

ADVANT E CORP
Form 10-Q
November 13, 2009

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, 2009

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)

Edgar Filing: ADVANT E CORP - Form 10-Q

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 13, 2009 the issuer had 6,672,269 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 September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|-----------|------------------------------------|-----------|
| | 2009 | 2008 | 2009 | 2008 |
| Revenue | \$ 2,158,016 | 2,067,253 | 6,514,265 | 6,712,754 |
| Cost of revenue | 858,522 | 792,351 | 2,688,352 | 2,615,977 |
| Gross margin | 1,299,494 | 1,274,902 | 3,825,913 | 4,096,777 |
| Marketing, general and administrative expenses | 801,355 | 884,584 | 2,526,143 | 2,869,978 |
| Operating income | 498,139 | 390,318 | 1,299,770 | 1,226,799 |
| Other income (expense), net | (3,376) | (25,852) | 2,459 | (2,241) |
| Income before income taxes | 494,763 | 364,466 | 1,302,229 | 1,224,558 |
| Income tax expense | 178,085 | 117,387 | 439,611 | 432,944 |
| Net income | \$ 316,678 | 247,079 | 862,618 | 791,614 |
| Earnings per share basic and diluted | \$.05 | .04 | .13 | .12 |
| Weighted average shares outstanding basic and diluted | 6,674,656 | 6,791,399 | 6,691,922 | 6,807,085 |

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

ADVANT-E CORPORATION AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS

| | September 30, 2009 (Unaudited) | December 31, 2008 |
|--|--------------------------------------|----------------------|
| Assets | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 3,121,338 | 2,090,005 |
| Short-term investments | | 232,721 |
| Accounts receivable, net | 712,543 | 699,095 |
| Prepaid software maintenance costs | 165,495 | 156,027 |
| Prepaid expenses and deposits | 93,669 | 74,361 |
| Prepaid income taxes | 38,132 | 16,837 |
| Deferred income taxes | 138,134 | 152,156 |
| Total current assets | 4,269,311 | 3,421,202 |
| Software development costs, net | 111,820 | 112,453 |
| Property and equipment, net | 333,068 | 434,645 |
| Goodwill | 1,474,615 | 1,474,615 |
| Other intangible assets, net | 350,398 | 413,932 |
| Total assets | \$ 6,539,212 | 5,856,847 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 144,018 | 207,374 |
| Accrued salaries and other expenses | 300,228 | 283,360 |
| Deferred revenue | 590,314 | 583,677 |
| Total current liabilities | 1,034,560 | 1,074,411 |
| Deferred income taxes | 243,534 | 335,663 |
| Total liabilities | 1,278,094 | 1,410,074 |
| Shareholders' equity: | | |
| Common stock, \$.001 par value; 20,000,000 shares authorized; 6,737,741 shares issued and 6,672,269 outstanding at September 30, 2009; 6,738,261 shares issued and 6,713,919 shares outstanding at December 31, 2008 | 6,738 | 6,738 |
| Paid-in capital | 2,019,583 | 2,020,206 |
| Retained earnings | 3,318,382 | 2,455,764 |
| Treasury stock at cost, 65,472 and 24,342 shares at September 30, 2009 and December 31, 2008, respectively | (83,585) | (35,935) |
| Total shareholders' equity | 5,261,118 | 4,446,773 |
| Total liabilities and shareholders' equity | \$ 6,539,212 | 5,856,847 |

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 September 30, | |
|---|------------------------------------|------------------|
| | 2009 | 2008 |
| Cash flows from operating activities: | | |
| Net income | \$ 862,618 | 791,614 |
| Adjustments to reconcile net income to net cash flows from operating activities: | | |
| Depreciation | 190,127 | 205,845 |
| Amortization of software development costs | 61,338 | 61,338 |
| Amortization of other intangible assets | 63,534 | 63,534 |
| Deferred income taxes | (78,107) | (93,920) |
| Purchases of trading securities | (99,922) | (213,754) |
| Proceeds from sales of trading securities | 327,193 | 209,724 |
| Net unrealized (gains) losses on trading securities | (34,546) | 38,095 |
| Net realized (gains) losses on sales of securities | 39,996 | (7,429) |
| Increase (decrease) in cash arising from changes in assets and liabilities: | | |
| Accounts receivable | (13,448) | 77,906 |
| Prepaid software maintenance costs | (9,468) | 831 |
| Prepaid expenses and deposits | (19,308) | 12,695 |
| Prepaid income taxes | (21,295) | (55,553) |
| Accounts payable | (63,356) | (20,008) |
| Accrued salaries and other expenses | 16,868 | (22,063) |
| Income taxes payable | | (136,947) |
| Deferred revenue | 6,637 | 2,953 |
| Net cash flows from operating activities | 1,228,861 | 914,861 |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (88,550) | (162,948) |
| Software development costs | (60,705) | |
| Net cash flows from investing activities | (149,255) | (162,948) |
| Cash flows from financing activities: | | |
| Purchase of treasury shares | (48,273) | (88,581) |
| Net increase in cash and cash equivalents | 1,031,333 | 663,332 |
| Cash and cash equivalents, beginning of period | 2,090,005 | 2,039,447 |
| Cash and cash equivalents, end of period | \$ 3,121,338 | 2,702,779 |
| Supplemental disclosures of cash flow items: | | |
| Income taxes paid | \$ 539,013 | 718,100 |
| Non-cash transaction | | |
| Retirement of 520 and 60,000 treasury shares during the nine months ended September 30, 2009 and 2008, respectively | 623 | 75,000 |

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, 2009

Note 1: Basis of Presentation, Organization and Other Matters

The accompanying unaudited interim consolidated condensed financial statements, together with the accompanying consolidated condensed balance sheet as of December 31, 2008, which has been derived from the 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 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, 2009 are not necessarily indicative of the results to be expected for the full year ending December 31, 2009. It is suggested that these unaudited consolidated condensed financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in Advant-e Corporation's latest shareholders' annual report (Form 10-K).

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 financial 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 throughout the United States and Canada.

Principles of Consolidation

The consolidated condensed financial statements include the accounts of Advant-e Corporation and its wholly-owned subsidiaries, Edict Systems, Inc. and Merkur Group, Inc. throughout the periods covered by this form 10-Q. 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, those used in the assessment of potential impairment of goodwill, and those used in recording prepaid software maintenance costs and deferred revenue. It is at least reasonably possible that the significant estimates used will change within the next year.

Fair Value Measurements

Assets measured at fair value on a recurring basis, excluding accrued interest components, consisted of marketable equity securities and treasury securities, classified as Short-term investments on the Consolidated Balance Sheets and were classified as trading securities, as of December 31, 2008. At September 30, 2009, the Company had no Short-term Investments. The Company had no liabilities measured using fair value at September 30, 2009 or December 31, 2008.

Edgar Filing: ADVANT E CORP - Form 10-Q

The inputs to valuation techniques used to measure fair value are assigned to one of three broad input levels. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

At December 31, 2008, short-term investments were valued using quoted market prices and therefore were categorized as level 1 fair value instruments.

Goodwill and Other Intangible Assets, net

Goodwill represents the excess of the Company's purchase price over the fair value of the net identifiable assets of Merkur Group, Inc., acquired on July 2, 2007.

Other intangible assets, which arose from the acquisition of Merkur Group, Inc., consist of contractual vendor relationships, customer relationships, and proprietary computer software. Intangible assets acquired in business acquisitions are recorded at fair values using the income or cost approach. The other intangible assets are amortized on a straight-line basis over their expected useful lives of five to seven years.

Management assesses goodwill for impairment on an annual basis.

Note 2: Line of Credit

At September 30, 2009, the Company has a \$1,500,000 bank line of credit. Any borrowings under the line of credit are collateralized by substantially all of the assets of one of the Company's subsidiaries and are payable upon demand. Interest on the borrowings accrues at the bank's prime commercial rate. The line of credit, which expires on June 30, 2010, is guaranteed by the Company's Chief Executive Officer. No borrowings are outstanding at September 30, 2009.

Note 3: Income taxes

Income tax expense consists of the following:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---------------------------------|-------------------------------------|----------------|------------------------------------|----------------|
| | 2009 | 2008 | 2009 | 2008 |
| Current expense | \$ 181,414 | 131,187 | 517,718 | 526,864 |
| Deferred benefit | (3,329) | (13,800) | (78,107) | (93,920) |
| Total income tax expense | \$ 178,085 | 117,387 | 439,611 | 432,944 |

The difference between total income tax expense and the amount computed at the federal statutory rate of 34% is attributable to the effects of state income taxes and gains and losses from short-term investments.

Note 4: 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, 2009 and 2008:

| | Three Months Ended September 30, 2009 | | | |
|--------------------------------------|---------------------------------------|-----------|--------------------------|-----------------------|
| | Internet-based | Software | Reconciling Items (a) | Total 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 |

| | Three Months Ended September 30, 2008 | | | |
|---------|---------------------------------------|----------|--------------------------|-----------------------|
| | Internet-based | Software | Reconciling Items (a) | Total Consolidated |
| Revenue | \$ 1,712,761 | 354,492 | | 2,067,253 |

Edgar Filing: ADVANT E CORP - Form 10-Q

| | | | | |
|--------------------------------------|-----------|-----------|-----------|-----------|
| Income (loss) before income taxes | 413,424 | (27,780) | (21,178) | 364,466 |
| Income tax expense (benefit) | 137,886 | (12,875) | (7,624) | 117,387 |
| Net Income (loss) | 275,538 | (14,905) | (13,554) | 247,079 |
| Segment assets at September 30, 2008 | 3,343,734 | 1,268,839 | 1,965,278 | 6,577,851 |

Edgar Filing: ADVANT E CORP - Form 10-Q

The following segment information is for the nine months ended September 30, 2009 and 2008:

| | Nine Months Ended September 30, 2009 | | | Total Consolidated |
|----------------------------|--------------------------------------|-----------|--------------------------|-----------------------|
| | Internet-based | Software | Reconciling Items (a) | |
| 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 |

| | Nine Months Ended September 30, 2008 | | | Total Consolidated |
|----------------------------|--------------------------------------|-----------|--------------------------|-----------------------|
| | Internet-based | Software | Reconciling Items (a) | |
| Revenue | \$ 5,016,668 | 1,696,086 | | 6,712,754 |
| Income before income taxes | 1,167,866 | 120,226 | (63,534) | 1,224,558 |
| Income tax expense | 413,366 | 42,450 | (22,872) | 432,944 |
| Net Income | 754,500 | 77,776 | (40,662) | 791,614 |

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

Note 5: Recently Issued Accounting Pronouncements

In December 2008, The Financial Accounting Standards Board (FASB) issued authoritative guidance requiring additional disclosures for plan assets of defined benefit pension or other postretirement plans. This guidance, which was incorporated into Accounting Standards Codification (ASC) Topic 715, Compensation Retirement Benefits, requires new disclosures only, and does not change the accounting treatment for postretirement benefits plans. ASC Topic 715 is effective for fiscal year ending December 31, 2009. The adoption of this standard will have no material impact on the Company's consolidated financial statements.

In June 2009, The FASB issued SFAS No. 166, Accounting for Transfers of Financial Assets an amendment of SFAS No. 140. SFAS 166 provides an improvement to the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. This standard remains authoritative until it is integrated into the Codification. SFAS 166 will be effective for annual periods ending after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter with early adoption prohibited. Management does not anticipate the adoption of SFAS 166 will have a material impact on the consolidated financial statements.

In June 2009, The FASB issued authoritative guidance establishing two levels of U.S. generally accepted accounting principles (GAAP) authoritative and nonauthoritative and making the Accounting Standards Codification the source authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of this Statement, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification will become non-authoritative. This guidance, which was incorporated into ASC Topic 105, Generally Accepted Accounting Principles, was effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of ASC Topic 105 did not have a material impact on the consolidated financial statements.

In August 2009, the FASB issued ASU No. 2009-05, Measuring Liabilities at Fair Value, which amends ASC Topic 820, Fair Value Measurements and Disclosures. ASU 2009-05 provides clarification and guidance regarding how to value a liability when a quoted price in an active market is not available for that liability. The changes to the ASC as a result of this update are effective for the first reporting period (including interim periods) beginning after issuance, October 1, 2009 for the Company. The Company does not anticipate the adoption of this guidance to have a material impact on the consolidated financial statements.

In October 2009, the 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 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 financial statements.

Note 6: Subsequent Events

Management performed an evaluation of the Company's activity through the date the accompanying financial statements were issued, which was November 13, 2009, and concluded that the following significant subsequent events occurred:

On October 30, 2009, the Company's Board of Directors approved an increase in the number of its authorized common shares of stock from 20,000,000 to 100,000,000, requiring an amendment to the Company's Certificate of Incorporation. On October 30, 2009 the Company's Board of Directors approved a ten-for-one stock split of the Company's common stock for all shareholders of record on November 30, 2009. The increase in the number of authorized shares and the stock split require appropriate applications and approvals through state and regulatory authorities. As of the date of the issuance of these financial statements, the requisite approvals have not been received.

On October 30, 2009 the Company's Board of Directors declared the payment of a cash dividend, totaling approximately \$2 million (\$.03 per share after the aforementioned ten-for-one stock split), payable in three installments of \$.01 each by no later than December 31, 2009, June 30, 2010, and December 31, 2010.

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 financial 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 throughout the United States and Canada.

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. 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 Company capitalized software development costs of \$60,705 in the three months and nine months ended September 30, 2009.

Recently Issued Accounting Pronouncements

Edgar Filing: ADVANT E CORP - Form 10-Q

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 5: Recently Issued Accounting Pronouncements in the Notes to Consolidated Condensed Financial Statements of this Form 10-Q.

Results of Operations**Third Quarter of 2009 Compared to Third Quarter of 2008****Revenue**

Total revenue for the third quarter of 2009 increased 4% compared to the third quarter of 2008. Revenue for Edict Systems increased 5% and revenue for Merkur Group increased by 2%.

Total Revenue

| | Q3 2009 | | Q3 2008 | | Increase (Decrease) | |
|-------------------------------------|---------------------|------------|------------------|------------|---------------------|----------|
| | Amount | % of Total | Amount | % of Total | Amount | % |
| Edict Systems products and services | \$ 1,796,045 | 83 | 1,712,761 | 83 | 83,284 | 5 |
| Merkur Group products and services | 361,971 | 17 | 354,492 | 17 | 7,479 | 2 |
| Total revenue | \$ 2,158,016 | 100 | 2,067,253 | 100 | 90,763 | 4 |

Edict Systems Revenue

Revenue in the third quarter of 2009 and 2008 from the sale of Internet based Electronic Data Interchange (EDI) products and services sold by Edict Systems is summarized below:

Edict Systems Revenue

| | Q3 2009 | | Q3 2008 | | Increase (Decrease) | |
|-----------------------------|---------------------|------------|------------------|------------|---------------------|----------|
| | Amount | % of Total | Amount | % of Total | Amount | % |
| Web EDI | | | | | | |
| GroceryEC | \$ 1,213,979 | 68 | 1,175,110 | 69 | 38,869 | 3 |
| AutomotiveEC | 133,982 | 7 | 154,742 | 9 | (20,760) | (13) |
| Other Web EDI | 52,139 | 3 | 53,594 | 3 | (1,455) | (3) |
| EnterpriseEC | 356,742 | 20 | 298,945 | 17 | 57,797 | 19 |
| Other products and services | 39,203 | 2 | 30,370 | 2 | 8,833 | 29 |
| Total | \$ 1,796,045 | 100 | 1,712,761 | 100 | 83,284 | 5 |

Revenue from GroceryEC increased 3% compared to the third quarter of 2008. The rate of revenue growth for GroceryEC is slowing due to overall sluggish economic conditions and market saturation.

Revenue from AutomotiveEC decreased by 13% in the third quarter of 2009 compared to the third quarter in 2008. Overall weak economic conditions in the automotive industry are causing reduced customer demand for processing AutomotiveEC business documents.

Revenue from EnterpriseEC increased by 19% compared to the third quarter of 2008. The increase in revenue is due primarily to increased value added network (VAN) services to grocery industry hubs, new customers and increased volume to existing customers. The increase occurred despite significant pricing pressures and the availability of alternate connectivity options. The Company expects to continue its efforts to increase activity in currently supported industries as well as diversify and develop additional business in other industries including healthcare, consumer packaged goods, and manufacturing.

Edgar Filing: ADVANT E CORP - Form 10-Q

Merkur Group Revenue

Revenue from the sale of software based products and services sold by Merkur Group in the third quarter of 2009 and 2008 are summarized below:

Merkur Group Revenue

| | Q3 2009 | | Q3 2008 | | Increase (Decrease) | |
|-----------------------|-------------------|------------|----------------|------------|---------------------|----------|
| | Amount | % of Total | Amount | % of Total | Amount | % |
| Software | \$ 22,556 | 6 | 5,808 | 2 | 16,748 | 288 |
| Hardware | 32,570 | 9 | 14,424 | 4 | 18,146 | 126 |
| Maintenance contracts | 206,645 | 57 | 259,948 | 73 | (53,303) | (21) |
| Professional services | 100,200 | 28 | 74,312 | 21 | 25,888 | 35 |
| Total | \$ 361,971 | 100 | 354,492 | 100 | 7,479 | 2 |

Revenue for Merkur Group increased by 2% in the third quarter of 2009 compared to the third quarter of 2008. Revenue in the third quarter of both 2009 and 2008 suffered from the effects of the weakened economy and the uncertainty of future economic conditions that have caused current customers to postpone software upgrades and prospective customers to delay software purchases. These decisions have a direct adverse affect on Merkur's other revenue sources as customer's normally require a hardware upgrade, additional maintenance, and professional services in addition to the software upgrades and new software purchases.

Net Income

Net income for the third quarter of 2009 compared to the same quarter in 2008 is summarized in the table below:

Net Income

| | Q3 2009 | Q3 2008 | Increase (Decrease) | |
|--|------------|----------|---------------------|-----|
| | | | Amount | % |
| Edict Systems, Inc. | \$ 274,098 | 275,538 | (1,440) | (1) |
| Merkur Group, Inc. | 56,557 | (14,905) | 71,462 | 479 |
| Amortization of intangible assets, net of income tax effects | (13,977) | (13,554) | (423) | (3) |
| Total Net Income | \$ 316,678 | 247,079 | 69,599 | 28 |

Despite the 5% increase in revenue for Edict Systems, net income decreased slightly as a result of increased personnel related costs in both the technical and marketing areas.

Net income for Merkur Group increased primarily due to reduced personnel related costs including salaries and benefits, bonuses and sales commissions and reduced travel costs.

Gross Margin

The Company's gross margin, as a percent of revenue, declined from 62% in the third quarter of 2008 to 60% in the third quarter of 2009, due to technical personnel related costs that increased at a rate faster than revenue increased for Edict Systems.

Marketing, general and administrative expenses

Marketing, general and administrative expenses decreased by \$83,229, or 9%, in the third quarter of 2009 compared to the third quarter of 2008. Marketing, general and administrative expenses also declined in the first and second quarters in 2009 compared to the first and second quarters in 2008. The reductions are due to the Company's continuing efforts to control selling general and administrative expenses, particularly for Merkur Group, where revenue is below historical levels.

Other income (expense), net

Other income (expense), net improved in the third quarter of 2009 compared to the third quarter of 2008 because losses from the Company's short term investments in Q3 2009 were less than the losses in Q3 2008.

Nine Months Ended September 30, 2009 Compared to Nine Months Ended September 30, 2008

Results of operations for the nine months ended September 30, 2009 and 2008, presented as percentages of revenues, are summarized below:

Revenue

Total revenue for the first nine months of 2009 decreased by 3% compared to the first nine months of 2008. Revenue for Edict Systems increased 5%, but revenue for Merkur Group declined by 27%.

Edgar Filing: ADVANT E CORP - Form 10-Q

Total Revenue

| | Nine months ended September 30, 2009 | | Nine months ended September 30, 2008 | | Increase (Decrease) | |
|-------------------------------------|---|------------|---|------------|---------------------|------------|
| | Amount | % of Total | Amount | % of Total | Amount | % |
| Edict Systems products and services | \$ 5,276,643 | 81 | 5,016,668 | 75 | 259,975 | 5 |
| Merkur Group products and services | 1,237,622 | 19 | 1,696,086 | 25 | (458,464) | (27) |
| Total revenue | \$ 6,514,265 | 100 | 6,712,754 | 100 | (198,489) | (3) |

Edict Systems Revenue

Revenue in the first nine months of 2009 and 2008 from the sale of Internet based Electronic Data Interchange (EDI) products and services sold by Edict Systems are summarized below:

Edict Systems Revenue

| | Nine months ended September 30, 2009 | | Nine months ended September 30, 2008 | | Increase (Decrease) | |
|-----------------------------|---|------------|---|------------|---------------------|----------|
| | Amount | % of Total | Amount | % of Total | Amount | % |
| Web EDI | | | | | | |
| GroceryEC | \$ 3,601,251 | 68 | 3,486,474 | 70 | 114,777 | 3 |
| AutomotiveEC | 414,243 | 8 | 459,831 | 9 | (45,588) | (10) |
| Other Web EDI | 152,134 | 3 | 162,190 | 3 | (10,056) | (6) |
| EnterpriseEC | 1,010,800 | 19 | 843,318 | 17 | 167,482 | 20 |
| Other products and services | 98,215 | 2 | 64,855 | 1 | 33,360 | 51 |
| Total | \$ 5,276,643 | 100 | 5,016,668 | 100 | 259,975 | 5 |

Revenue from GroceryEC increased by 3% compared to the first nine months of 2008. The rate of revenue growth for GroceryEC is slowing due to overall sluggish economic conditions and market saturation.

Revenue from AutomotiveEC decreased by 10% in the first nine months of 2009 compared to the first nine months in 2008. Overall weak economic conditions in the automotive industry are causing reduced customer demand for processing AutomotiveEC business documents.

Revenue from EnterpriseEC increased by 20% compared to the first nine months of 2008. The increase in revenue is due primarily to increased value added network (VAN) services to grocery industry hubs, new customers and increased volume to existing customers. The increase occurred despite significant pricing pressures and the availability of alternate connectivity options. The Company expects to continue its efforts to increase activity in currently supported industries as well as diversify and develop additional business in other industries including healthcare, consumer packaged goods, and manufacturing.

Merkur Group Revenue

Revenue from the sale of software based products and services sold by Merkur Group, Inc. in the first nine months of 2009 and 2008 are summarized below:

Merkur Group Revenue

| | Nine months ended September 30, 2009 | | Nine months ended September 30, 2008 | | Increase (Decrease) | |
|-----------------------|---|------------|---|------------|---------------------|-------------|
| | Amount | % of Total | Amount | % of Total | Amount | % |
| Software | \$ 250,982 | 20 | 561,719 | 33 | (310,737) | (55) |
| Hardware | 97,180 | 8 | 157,748 | 9 | (60,568) | (38) |
| Maintenance contracts | 646,991 | 52 | 688,454 | 41 | (41,463) | (6) |
| Professional services | 242,469 | 20 | 288,165 | 17 | (45,696) | (16) |
| Total | \$ 1,237,622 | 100 | 1,696,086 | 100 | (458,464) | (27) |

Revenue from Merkur Group declined in the first nine months of 2009 compared to the first nine months of 2008 due to the effects of the weakened economy and the uncertainty of future economic conditions that have caused current customers to postpone software upgrades and prospective customers to delay software purchases. These decisions have a direct adverse affect on Merkur's other revenue sources as customer s normally require a hardware upgrade, additional maintenance, and professional services in addition to the software upgrades and new software purchases.

Net Income

Net income for the first nine months of 2009 compared to the first nine months of 2008 is summarized in the table below:

| | Nine months ended September 30, 2009 | Nine months ended September 30, 2008 | Increase (Decrease) | |
|---|---|---|---------------------|----------|
| | | | Amount | % |
| Edict Systems, Inc. | \$ 735,007 | 754,500 | (19,493) | (3) |
| Merkur Group, Inc. | 161,263 | 77,776 | 83,487 | 107 |
| Amortization of intangible assets, net of income tax effects | (33,652) | (40,662) | 7,010 | 17 |
| Total Net Income | \$ 862,618 | 791,614 | 71,004 | 9 |

The decline for Edict Systems was due primarily to personnel related costs in product development, operations and customer service that increased at a rate faster than the rate that revenue increased.

Despite a 27% decrease in revenue, net income for Merkur Group increased primarily due to reduced personnel related costs including salaries and benefits, bonuses and sales commissions and reduced travel costs.

Gross Margin

The Company's gross margin, as a percent of revenue, declined from 61% in the first nine months of 2008 to 59% in the first nine months of 2009 due to technical personnel related costs that increased at a rate faster than revenue increased for Edict Systems.

Marketing, general and administrative expenses

Marketing, general and administrative expenses decreased by \$343,835, or 12%, in the first nine months of 2009 compared to the first nine months of 2008. The reductions are due to the Company's continuing efforts to control selling general and administrative expenses, particularly for Merkur Group, where revenue is below historical levels.

Other income (expense), net

Other income (expense), net improved in the first nine months of 2009 compared to the first nine months of 2008 because losses from the Company's short term investments in the nine months ended September 30, 2009 were less than the losses in the nine months ended September 30, 2008.

Liquidity and Capital Resources

In the nine months ended September 30, 2009, the Company generated net cash flows from operating activities of \$1,228,861 compared to \$914,861 for the first nine months of 2008. The cash flow from operating activities in both periods was due primarily to net income adjusted for non-cash expenses, but 2009 includes proceeds from selling all the Company's short-term investments and converting the proceeds to cash and cash equivalents. As a result, cash and cash equivalents increased during the nine months ended September 30, 2009 by \$1,031,333.

Edgar Filing: ADVANT E CORP - Form 10-Q

Changes in Consolidated Condensed Balance Sheet from December 31, 2008 to September 30, 2009

Certain changes that occurred in the Condensed Balance Sheet during the nine months ended September 30, 2009 are described below:

Short-term investments were sold in the third quarter of 2009 for cash.

The liability for deferred income taxes decreased by \$92,129 because certain temporary differences for financial reporting and income tax purposes declined, including the differences for depreciation and other intangible assets, and the cash basis of accounting the Company used for income tax purposes until 2008.

Total shareholders' equity increased by \$814,345 as a result of net income for the nine month period of \$862,618 less purchases of treasury stock of \$48,273.

ITEM 4T. 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, 2009.

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 2. Unregistered Sales of Equity Securities and Use of Proceeds

The Company issued no unregistered securities during the quarterly period ended September 30, 2009.

The Company's share repurchase program for up to \$750,000 in fair market value of the Company's common stock on the open market or in privately negotiated transactions, initially announced on August 9, 2007, and expiring on December 31, 2009, is summarized below by month during the third quarter of 2009:

| Period | (a) Total number of shares purchased | (b) Average price per share | Total number of shares purchased as part of publicly announced plans or programs | Approximate dollar value of shares that may yet be purchased under the plans or programs |
|----------------|--|-----------------------------------|--|--|
| July 2009 | 3,000 | \$ 1.10 | 3,000 | 478,588 |
| September 2009 | 2,530 | 1.10 | 2,530 | 475,805 |
| Total | 5,530 | 1.10 | 5,530 | 475,805 |

ITEM 6. Exhibits and Reports on Form 8-K

Exhibit

| Number | Description | Method of Filing |
|--------|--------------------------------------|----------------------|
| 3(i) | Amended Certificate of Incorporation | Previously filed (A) |

Edgar Filing: ADVANT E CORP - Form 10-Q

| | | |
|-------|--|----------------------|
| 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 Amendment No. 2 to Form 10-SB filed as of October 13, 2000
Text of amendment to Certificate of Incorporation filed as exhibit to Form 8-k filed on October 30, 2009

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

(C) Filed with Form 10-SB filed as of July 1, 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 13, 2009

By: /s/ JASON K. WADZINSKI
Jason K. Wadzinski
Chief Executive Officer

Chairman of the Board of Directors

November 13, 2009

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