

ADVANT E CORP
Form 10-Q
November 14, 2011

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, 2011

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.)

2434 Esquire Dr.

Beavercreek, Ohio 45431

(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 14, 2011 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 September 30, | | Nine Months Ended September 30, | |
|---|---|-------------|--|-------------|
| | 2011 | 2010 | 2011 | 2010 |
| Revenue | \$ 2,447,674 | 2,380,510 | 7,107,718 | 6,918,147 |
| Cost of revenue | 955,698 | 913,522 | 2,850,509 | 2,769,072 |
| Gross margin | 1,491,976 | 1,466,988 | 4,257,209 | 4,149,075 |
| Marketing, general and administrative expenses | 802,075 | 803,341 | 2,389,125 | 2,478,280 |
| Operating income | 689,901 | 663,647 | 1,868,084 | 1,670,795 |
| Other income (expense), net | 892 | (2,964) | 2,933 | (959) |
| Income before income taxes | 690,793 | 660,683 | 1,871,017 | 1,669,836 |
| Income tax expense | 235,251 | 226,452 | 637,928 | 571,486 |
| Net income | \$ 455,542 | 434,231 | 1,233,089 | 1,098,350 |
| Earnings per share basic and diluted | \$.007 | .006 | .018 | .016 |
| Weighted average shares outstanding basic and diluted | 66,722,590 | 66,722,590 | 66,722,590 | 66,722,590 |

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

ADVANT-E CORPORATION AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS

| | September 30, 2011 (Unaudited) | December 31, 2010 |
|---|--------------------------------------|----------------------|
| Assets | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 3,953,427 | 2,963,172 |
| Accounts receivable, net | 752,404 | 743,020 |
| Prepaid software maintenance costs | 208,554 | 174,013 |
| Prepaid expenses and deposits | 69,267 | 99,234 |
| Deferred income taxes | 210,818 | 153,643 |
| Total current assets | 5,194,470 | 4,133,082 |
| Software development costs, net | 291,224 | 308,832 |
| Property and equipment, net | 147,952 | 228,121 |
| Goodwill | 1,474,615 | 1,474,615 |
| Other intangible assets, net | 180,973 | 244,508 |
| Total assets | \$ 7,289,234 | 6,389,158 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 157,181 | 79,986 |
| Dividends payable | 667,226 | |
| Income taxes payable | 33,396 | 33,619 |
| Accrued salaries and other expenses | 340,706 | 180,311 |
| Deferred revenue | 810,330 | 673,810 |
| Total current liabilities | 2,008,839 | 967,726 |
| Deferred income taxes | 204,807 | 244,481 |
| Total liabilities | 2,213,646 | 1,212,207 |
| Shareholders' equity: | | |
| Common stock, \$.001 par value; 100,000,000 shares authorized; 66,722,590 shares issued and outstanding | 66,723 | 66,723 |
| Paid-in capital | 1,936,257 | 1,936,257 |
| Retained earnings | 3,072,608 | 3,173,971 |
| Total shareholders' equity | 5,075,588 | 5,176,951 |
| Total liabilities and shareholders' equity | \$ 7,289,234 | 6,389,158 |

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, | |
|--|------------------------------------|-----------|
| | 2011 | 2010 |
| Cash flows from operating activities: | | |
| Net income | \$ 1,233,089 | 1,098,350 |
| Adjustments to reconcile net income to net cash flows from operating activities: | | |
| Depreciation | 114,861 | 158,995 |
| Amortization of software development costs | 58,244 | 30,669 |
| Amortization of other intangible assets | 63,534 | 63,534 |
| Loss on disposal of property and equipment | | 4,688 |
| Deferred income taxes | (96,849) | (39,253) |
| Increase (decrease) in cash and cash equivalents arising from changes in assets and liabilities: | | |
| Accounts receivable | (9,384) | (112,854) |
| Prepaid software maintenance costs | (34,541) | (31,734) |
| Prepaid expenses and deposits | 29,967 | 19,341 |
| Prepaid income taxes | | 39,798 |
| Accounts payable | 77,195 | (11,701) |
| Income taxes payable | (223) | 35,901 |
| Accrued salaries and other expenses | 160,395 | 175,913 |
| Deferred revenue | 136,520 | 125,393 |
| Net cash flows from operating activities | 1,732,808 | 1,557,040 |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (34,691) | (101,832) |
| Software development costs | (40,636) | (148,650) |
| Net cash flows from investing activities | (75,327) | (250,482) |
| Cash flows from financing activities: | | |
| Dividends paid | (667,226) | (667,226) |
| Net increase in cash and cash equivalents | 990,255 | 639,332 |
| Cash and cash equivalents, beginning of period | 2,963,172 | 2,713,996 |
| Cash and cash equivalents, end of period | \$ 3,953,427 | 3,353,328 |
| Supplemental disclosures of cash flow items: | | |
| Income taxes paid | \$ 735,000 | 535,000 |
| Non-cash transactions: | | |
| Declared dividends payable no later than December 31, 2011 | 667,226 | |
| Retirement of shares | | 28,192 |

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, 2011

Note 1: Basis of Presentation, Organization and Other Matters

The accompanying unaudited interim consolidated condensed financial statements as of September 30, 2011 and for the three and nine month periods ended September 30, 2011 and 2010, together with the accompanying consolidated condensed balance sheet as of December 31, 2010, 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 interim 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, 2011 are not necessarily indicative of the results to be expected for the full year ending December 31, 2011. These unaudited interim 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 2010 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 condensed 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: Software Development costs

Software development costs at September 30, 2011 and the changes during the nine months then ended are summarized as follows:

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| | Cost | Accumulated Amortization | Net |
|-----------------------------|--------------|-------------------------------------|------------|
| Balance, January 1, 2011 | \$ 1,821,567 | 1,512,735 | 308,832 |
| Additions | 40,636 | | 40,636 |
| Amortization expense | | 58,244 | (58,244) |
| Balance, September 30, 2011 | \$ 1,862,203 | 1,570,979 | 291,224 |

Software development costs are for internal use software and for website development and related enhancements. The balance consists primarily of development costs related to the latest version of the Company's Web EDI. No such costs were capitalized subsequent to the quarter ended March 31, 2011 as the majority of the enhancements related to this upgrade have been completed.

Note 3: Line of Credit

At September 30, 2011, the Company has a \$1,500,000 bank line of credit. 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 April 25, 2012. Interest is payable monthly. The line of credit is guaranteed by the Company's Chief Executive Officer. No borrowings were outstanding as of September 30, 2011 and 2010 and during the nine month periods then ended.

Note 4: Income taxes

Income tax expense consists of the following:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---------------------------------|-------------------------------------|----------------|------------------------------------|----------------|
| | 2011 | 2010 | 2011 | 2010 |
| Current expense | \$ 269,835 | 235,600 | 734,777 | 610,739 |
| Deferred benefit | (34,584) | (9,148) | (96,849) | (39,253) |
| Total income tax expense | \$ 235,251 | 226,452 | 637,928 | 571,486 |

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, 2011 and 2010:

| | Three Months Ended September 30, 2011 | | | |
|--------------------------------------|---------------------------------------|-----------|--------------------------|-----------------------|
| | Internet-based | Software | Reconciling Items (a) | Total Consolidated |
| Revenue | \$ 2,122,076 | 325,598 | | 2,447,674 |
| Income before income taxes | 651,650 | 60,321 | (21,178) | 690,793 |
| Income tax expense (benefit) | 221,943 | 20,509 | (7,201) | 235,251 |
| Net income | 429,707 | 39,812 | (13,977) | 455,542 |
| Segment assets at September 30, 2011 | 3,744,121 | 1,890,628 | 1,654,485 | 7,289,234 |

| | Three Months Ended September 30, 2010 | | | |
|--------------------------------------|---------------------------------------|-----------|--------------------------|-----------------------|
| | Internet-based | Software | Reconciling Items (a) | Total 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 (benefit) | 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 |

The following segment information is for the nine months ended September 30, 2011 and 2010:

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Nine Months Ended September 30, 2011

| | Internet-based | Software | Reconciling Items (a) | Total Consolidated |
|------------------------------|-----------------------|-----------------|----------------------------------|-------------------------------|
| Revenue | \$ 6,091,959 | 1,028,278 | (12,519) | 7,107,718 |
| Income before income taxes | 1,732,772 | 201,779 | (63,534) | 1,871,017 |
| Income tax expense (benefit) | 590,919 | 68,613 | (21,604) | 637,928 |
| Net Income | 1,141,853 | 133,166 | (41,930) | 1,233,089 |

| | Nine Months Ended September 30, 2010 | | | |
|------------------------------|--------------------------------------|-----------|--------------------------|-----------------------|
| | Internet-based | Software | Reconciling Items (a) | Total 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 (benefit) | 512,742 | 80,348 | (21,604) | 571,486 |
| Net Income | 984,487 | 155,793 | (41,930) | 1,098,350 |

(a) Reconciling items generally consist of the elimination of intersegment revenues of \$12,519 for the sale of software in 2011, at cost, and 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 three and nine months ended September 30, 2011 and 2010.

Note 6: Dividend

On May 12, 2011 the Company's Board of Directors declared a dividend of \$0.02 per share payable in two equal installments of \$0.01 per share each. The first installment totaling \$667,226 was paid in June 2011. The Company reported as a current liability the second installment totaling \$667,226 to be paid no later than December 31, 2011.

Note 7: Subsequent Event Building Lease and Related Party

Effective on November 1, 2011 the Company moved its corporate office and principal place of business to a building owned by an entity that is wholly-owned by the Company's CEO and majority shareholder. The Company is in the process of negotiating the terms of a lease agreement for the building. The Company is the sole tenant of the 19,000 square foot building, and anticipates leasing the space for \$10 per square foot, or \$190,000 per year, plus paying all building expenses including interior and exterior maintenance, structural repairs, taxes, insurance, utilities and all other related expenses. The Company anticipates that the lease will expire on October 31, 2018.

The Company is entering into this lease due to its need for the following: additional 7,000 square feet of space to provide sufficient space for all employees to work in one building, sufficient space to provide ample parking for all employees and visitors, sufficient space to allow for expansion, improved offices and working conditions for employees, better location, increased fire protection, improved infrastructure, and increases in employee efficiency and customer service levels.

Note 8: 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 adoption of this guidance had no material impact on the Company's 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 adoption of this guidance had no material impact on the Company's consolidated condensed financial statements.

In December 2010, the FASB issued ASU No. 2010-28, Intangibles-Goodwill and Other: When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts. ASU 2010-28 amends ASC Topic 305 requiring an entity that has recognized goodwill and has one or more reporting units whose carrying amount for the purposes of performing Step 1 of the impairment test is zero or negative to perform Step 2 of the goodwill impairment test. The changes to the ASC as a result of this update are effective for interim periods and fiscal years beginning after December 15, 2010. The adoption of this guidance had no material impact on the Company's

consolidated condensed financial statements.

In May 2011, the FASB issued ASU No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS. ASU 2011-04 amends ASC Topic 820 to include increased transparency of valuation inputs and investment categorization and provide consistency in application of fair value under U.S. GAAP and IFRS. The changes to the ASC as a result of this update are effective for fiscal years and interim periods beginning after December 15, 2011. The Company believes the adoption of this guidance will not have a material impact on the Company's consolidated condensed financial statements.

In June 2011, the FASB issued ASU No. 2011-05, Presentation of Comprehensive Income. ASU 2011-05 amends ASC Topic 220 to allow an entity to present components of net income and other comprehensive income in one continuous statement, referred to as the statement of comprehensive income or in two separate, but consecutive statements. This ASU eliminates the current option to report other comprehensive income and its components in the statement of changes in equity, but it does not change the components that are currently recognized in net income or comprehensive income under current guidance. The changes to the ASC as a result of this update are effective for fiscal years and interim periods beginning after December 15, 2011. The Company believes the adoption of this guidance will not have a material impact on the Company's consolidated condensed financial statements.

In September 2011, the FASB issued ASU No. 2011-08, Intangibles-Goodwill and Other: Testing Goodwill for Impairment. This standard was issued to address concerns about the cost and complexity of performing the first step of the two-step goodwill impairment test required under Topic 350, Intangibles-Goodwill and Other. The objective of this Update is to simplify how entities, both public and nonpublic, test goodwill for impairment. The amendments in the Update permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. Under the amendments in this Update, an entity is not required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. The guidance is effective for impairment tests for fiscal years beginning after December 15, 2011. The Company believes the adoption of this guidance will not have a 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, 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 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.

Critical Accounting Policies and Estimates

Revenue recognition

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, and is accounted for under the provisions of ASC Topic 985-605, Software Industry Revenue Recognition. Revenue from the sale of software and related products is recorded at gross, and the related software purchases are included in cost of revenue. 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

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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, Software . 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 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 the 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 8: Recently Issued Accounting Pronouncements in the Notes to Consolidated Condensed Financial Statements of this Form 10-Q.

Results of Operations: Third Quarter of 2011 Compared to Third Quarter of 2010

Revenue

Revenue for the Company in the third quarter of 2011 increased 3% compared to the third quarter of 2010. Revenue for Edict Systems increased by 6% and revenue for Merkur Group decreased by 14%.

| | Q3 2011 | | Q3 2010 | | Increase (Decrease) | |
|---------------|--------------|------------|-----------|------------|------------------------|------|
| | Amount | % of Total | Amount | % of Total | Amount | % |
| Edict Systems | \$ 2,122,076 | 87 | 2,000,599 | 84 | 121,477 | 6 |
| Merkur Group | 325,598 | 13 | 379,911 | 16 | (54,313) | (14) |
| Revenue | \$ 2,447,674 | 100 | 2,380,510 | 100 | 67,164 | 3 |

Edict Systems Revenue

Revenue in the third quarter of 2011 and 2010 from the sale of Internet-based Electronic Data Interchange (EDI) products and services sold by Edict Systems is summarized below:

| | Q3 2011 | | Q3 2010 | | Increase (Decrease) | |
|-----------------------------|--------------|------------|-----------|------------|------------------------|-----|
| | Amount | % of Total | Amount | % of Total | Amount | % |
| Web EDI | | | | | | |
| GroceryEC | \$ 1,432,064 | 68 | 1,369,842 | 69 | 62,222 | 5 |
| AutomotiveEC | 173,893 | 8 | 156,705 | 8 | 17,188 | 11 |
| Other Web EDI | 46,241 | 2 | 48,163 | 2 | (1,922) | (4) |
| EnterpriseEC | 372,431 | 17 | 378,928 | 19 | (6,497) | (2) |
| Other products and services | 97,447 | 5 | 46,961 | 2 | 50,486 | 108 |
| Total | \$ 2,122,076 | 100 | 2,000,599 | 100 | 121,477 | 6 |

Revenue from GroceryEC and AutomotiveEC increased 5% and 11%, respectively, due to an increase in the volume of transactions processed.

Revenue from EnterpriseEC, the Company's value added network (VAN), decreased slightly primarily due to decreased VAN services revenue from small customers that was partially offset by increased volume of transactions processed for large grocery companies. Significant pricing pressures and the availability of alternate connectivity options continue to adversely affect revenue growth for EnterpriseEC.

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Revenue from other products and services increased by \$50,486, or 108%, primarily due to increased web-based testing and certification fees resulting from the Company's trading community ramping services in the grocery industry. The Company is continuing to focus on increasing activity in currently supported industries and on developing additional business in other industries, primarily healthcare, but also in consumer packaged goods and manufacturing.

Merkur Group Revenue

Revenue in the third of 2011 and 2010 from the sale of software based products and services sold by Merkur Group is summarized below:

| | Q3 2011 | | Q3 2010 | | Increase (Decrease) | |
|-----------------------|------------|------------|---------|------------|------------------------|------|
| | Amount | % of Total | Amount | % of Total | Amount | % |
| Software | \$ 39,179 | 12 | 50,288 | 13 | (11,109) | (22) |
| Hardware | 6,582 | 2 | 20,485 | 5 | (13,903) | (68) |
| Maintenance contracts | 225,946 | 69 | 221,509 | 59 | 4,437 | 2 |
| Professional services | 41,570 | 13 | 81,010 | 21 | (39,440) | (49) |
| Other | 12,321 | 4 | 6,619 | 2 | 5,702 | 86 |
| Total | \$ 325,598 | 100 | 379,911 | 100 | (54,313) | (14) |

Revenue from the sale of software, hardware, and professional services, totaling \$87,331 in Q3 2011, declined from \$151,783 in Q3 2010, or by 42%, as customers continued to postpone software decisions due to the sluggish economy and the uncertainty of the general business and political climate.

Net income

Net income for the third quarter of 2011 compared to the third quarter of 2010 is summarized below.

| | Q3 2011 | | Q3 2010 | | Increase (Decrease) | |
|--|------------|---|----------|---|------------------------|------|
| | Amount | % | Amount | % | Amount | % |
| Edict Systems | \$ 429,707 | | 386,164 | | 43,543 | 11 |
| Merkur Group | 39,812 | | 62,044 | | (22,232) | (36) |
| Amortization of intangible assets, net of income tax effects | (13,977) | | (13,977) | | | |
| Net income | \$ 455,542 | | 434,231 | | 21,311 | 5 |

The increase for Edict Systems was due to revenue growth partially offset by increased technical personnel related costs.

The decrease for Merkur Group was due to decreased revenue from the sale of software, hardware and professional services.

Gross margin and cost of revenue

The Company's gross margin, as a percent of revenue, decreased from 62% in the third quarter of 2010 to 61% in the third quarter of 2011 due primarily to the decrease in Merkur Group revenue from the sale of software, hardware, and professional services and due to related Merkur Group fixed technical personnel costs that were not absorbed as revenue declined.

Marketing, general and administrative expenses

Marketing, general and administrative expenses decreased by less than 1% in the third quarter of 2011 compared to the third quarter of 2010 as the Company continued to control expenses in an uncertain economic environment.

Results of Operations: Nine Months Ended September 30, 2011 compared to Nine Months Ended September 30, 2010

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Revenue

Revenue for the Company in the first nine months of 2011 increased 3% compared to the first nine months of 2010. Revenue for Edict Systems increased by 5% and revenue for Merkur Group decreased by 10%.

| | Nine months ended September 30, 2011 | | Nine months ended September 30, 2010 | | Increase (Decrease) | |
|---------------|---|------------|---|------------|------------------------|------|
| | Amount | % of Total | Amount | % of Total | Amount | % |
| Edict Systems | \$ 6,091,959 | 85 | 5,795,291 | 84 | 296,668 | 5 |
| Merkur Group | 1,015,759 | 15 | 1,122,856 | 16 | (107,097) | (10) |
| Revenue | \$ 7,107,718 | 100 | 6,918,147 | 100 | 189,571 | 3 |

Edict Systems Revenue

Revenue in the first nine months of 2011 and 2010 from the sale of Internet based Electronic Data Interchange (EDI) products and services sold by Edict Systems is summarized below:

| | Nine months ended September 30, 2011 | | Nine months ended September 30, 2010 | | Increase (Decrease) | |
|-----------------------------|---|------------|---|------------|------------------------|----------|
| | Amount | % of Total | Amount | % of Total | Amount | % |
| Web EDI | | | | | | |
| GroceryEC | \$ 4,166,892 | 69 | 4,005,918 | 69 | 160,974 | 4 |
| AutomotiveEC | 503,487 | 8 | 465,058 | 8 | 38,429 | 8 |
| Other Web EDI | 141,610 | 2 | 148,665 | 3 | (7,055) | (5) |
| EnterpriseEC | 1,092,560 | 18 | 1,056,998 | 18 | 35,562 | 3 |
| Other products and services | 187,410 | 3 | 118,652 | 2 | 68,758 | 58 |
| Total | \$ 6,091,959 | 100 | 5,795,291 | 100 | 296,668 | 5 |

Revenue from GroceryEC and AutomotiveEC increased 4% and 8%, respectively, due to an increase in the volume of transactions processed.

Revenue from EnterpriseEC, the Company's value added network, increased by 3% in the first nine months of 2011 compared to the first nine months of 2010 due to increased volume of EDI transactions processed for large grocery companies. However, significant pricing pressures and the availability of alternate connectivity options continue to adversely affect revenue growth for EnterpriseEC.

Revenue from other products and services increased by \$68,758, or 58%, primarily due to increased web-based testing and certification fees resulting from the Company's trading community ramping services, primarily in the grocery industry.

Merkur Group Revenue

Revenue in the first nine months of 2011 and 2010 from the sale of software based products and services sold by Merkur Group is summarized below:

| | Nine months ended September 30, 2011 | | Nine months ended September 30, 2010 | | Increase (Decrease) | |
|-----------------------|---|------------|---|------------|------------------------|-------------|
| | Amount | % of Total | Amount | % of Total | Amount | % |
| Software | \$ 97,131 | 9 | 175,047 | 16 | (77,916) | (45) |
| Hardware | 58,289 | 6 | 81,733 | 7 | (23,444) | (29) |
| Maintenance contracts | 690,055 | 68 | 657,121 | 59 | 32,934 | 5 |
| Professional services | 139,770 | 14 | 189,480 | 16 | (49,710) | (26) |
| Other | 30,514 | 3 | 19,475 | 2 | 11,039 | 57 |
| Total | \$ 1,015,759 | 100 | 1,122,856 | 100 | (107,097) | (10) |

Revenue from the sale of software and related hardware and professional services, totaling \$295,190 in the first nine months of 2011, declined from \$446,260 in the first nine months of 2010, or by 34%, as customers continued to postpone software decisions due to the sluggish economy and the uncertainty of the general business and political climate. Recurring revenue from maintenance contracts, however, increased by 5% to \$690,055 in the first nine months of 2011.

Net Income

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Net income for the first nine months of 2011 compared to the first nine months of 2010 is summarized below:

| | Nine months ended September 30, 2011 | Nine months ended September 30, 2010 | Increase (Decrease) | |
|--|--|--|------------------------|------|
| | | | Amount | % |
| Edict Systems | \$ 1,141,853 | 984,487 | 157,366 | 16 |
| Merkur Group | 133,166 | 155,793 | (22,627) | (14) |
| Amortization of intangible assets, net of income tax effects | (41,930) | (41,930) | | |
| Net Income | \$ 1,233,089 | 1,098,350 | 134,739 | 12 |

The increase for Edict Systems was primarily due to revenue growth which was partially offset by increased technical personnel related expenses as Edict continued to implement its new Web EDI version.

Net income for Merkur Group declined primarily due to decreased revenue partially offset by reduced personnel related expenses.

Revenue from customers in foreign locations

Although the Company has no facilities or operations in foreign locations, the Company derived in the nine months ended September 30, 2011 and 2010 less than 3% of its revenue from customers located in areas outside the United States, principally in Canada, Mexico, and Puerto Rico.

Gross margin and cost of revenue

The Company's gross margin, as a percent of revenue, was approximately 60% in the first nine months of both 2011 and 2010. The gross margin for Edict Systems was 64% for both periods as increased revenue was sufficient to offset increased technical personnel related expenses. The gross margin for Merkur Group declined from 45% to 42% due to reduced revenue from the sale software, hardware, and professional services and due to fixed technical personnel related expenses that were not absorbed as revenue declined.

Marketing, general and administrative expenses

Marketing, general and administrative expenses decreased by \$89,155, or 4%, in the first nine months of 2011 compared to the first nine months of 2010, due primarily to reduced personnel related expenses.

Liquidity and Capital Resources

In the first nine months of 2011, the Company generated net cash flows from operating activities of \$1,732,808. The Company paid dividends of \$667,226 and invested \$75,327 in property and equipment for infrastructure improvements and software development costs for the new version of Web EDI.

Management believes that the Company will have sufficient financial resources to meet business requirements during the remainder of 2011, including payment of the dividend installment of \$667,226 due to be paid before December 31, 2011. The dividend installment is reported as a current liability on the September 30, 2011 consolidated condensed balance sheet.

Changes in Consolidated Condensed Balance Sheet from December 31, 2010 to September 30, 2011

Some balance sheet changes that occurred from December 31, 2010 to September 30, 2011 that are not described elsewhere in this Management's Discussion and Analysis of Financial Condition and Results of Operations are described below:

Accounts payable increased \$77,195 due to the costs associated with the software maintenance billings, which were ratably higher in the third quarter of 2011 than in the fourth quarter of 2010.

Accrued salaries and other expenses increased \$160,395 due to the timing of payroll periods and accruals for unpaid but earned employee bonuses and vacation pay.

Deferred revenue increased by \$136,520 due to sales of software maintenance contracts and sales of applications designed to meet specific customer specifications for services to be performed in future periods. Prepaid software maintenance costs associated with the sale of software maintenance contracts increased ratably by \$34,541.

Total shareholders' equity decreased \$101,363 as a result of the declaration of a \$.02 per share dividend on May 12, 2011 totaling \$1,334,452, partially offset by net income for the nine months of \$1,233,089.

Building Lease and Related Party

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Effective on November 1, 2011 the Company moved its corporate office and principal place of business to a building owned by an entity that is wholly-owned by the Company's CEO and majority shareholder. The Company is in the process of negotiating the terms of a lease agreement for the building. The Company is the sole tenant of the 19,000 square foot building, and anticipates leasing the space for \$10 per square foot, or \$190,000 per year, plus paying all building expenses including interior and exterior maintenance, structural repairs, taxes, insurance, utilities and all other related expenses. The Company anticipates that the lease will expire on October 31, 2018 and that the lease payment terms will be at or below market rates for comparable office space in the Beavercreek, Ohio area.

The Company is entering into this lease due to its need for the following: additional 7,000 square feet of space to provide sufficient space for all employees to work in one building, sufficient space to provide ample parking for all employees and visitors, sufficient space to allow for expansion, improved offices and working conditions for employees, better location, increased fire protection, improved infrastructure, and increases in employee efficiency and customer service levels.

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 CEO and CFO, 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, 2011.

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

| 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 |
| 101.INS* | XBRL Instance Document | Submitted electronically |
| 101.SCH* | XBRL Taxonomy Extension Schema Document | Submitted electronically |
| 101.CAL* | XBRL Taxonomy Extension Calculation Linkbase Document | Submitted electronically |
| 101.DEF* | XBRL Taxonomy Extension Definition Linkbase Document | Submitted electronically |
| 101.LAB* | XBRL Taxonomy Extension Label Linkbase Document | Submitted electronically |

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101.PRE* XBRL Taxonomy Extension Presentation Linkbase Document

Submitted electronically

- (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.
- * In accordance with Regulation S-T, the XBRL-related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall be deemed to be furnished and not filed.

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 14, 2011

By: /s/ Jason K. Wadzinski

Jason K. Wadzinski
Chief Executive Officer
Chairman of the Board of Directors

November 14, 2011

By: /s/ James E. Lesch

James E. Lesch
Chief Financial Officer
Principal Accounting Officer
Member of the Board of Directors