

ADVANT E CORP
Form 10-Q
November 14, 2008

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, 2008

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 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 11, 2008 the issuer had 6,719,311 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,	
	2008	2007	2008	2007
Revenue	\$ 2,067,253	2,178,155	6,712,754	5,075,628
Cost of revenue	792,351	818,716	2,615,977	1,810,060
Gross margin	1,274,902	1,359,439	4,096,777	3,265,568
Marketing, general and administrative expenses	884,584	876,090	2,869,978	2,231,039
Operating income	390,318	483,349	1,226,799	1,034,529
Other income (loss), net	(25,852)	18,002	(2,241)	73,257
Income before income taxes	364,466	501,351	1,224,558	1,107,786
Income tax expense	117,387	165,467	432,944	399,184
Net income	\$ 247,079	335,884	791,614	708,602
Basic and diluted earnings per share	\$.04	.05	.12	.11
Weighted average shares outstanding	6,791,399	6,845,015	6,807,085	6,612,266

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

ADVANT-E CORPORATION AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS

	September 30, 2008 (Unaudited)	December 31, 2007
Assets		
Current Assets:		
Cash and cash equivalents	\$ 2,702,779	2,039,447
Short-term investments	265,515	292,151
Accounts receivable, net	727,334	805,241
Prepaid software maintenance costs	182,787	183,618
Prepaid expenses and deposits	56,235	68,930
Prepaid income taxes	55,553	
Deferred income taxes	154,262	40,057
Total current assets	4,144,465	3,429,444
Software development costs, net	132,900	194,238
Property and equipment, net	390,761	433,658
Goodwill	1,474,615	1,450,368
Other intangible assets, net	435,110	498,644
Total assets	\$ 6,577,851	6,006,352
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 191,730	211,738
Accrued salaries and other expenses	251,147	273,210
Income taxes payable		112,700
Deferred revenue	648,046	645,093
Total current liabilities	1,090,923	1,242,741
Deferred income taxes	309,143	288,858
Total liabilities	1,400,066	1,531,599
Shareholders' equity:		
Common stock, \$.001 par value; 20,000,000 shares authorized; 6,772,061 shares issued and 6,755,961 outstanding at September 30, 2008; 6,875,015 shares issued and 6,815,015 shares outstanding at December 31, 2007	6,772	6,875
Paid-in capital	2,070,872	2,210,200
Retained earnings	3,124,291	2,332,678
Treasury stock at cost, 16,100 shares at September 30, 2008 and 60,000 shares at December 31, 2007	(24,150)	(75,000)
Total shareholders' equity	5,177,785	4,474,753
Total liabilities and shareholders' equity	\$ 6,577,851	6,006,352

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,	
	2008	2007
Cash flows from operating activities:		
Net income	\$ 791,614	708,602
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation	205,845	162,233
Amortization of software development costs	61,338	48,300
Amortization of other intangible assets	63,534	21,178
Deferred income taxes	(93,920)	(41,784)
Purchases of trading securities	(213,754)	(154,868)
Proceeds from sales of trading securities	209,724	159,184
Net unrealized (gains) losses on trading securities	38,095	(12,573)
Net realized gains on sales of securities	(7,429)	(12,972)
Increase (decrease) in cash arising from changes in assets and liabilities:		
Accounts receivable	77,906	(101,139)
Prepaid software maintenance costs	831	(26,430)
Prepaid expenses and deposits	12,695	(3,841)
Prepaid income taxes	(55,553)	
Accounts payable	(20,008)	70,493
Accrued salaries and other expenses	(22,063)	68,320
Income taxes payable	(136,947)	6,407
Deferred revenue	2,953	38,310
Net cash flows from operating activities	914,861	929,420
Cash flows from investing activities:		
Purchases of property and equipment	(162,948)	(181,246)
Software development costs		(15,363)
Cash paid for purchase of Merkur Group, Inc.		(971,338)
Net cash flows from investing activities	(162,948)	(1,167,947)
Cash flows from financing activities:		
Net payments on bank line of credit		(20,000)
Purchase of treasury stock	(88,581)	(75,000)
Net cash flows from financing activities	(88,581)	(95,000)
Net increase in cash and cash equivalents	663,332	(333,527)
Cash and cash equivalents, beginning of period	2,039,447	2,209,782
Cash and cash equivalents, end of period	\$ 2,702,779	1,876,255
Supplemental disclosures of cash flow items:		
Income taxes paid	\$ 718,100	434,561
Non-cash transactions		
Retirement of 60,000 shares purchased in 2007 and held as treasury stock	75,000	
Common stock issued in connection with purchase of Merkur Group, Inc.		568,692

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, 2008

Note 1: Basis of Presentation, Organization and Other Matters

The accompanying consolidated condensed balance sheet as of December 31, 2007, which has been derived from audited financial statements, and the accompanying unaudited consolidated condensed 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 notes to 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, 2008 are not necessarily indicative of the results to be expected for the full year ending December 31, 2008. 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 2007 Form 10-KSB 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 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 subsidiary, Edict Systems, Inc., throughout the periods covered by this form 10-Q, and its wholly-owned subsidiary, Merkur Group, Inc., since the date of its acquisition by Advant-e Corporation on July 2, 2007. 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.

Note 2: Acquisition

On July 2, 2007, Advant-e Corporation acquired 100% of the outstanding shares of Merkur Group, Inc. The results of Merkur Group, Inc.'s operations have been included in the consolidated financial statements since that date.

The aggregate purchase price of \$1,566,987 was comprised of cash payments of \$927,938 and issuance of 396,301 unregistered common shares valued at \$568,692 to the former shareholders of Merkur Group, Inc. and \$70,357 in related acquisition costs. The value of the unregistered common shares issued was determined based on a weighted-average market price of Advant-e Corporation's common shares over the 5-trading

Edgar Filing: ADVANT E CORP - Form 10-Q

day period from June 28, 2007 through July 5, 2007.

Edgar Filing: ADVANT E CORP - Form 10-Q

The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of acquisition:

Current assets and deposit	\$ 632,624
Property and equipment	33,450
Goodwill	1,474,615
Other intangible assets	541,000
Total assets acquired	2,681,689
Liabilities, principally current, assumed	908,579
Deferred income taxes	206,123
Total liabilities assumed	1,114,702
Net assets acquired	\$ 1,566,987

The following unaudited pro-forma information shows results of operations as if the acquisition had occurred at the beginning of 2007. Results for 2008 are actual results for comparative purposes.

	Three Months Ended September 30,		Nine months Ended September 30,	
	2008	2007	2008	2007
Revenue	\$ 2,067,253	2,178,155	6,712,754	5,961,348
Income before income taxes	364,466	501,351	1,224,558	1,138,892
Net income	247,079	335,884	791,614	776,826
Basic and diluted earnings per share	.04	.05	.12	.11

Other intangible assets consist of the following at September 30, 2008:

	Fair Value	Accumulated Amortization	Net
Contractual vendor relationships	\$ 130,000	32,500	97,500
Customer relationships	185,000	33,035	151,965
Proprietary computer software	226,000	40,355	185,645
	\$ 541,000	105,890	435,110

Amortization of other intangible assets was \$21,178 and \$63,534 in the three months and nine months ended September 30, 2008, and \$21,178 in both the three-month and nine-month periods ended September 30, 2007.

Management assesses goodwill related to the acquisition of Merkur Group, Inc. for impairment on an annual basis in accordance with the provisions of Statement of Financial Accounting Standard 142, Goodwill and Other Intangible Assets. Management completed the annual impairment test at the one year anniversary of the acquisition of Merkur Group, Inc. and determined that no impairment currently exists.

Note 3: Lines of Credit

At September 30, 2008, the Company had a bank line of credit totaling \$1,000,000 at an interest rate of the prime commercial rate and is collateralized by substantially all of the Company's assets. Any borrowings are payable upon demand. The line of credit expires on May 5, 2009. No borrowings are outstanding at September 30, 2008.

Note 4: Income taxes

Edgar Filing: ADVANT E CORP - Form 10-Q

Income tax expense consists of the following:

	Three Months Ended		Nine months Ended	
	September 30,		September 30,	
	2008	2007	2008	2007
Current expense	\$ 131,187	188,983	526,864	440,968
Deferred benefit	(13,800)	(23,516)	(93,920)	(41,784)
Net income tax expense	\$ 117,387	165,467	432,944	399,184

The difference between the income tax expense and the amount computed at the federal statutory rate of 34% is attributable to the effect of state income taxes.

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 based on segment profit, income before taxes, less amortization expense and deferred income tax adjustments related to the purchase of Merkur Group, Inc. 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 is segment information for the three months and nine months ended September 30, 2008 and 2007, respectively, and includes segment assets at September 30, 2008 and 2007:

	Three Months Ended September 30, 2008			
	Internet-based	Software	Reconciling Items (a)	Total Consolidated
Revenue	\$ 1,712,761	355,262	(770)	2,067,253
Income 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

	Three Months Ended September 30, 2007			
	Internet-based	Software	Reconciling Items (a)	Total Consolidated
Revenue	\$ 1,567,855	610,300		2,178,155
Income before income taxes	465,386	57,143	(21,178)	501,351
Income tax expense	154,258	18,833	(7,624)	165,467
Net Income	311,128	38,310	(13,554)	335,884
Segment assets at September 30, 2007	3,223,312	885,272		