <b>6,514,265</b>                        | <b>100</b> | <b>403,882</b>      | <b>6</b> |

#### *Edict Systems Revenue*

Revenue in the first nine months of 2010 and 2009 from the sale of Internet based Electronic Data Interchange (EDI) products and services sold by Edict Systems are summarized below:

|                             | Nine months ended<br>September 30, 2010 |            | Nine months ended<br>September 30, 2009 |            | Increase (Decrease) |           |
|-----------------------------|---|------------|---|------------|---------------------|-----------|
|                             | Amount                                  | % of Total | Amount                                  | % of Total | Amount              | %         |
| Web EDI                     |   |            |   |            |                     |           |
| GroceryEC                   | \$ 4,005,918                            | 69         | 3,601,251                               | 68         | 404,667             | 11        |
| AutomotiveEC                | 465,058                                 | 8          | 414,243                                 | 8          | 50,815              | 12        |
| Other Web EDI               | 148,665                                 | 3          | 152,134                                 | 3          | (3,469)             | (2)       |
| EnterpriseEC                | 1,056,998                               | 18         | 1,010,800                               | 19         | 46,198              | 5         |
| Other products and services | 118,652                                 | 2          | 98,215                                  | 2          | 20,437              | 21        |
| <b>Total</b>                | <b>\$ 5,795,291</b>                     | <b>100</b> | <b>5,276,643</b>                        | <b>100</b> | <b>518,648</b>      | <b>10</b> |

Revenue from GroceryEC increased 11% in the first nine months of 2010 compared to the first nine months of 2009, due to an increase in the volume of transactions processed and due to a nominal price increase in January 2010.

Revenue from AutomotiveEC increased by 12% in the first nine months of 2010 compared to the first nine months of 2009 primarily due to an increase in the volume of transactions processed and the aforementioned price increase.

Revenue from EnterpriseEC, the Company's value added network, increased by 5% in the first nine months of 2010 compared to the first nine months of 2009 due to increased volume of EDI transactions processed for large grocery companies.

#### *Merkur Group Revenue*

Revenue in the first nine months of 2010 and 2009 from the sale of software based products and services sold by Merkur Group is summarized below:

|                       | Nine months ended<br>September 30, 2010 |            | Nine months ended<br>September 30, 2009 |            | Increase (Decrease) |      |
|-----------------------|---|------------|---|------------|---------------------|------|
|                       | Amount                                  | % of Total | Amount                                  | % of Total | Amount              | %    |
| Software              | \$ 175,047                              | 16         | 238,798                                 | 19         | (63,751)            | (27) |
| Hardware              | 81,733                                  | 7          | 97,180                                  | 8          | (15,447)            | (16) |
| Maintenance contracts | 657,121                                 | 59         | 646,991                                 | 52         | 10,130              | 2    |
| Professional services | 189,480                                 | 16         | 242,469                                 | 20         | (52,989)            | (22) |
| Other                 | 19,475                                  | 2          | 12,184                                  | 1          | 7,291               | 60   |

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|       |              |     |           |     |           |     |
|-------|--------------|-----|-----------|-----|-----------|-----|
| Total | \$ 1,122,856 | 100 | 1,237,622 | 100 | (114,766) | (9) |
|-------|--------------|-----|-----------|-----|-----------|-----|

Revenue for Merkur Group decreased by \$114,766, or 9%, in the first nine months of 2010 compared to the first nine months of 2009. Although revenue in both the second and third quarters of 2010 increased compared to the same quarters last year, Merkur Group has been unable to offset a relatively weak first quarter of 2010, when revenue declined by \$141,946 when compared to the first quarter of 2009.

**Net Income**

Net income for the first nine months of 2010 compared to the first nine months of 2009 is summarized below:

|  | Nine months ended  |                    | Increase (Decrease) |      |
|--|--------------------|--------------------|---------------------|------|
|  | September 30, 2010 | September 30, 2009 | Amount              | %    |
| Edict Systems  | \$ 984,487         | 735,007            | 249,480             | 34   |
| Merkur Group   | 155,793            | 161,263            | (5,470)             | (3)  |
| Amortization of intangible assets, net of income tax effects | (41,930)           | (33,652)           | (8,278)             | (25) |
| Net income   | \$ 1,098,350       | 862,618            | 235,732             | 27   |

The increase for Edict Systems was due to increased revenue of \$518,648 from all major lines of products and services, partially offset by increased personnel-related expenses pertaining to the addition of customer service and development personnel.

The decline for Merkur Group was due to decreased revenue that occurred in the first quarter of 2010. Merkur partially offset the revenue decline by reductions in personnel, sales commissions, profit-related bonuses, and certain sales and marketing expenses.

**Gross margin and cost of revenue**

The Company's gross margin, as a percent of revenue, increased from 59% in the first nine months of 2009 to 60% in the first nine months of 2010 due to continuing efforts to control costs and due to growth in revenue from Edict Systems products and services which overall have a higher gross margin than Merkur's products and services.

**Marketing, general and administrative expenses**

Marketing, general and administrative expenses decreased by \$47,863, or 2%, in the first nine months of 2010 compared to the first nine months of 2009, due primarily to reductions of sales commissions, profit-related bonuses, and certain sales and marketing expenses for Merkur Group.

**Liquidity and Capital Resources**

In the first nine months of 2010, the Company generated net cash flows from operating activities of \$1,557,040. The Company used the cash to pay the second of three installments of the \$0.03 per share dividend declared in 2009 (\$667,226), to purchase property and equipment (\$101,832), to invest in software development costs (\$148,650), and to increase the balance of cash and cash equivalents by \$639,332.

Management believes that the Company will have sufficient financial resources to meet business requirements during the remainder of 2010 that include payment of the final installment of the dividends declared in 2009 totaling \$667,226, reported as a current liability on the September 30, 2010 consolidated condensed balance sheet.

The Company has available an unused line of credit for \$1.5 million that expires on June 29, 2011.

**Changes in Consolidated Condensed Balance Sheet from December 31, 2009 to September 30, 2010**

Some balance sheet changes that occurred in the first nine months of 2010 that are not described elsewhere in this Management's Discussion and Analysis of Financial Condition and Results of Operations are described below:

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Accounts receivable increased by \$112,854 because billings for software maintenance contracts for Merkur Group were ratably higher in the first nine months of 2010 than in the fourth quarter of 2009.

Software development costs increased by \$117,981 due to the capitalization of \$148,650 of salaries, wages, and payroll taxes during the first nine months of 2010 related to enhancements of the new version of Web EDI, reduced by amortization expense of \$30,669 related to software development costs that were capitalized primarily in 2006 and 2007.

Income taxes payable increased by \$35,901 and the related prepaid income taxes decreased by \$39,798. These amounts resulted from applying the overpayment of income taxes at December 31, 2009 to 2010 income taxes and from the calculation methods and timing of 2010 quarterly estimated tax payments.

Deferred revenue increased by \$125,393 and the related prepaid software maintenance costs increased by \$31,734 primarily due to the timing of software maintenance contract billings and the deferral of related costs.

### **ITEM 4. Controls and Procedures**

Attached as exhibits to the Form 10-Q are certifications of the Company's Chief Executive Officer (CEO) and Chief Financial Officer (CFO), which are required in accordance with Rule 13a-14 of the Securities Exchange Act of 1934, as amended (the Exchange Act). These Controls and Procedures section includes information concerning the controls and controls evaluation referred to in the certifications, and it should be read in conjunction with the certifications for a more complete understanding of the topics presented.

The CEO and the CFO have conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this Form 10-Q. Disclosure controls and procedures are designed to reasonably assure that information required to be disclosed in our reports filed under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures are also designed to reasonably assure that such information is accumulated and communicated to our management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosures.

Based upon the controls evaluation, our CEO and CFO have concluded that the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed in reports that the Company files or submits under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to the Company's management, including the Company's chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure; and that the Company's disclosure controls and procedures were effective during the period covered by the Company's report on Form 10-Q for the quarterly period ended September 30, 2010.

During the period covered by this report, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 6. Exhibits and Reports on Form 8-K

#### Exhibit

| Number | Description  | Method of Filing     |
|--------|--|----------------------|
| 3(i)   | Amended Certificate of Incorporation                                     | Previously filed (A) |
| 3(ii)  | By-laws  | Previously filed (B) |
| 4      | Instruments defining the rights of security holders including indentures | Previously filed (C) |
| 31.1   | Rule 13a-14(a)/15d-14(a) Certification                                   | Filed herewith       |
| 31.2   | Rule 13a-14(a)/15d-14(a) Certification                                   | Filed herewith       |
| 32.1   | Section 1350 Certification   | Filed herewith       |
| 32.2   | Section 1350 Certification   | Filed herewith       |

(A) Filed with Form 10-K filed as of March 30, 2010

(B) Filed with Amendment No. 1 to Form 10-SB filed as of July 17, 2000

(C) Form of Common Stock Certificate Filed with Amendment No. 2 to Form 10-SB filed as of October 13, 2000.



**Signatures**

In accordance with the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Advant-e Corporation  
(Registrant)

November 12, 2010

By: /s/ Jason K. Wadzinski  
Jason K. Wadzinski  
Chief Executive Officer  
Chairman of the Board of Directors

November 12, 2010

By: /s/ James E. Lesch  
James E. Lesch  
Chief Financial Officer  
Principal Accounting Officer  
Member of the Board of Directors