

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)

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

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

**2680 Indian Ripple Rd.**

**Dayton, Ohio 45440**

(Address of principal executive offices)

**(937) 429-4288**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant 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
<b>Assets</b>		
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
<b>Total current assets</b>	<b>4,144,465</b>	<b>3,429,444</b>
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
<b>Total assets</b>	<b>\$ 6,577,851</b>	<b>6,006,352</b>
<b>Liabilities and Shareholders' Equity</b>		
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
<b>Total current liabilities</b>	<b>1,090,923</b>	<b>1,242,741</b>
Deferred income taxes	309,143	288,858
<b>Total liabilities</b>	<b>1,400,066</b>	<b>1,531,599</b>
<b>Shareholders' equity:</b>		
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)
<b>Total shareholders' equity</b>	<b>5,177,785</b>	<b>4,474,753</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 6,577,851</b>	<b>6,006,352</b>

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

## ADVANT-E CORPORATION AND SUBSIDIARIES

## CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (Unaudited)

	Nine months Ended 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
<b>Net cash flows from operating activities</b>	<b>914,861</b>	<b>929,420</b>
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)
<b>Net cash flows from investing activities</b>	<b>(162,948)</b>	<b>(1,167,947)</b>
Cash flows from financing activities:		
Net payments on bank line of credit		(20,000)
Purchase of treasury stock	(88,581)	(75,000)
<b>Net cash flows from financing activities</b>	<b>(88,581)</b>	<b>(95,000)</b>
<b>Net increase in cash and cash equivalents</b>	<b>663,332</b>	<b>(333,527)</b>
Cash and cash equivalents, beginning of period	2,039,447	2,209,782
<b>Cash and cash equivalents, end of period</b>	<b>\$ 2,702,779</b>	<b>1,876,255</b>
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.



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**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

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



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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
<b>Total assets acquired</b>	<b>2,681,689</b>
Liabilities, principally current, assumed	908,579
Deferred income taxes	206,123
<b>Total liabilities assumed</b>	<b>1,114,702</b>
<b>Net assets acquired</b>	<b>\$ 1,566,987</b>

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**

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Income tax expense consists of the following:

	<b>Three Months Ended</b>		<b>Nine months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
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	1,826,295	5,934,879

	Nine Months Ended September 30, 2008			
	Internet-based	Software	Reconciling Items (a)	Total Consolidated
Revenue	\$ 5,016,668	1,698,215	(2,129)	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

	Nine Months Ended September 30, 2007 (b)			
	Internet-based	Software	Reconciling Items (a)	Total Consolidated
Revenue	\$ 4,465,328	610,300		5,075,628
Income before income taxes	1,071,821	57,143	(21,178)	1,107,786
Income tax expense	387,975	18,833	(7,624)	399,184
Net Income	683,846	38,310	(13,554)	708,602

- (a) Reconciling items generally consist of goodwill, other intangible assets and related amortization in connection with the Merkur Group, Inc. acquisition.
- (b) Information for the software segment begins on July 2, 2007, the acquisition date of Merkur Group, Inc.



**Note 6: Fair Value**

On January 1, 2008, the Company adopted the required provisions of Statement of Financial Accounting Standards ( SFAS ) No. 157, Fair Value Measurements ( SFAS No. 157 ). SFAS No. 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. 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). The three levels of the fair value hierarchy under SFAS No. 157 are as follows:

Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability;

Level 3 Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e. supported by little or not market activity).

A financial instrument s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Assets measured at fair value on a recurring basis, excluding accrued interest components, consisted of the following types of instruments as of September 30, 2008. The Company does not have any liabilities required to be reported in accordance with SFAS No. 157.

	Fair Value Measurements at Reporting Date Using			Total Balance
	Quoted Prices In Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Treasury securities	\$ 11,593			11,593
Marketable equity securities	253,922			253,922
	\$ 265,515			265,515

Treasury securities and marketable equity securities are included in short-term investments in the condensed consolidated balance sheets.

The fair value of the Company s short-term investments declined \$47,920 to \$217,595 as of November 11, 2008.

**Note 7: Recently Issued Accounting Pronouncements**

In October 2008, the Financial Accounting Standards Board issued Staff Position ( FSP ) No. 157-3 Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active (FSP 157-3). FSP 157-3 clarifies the application of Statement of Financial Accounting Standards ( SFAS ) No. 157 in a market that is not active, and addresses application issues such as the use of internal assumptions when relevant observable data does not exist, the use of observable market information when the market is not active, and the use of market quotes when assessing the relevance of observable and unobservable data. FSP 157-3 is effective for all periods presented in accordance with SFAS No. 157. The adoption of this standard did not have a material impact on the Company s consolidated financial statements.

In February 2008, the Financial Accounting Standards Board issued Staff Position FSP No. 157-2, Effective Date of FASB Statement No. 157, which delayed the effective date of SFAS 157 for certain non-financial assets and non-financial liabilities to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. Non-financial assets include the Company s goodwill and other intangible assets. The Company does not have any non-financial liabilities. The Company has deferred the adoption of SFAS 157 with regards to non-financial assets and liabilities in accordance with FSP No. 157-2. The Company believes the adoption of this standard will not have a material impact on the Company s consolidated financial statements.

In December 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ( SFAS ) No. 141 (revised 2007), Business Combinations . Under this revised statement, an entity is required to recognize the assets acquired, liabilities assumed, contractual contingencies, and contingent consideration at their fair value on the acquisition date. It further requires that acquisition-related costs are recognized separately from the acquisition and are expensed as incurred, restructuring costs generally are expensed in periods subsequent to the acquisition date, and changes in accounting for deferred tax asset valuation allowances and acquired income tax uncertainties after the measurement period impact income tax expense. In addition, acquired in-process research and development is capitalized as an intangible asset

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and amortized over its estimated useful life. The Company is required to adopt this statement in the first quarter of 2009, thereby changing the Company's accounting treatment for business combinations on a prospective basis beginning in 2009.

In December 2007, the Financial Accounting Standards Board issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51. SFAS No. 160 changes the accounting and reporting for minority interests, which will be recharacterized as non-controlling interests and classified as a component of equity. SFAS No. 160 is effective for the Company on a prospective basis for business combinations with an acquisition date beginning in the first quarter of fiscal year 2009. The Company believes the adoption of this standard will not have a material impact on the Company's consolidated financial statements.

In March 2008, the Financial Accounting Standards Board issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133. The standard requires additional quantitative disclosures (provided in tabular form) and qualitative disclosures for derivative instruments. The required disclosures include how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows; relative volume of derivative activity; the objectives and strategies for using derivative instruments; the accounting treatment for those derivative instruments formally designated as the hedging instrument in a hedge relationship; and the existence and nature of credit-related contingent features for derivatives. SFAS No. 161 does not change the accounting treatment for derivative instruments. SFAS No. 161 is effective in the first quarter of fiscal year 2009. The Company believes the adoption of this standard will not have a material impact on the Company's consolidated financial statements.

In May 2008, the Financial Accounting Standards Board issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles. SFAS No. 162 identifies a consistent framework for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. GAAP for nongovernmental entities. SFAS No. 162 is effective for fiscal years beginning after December 15, 2008. The Company believes the adoption of this standard will not have a material impact on its overall results of operations, financial position, or cash flows.

In June 2008, the Financial Accounting Standards Board issued Staff Position EITF ( FSP EITF ) 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities. FSP EITF 03-6-1 clarifies that unvested share-based awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and must be included in the computation of Earnings per share pursuant to the two-class method. FSP EITF 03-6-1 is effective for fiscal years beginning after December 15, 2008. The Company believes the adoption of this standard will not have a material impact on the Company's consolidated financial statements.

#### **Note 8: Subsequent Event**

On October 10, 2008, the Board of Directors declared a cash dividend of \$.14 per common share payable to shareholders of record as of October 24, 2008 and payable no later than November 24, 2008.

## **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 in accordance with the Securities Exchange Commission Staff Accounting Bulletin 101 (SAB 101), which requires the Company to recognize revenue 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. The Company follows the guidance provided in Emerging Issues Task Force Abstract ( EITF ) No. 99-19, Reporting Revenue Gross as a Principal versus Net as an Agent. Based upon this guidance 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 American Institute of Certified Public Accountants Statement of Position ( SOP ) 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use and Emerging Issues Task Force ( EITF ) No. 00-2 Accounting for Web Site Development 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 SOP 98-1 and EITF No. 00-2, 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 Financial Accounting Standards Board Statement No. 86, Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed. 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.

#### ***Recently Issued Accounting Pronouncements***

In October 2008, the Financial Accounting Standards Board issued Staff Position ( FSP ) No. 157-3 Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active (FSP 157-3). FSP 157-3 clarifies the application of Statement of Financial Accounting Standards ( SFAS ) No. 157 in a market that is not active, and addresses application issues such as the use of internal assumptions when relevant observable data does not exist, the use of observable market information when the market is not active, and the use of market quotes when assessing the relevance of observable and unobservable data. FSP 157-3 is effective for all periods presented in accordance with SFAS No. 157. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

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In February 2008, the Financial Accounting Standards Board issued Staff Position ( FSP ) No. 157-2, Effective Date of FASB Statement No. 157, which delayed the effective date of SFAS 157 for certain non-financial assets and non-financial liabilities to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. Non-financial assets include the Company s goodwill and other intangible assets. The Company does not have any non-financial liabilities. The Company has deferred the adoption of SFAS 157 with regards to non-financial assets and liabilities in accordance with FSP No. 157-2. The Company believes the adoption of this standard will not have a material impact on the Company s consolidated financial statements.

In December 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ( SFAS ) No. 141 (revised 2007), Business Combinations . Under this revised statement, an entity is required to recognize the assets acquired, liabilities assumed, contractual contingencies, and contingent consideration at their fair value on the acquisition date. It further requires that acquisition-related costs are recognized separately from the acquisition and are expensed as incurred, restructuring costs generally are expensed in periods subsequent to the acquisition date, and changes in accounting for deferred tax asset valuation allowances and acquired income tax uncertainties after the measurement period impact income tax expense. In addition, acquired in-process research and development is capitalized as an intangible asset and amortized over its estimated useful life. The Company is required to adopt this statement in the first quarter of 2009, thereby changing the Company s accounting treatment for business combinations on a prospective basis beginning in 2009.

In December 2007, the Financial Accounting Standards Board issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 . SFAS No. 160 changes the accounting and reporting for minority interests, which will be recharacterized as non-controlling interests and classified as a component of equity. SFAS No. 160 is effective for the Company on a prospective basis for business combinations with an acquisition date beginning in the first quarter of fiscal year 2009. The Company believes the adoption of this standard will not have a material impact on the Company s consolidated financial statements.

In March 2008, the Financial Accounting Standards Board issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 . The standard requires additional quantitative disclosures (provided in tabular form) and qualitative disclosures for derivative instruments. The required disclosures include how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows; relative volume of derivative activity; the objectives and strategies for using derivative instruments; the accounting treatment for those derivative instruments formally designated as the hedging instrument in a hedge relationship; and the existence and nature of credit-related contingent features for derivatives. SFAS No. 161 does not change the accounting treatment for derivative instruments. SFAS No. 161 is effective in the first quarter of fiscal year 2009. The Company believes the adoption of this standard will not have a material impact on the Company s consolidated financial statements.

In May 2008, the Financial Accounting Standards Board issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles . SFAS No. 162 identifies a consistent framework for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. GAAP for nongovernmental entities. SFAS No. 162 is effective for fiscal years beginning after December 15, 2008. The Company believes the adoption of this standard will not have a material impact on its overall results of operations, financial position, or cash flows.

In June 2008, the Financial Accounting Standards Board issued Staff Position EITF ( FSP EITF ) 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities . FSP EITF 03-6-1 clarifies that unvested share-based awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and must be included in the computation of Earnings per share pursuant to the two-class method. FSP EITF 03-6-1 is effective for fiscal years beginning after December 15, 2008. The Company believes the adoption of this standard will not have a material impact on the Company s consolidated financial statements.

## Results of Operations

### Executive Summary

Revenue for the third quarter of 2008 of \$2,067,253 decreased by \$110,902, or 5%, compared to revenue for third quarter of 2007 of \$2,178,155. The decline was attributable to the Merkur Group, Inc. subsidiary, where sales of software and related products and services declined by \$255,808, or 42%, in Q3 2008 compared to Q3 2007. Revenue from the sale of internet based EDI services sold by Edict Systems, Inc. increased by \$144,906, or 9%, in Q3 2008 compared to Q3 2007 and only partially offset the Merkur software revenue decline.

Net income for the third quarter of 2008 of \$247,079 decreased by \$88,805, or 26%, compared to net income for the third quarter of 2007 of \$335,884. The decrease was due primarily to a decline in software segment net income and unrealized losses on the temporary investment portfolio.

### Quarter Ended September 30, 2008 Compared to Quarter Ended September 30, 2007

#### Revenue

Revenue in the third quarter of 2008 decreased by \$110,902, or 5%, compared to revenue in the third quarter of 2007, resulting from decreased sales of software related products and services by Merkur Group, Inc., which was only partially offset by higher revenue from the Company's continued growth of the internet-based EDI services, as indicated below:

	Q3 2008		Q3 2007		Increase	
	Amount	% of Total	Amount	% of Total	Amount	%
Edict Systems products and services	\$ 1,712,761	83%	1,567,855	72%	144,906	9%
Merkur Group products and services	354,492	17	610,300	28	(255,808)	(42)
<b>Total revenue</b>	<b>\$ 2,067,253</b>	<b>100%</b>	<b>2,178,155</b>	<b>100%</b>	<b>(110,902)</b>	<b>(5)%</b>

Revenue in the third quarter of 2008 and 2007 from the sale of Internet based Electronic Data Interchange (EDI) products and services sold by Edict Systems is summarized below:

	Q3 2008		Q3 2007		Increase (Decrease)	
	Amount	% of Total	Amount	% of Total	Amount	%
Web EDI						
GroceryEC	\$ 1,175,110	69%	1,102,145	70%	72,965	7%
AutomotiveEC	154,742	9	127,385	8	27,357	21
Other Web EDI	53,594	3	58,470	4	(4,876)	(8)
EnterpriseEC	269,037	16	228,092	15	40,945	18
Other products and services	60,278	3	51,763	3	8,515	16
<b>Total</b>	<b>\$ 1,712,761</b>	<b>100%</b>	<b>1,567,855</b>	<b>100%</b>	<b>144,906</b>	<b>9%</b>

Growth in revenue from sales of Internet-based EDI services to companies in the grocery industry (GroceryEC) and Automotive industry (AutomotiveEC) reflects the Company's strong presence in the grocery industry and the Company's continuing effort to build on its current base in the automotive industry.

The Company expects to continue its efforts to diversify and develop additional business in the automotive and other industries and to allocate resources to strengthen its position of serving small and medium sized suppliers of large grocery store companies.

Sustained revenue growth in EnterpriseEC will continue to be difficult due to pricing pressures and the availability of alternate connectivity options.

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Revenue from the sale of software based products and services sold by Merkur Group in the third quarter of 2008 and 2007 is summarized below:

	Q3 2008		Q3 2007		Increase (Decrease)	
	Amount	% of Total	Amount	% of Total	Amount	%
Software	\$ 5,808	2%	255,962	42%	(250,154)	(98)%
Hardware	14,424	4	29,981	5	(15,557)	(52)
Maintenance contracts	259,948	73	188,845	31	71,103	38
Professional services	74,312	21	135,512	22	(61,200)	(45)
<b>Total</b>	<b>\$ 354,492</b>	<b>100%</b>	<b>610,300</b>	<b>100%</b>	<b>(255,808)</b>	<b>(42)%</b>

The revenue declined in all categories except for recurring revenue from maintenance contracts. The declines reflect the nature of Merkur's business model, which is heavily reliant on the sale of non-recurring new software license sales. Due to current economic conditions, many companies are deferring purchasing decisions, directly impacting Merkur's revenues in a negative way.

**Net income**

Net income for the third quarter of 2008 of \$247,079 decreased by \$88,805, or 26%, compared to net income for the third quarter of 2007 of \$335,884. The decrease was due primarily to:

a decrease in software segment net income of \$53,215 from Q3 2007 to Q3 2008 resulting principally from decreased sales of Merkur's software and related products, and

a decrease in other income of \$53,506 that resulted primarily from net losses on the Company's temporary investments and from lower interest earned on cash equivalents.

**Nine months Ended September 30, 2008 Compared to Nine months Ended September 30, 2007**

**Revenue**

Revenue for the nine months ended September 30, 2008 increased by \$1,637,126, or 32%, compared to revenue in the first nine months of 2007 as indicated in the table below. Revenue from the Company's internet-based EDI services increased by 12% on the strength of the company's strong presence in the grocery industry and increasing strength in the automotive industry. Revenue from the sale of software related Merkur Group products and services shows a 178% increase because the nine-month period of 2008 includes nine months of Merkur revenue whereas the nine-month period of 2007 includes operations for only the three-month period from July 2, 2007, the acquisition date of Merkur Group, Inc., through September 30, 2007.

	Nine months ended September 30, 2008		Nine months ended September 30, 2007		Increase	
	Amount	% of Total	Amount	% of Total	Amount	%
Edict Systems products and services	\$ 5,016,668	75%	4,465,328	88%	551,340	12%
Merkur Group products and services	1,696,086	25	610,300	12	1,085,786	178
<b>Total revenue</b>	<b>\$ 6,712,754</b>	<b>100%</b>	<b>5,075,628</b>	<b>100%</b>	<b>1,637,126</b>	<b>32%</b>

Revenue for the first nine months of 2008 and 2007 from the sale of Internet based Electronic Data Interchange (EDI) products and services sold by Edict Systems are summarized below:

	Nine months ended September 30, 2008		Nine months ended September 30, 2007		Increase (Decrease)	
	Amount	% of Total	Amount	% of Total	Amount	%
Web EDI						
GroceryEC	\$ 3,486,474	70%	3,107,639	69%	378,835	12%
AutomotiveEC	459,831	9	355,057	8	104,774	30
Other Web EDI	162,190	3	163,074	4	(884)	(1)
EnterpriseEC	758,906	15	675,922	15	82,984	12
Other products and services	149,267	3	163,636	4	(14,369)	(9)
<b>Total</b>	<b>\$ 5,016,668</b>	<b>100%</b>	<b>4,465,328</b>	<b>100%</b>	<b>551,340</b>	<b>12%</b>

Growth in revenue from sales of Internet-based EDI services to companies in the grocery industry (GroceryEC) reflects the Company's strong presence in the grocery industry and continued expansion of the Company's network of large hubs and their suppliers.



The growth in revenue from sales of internet-based EDI services to companies in the automotive industry (AutomotiveEC) results from the Company's continuing effort to build on its current base in the automotive industry and to diversify and develop additional business in related industries.

EnterpriseEC revenue primarily increased from the addition of several hubs and their suppliers. Sustained revenue growth will continue to be difficult due to pricing pressures and the availability of alternate connectivity options.

Revenue from the sale of software based products and services sold by Merkur Group for the first nine months of 2008 and 2007 are summarized below:

	Nine months ended September 30, 2008		Nine months ended September 30, 2007 (a)		Increase (Decrease)	
	Amount	% of Total	Amount	% of Total	Amount	%
Software	\$ 561,719	33%	255,962	42%	305,757	119%
Hardware	157,748	9	29,981	5	127,767	426
Maintenance contracts	688,454	41	188,845	31	499,609	264
Professional services	288,165	17	135,512	22	152,653	113
<b>Total</b>	<b>\$ 1,696,086</b>	<b>100%</b>	<b>610,300</b>	<b>100%</b>	<b>1,085,786</b>	<b>178%</b>

(a) Includes revenue for only the period from July 2, 2007, the acquisition date of Merkur Group, Inc., through September 30, 2007.

**Gross Margin**

The Company's gross margin, as a percent of revenue, was 61% in the nine months ended September 30, 2008 compared to 64% in the same period in 2007. The gross margin decline was attributable to sales by Merkur Group of software and related products that have lower gross margins than the Internet based products and services sold by Edict Systems and increased personnel costs.

**Marketing, general and administrative expenses**

Marketing, general and administrative expenses increased by \$638,939, or 29%, in the first nine months of 2008 compared to the first nine months of 2007, due primarily to the incremental expenses incurred by Merkur Group in 2008.

**Net income**

Net income for the nine months ended September 30, 2008 compared to net income for the nine months ended September 30, 2007 increased by \$83,012, or 12%. This increase was due primarily to the growth in revenue of the Company's internet-based services sold by Edict Systems, Inc. of \$551,340, which more than offset increases in internet-based services expenses including personnel related expenditures for staff additions and salary increases for key personnel, depreciation and amortization, income taxes, and various administrative expenses, as well as reduced interest income and losses on temporary investments.

**Changes in Consolidated Condensed Balance Sheet from December 31, 2007 to September 30, 2008**

During the nine-month period from January 1, 2008 to September 30, 2008, the following changes occurred:

Cash and cash equivalents increased by \$663,332 as a result of net cash flows from operating activities.

Accounts receivable decreased by \$77,907 due primarily to a decline in software segment sales in Q3 2008.



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Property and equipment decreased by \$42,897 as a result of depreciation expense of \$205,845 that exceeded purchases of property and equipment of \$162,948.

Total shareholders' equity increased by \$703,032 as a result of net income for the nine-month period that was partially offset by purchases of treasury stock of \$88,581.

### Capitalized Development Costs

The following table sets forth the cost and accumulated amortization of the products comprising the Software Development Costs asset at September 30, 2008:

<b>Product</b>	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net</b>
Web EDI, new version	\$ 229,990	105,412	124,578
ValidateEC	15,363	7,041	8,322
<b>Total</b>	<b>\$ 245,353</b>	<b>112,453</b>	<b>132,900</b>

**Liquidity and Capital Resources**

In the nine months ended September 30, 2008, the Company generated net cash flows from operating activities of \$914,861, invested \$162,948 into primarily computer system infrastructure improvements and increased its balance of cash and cash equivalents by \$663,332.

Subsequent to September 30, 2008, the Board of Directors declared a cash dividend of \$.14 per common share payable to shareholders of record as of October 24, 2008 that will be processed and distributed no later than November 24, 2008. The total of the cash dividend payments will approximate \$950,000.

**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, 2008.

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**

On August 9, 2007 the Company publicly announced, in a press release and in Form 8-K filed with the SEC, a share repurchase program for up to \$750,000 in fair market value of the Company’s common stock through June 30, 2008 on the open market or in privately negotiated transactions. On June 30, 2008 the Company’s Board of Directors authorized an extension of its share repurchase program through December 31, 2009. The following table summarizes the share repurchase program by month during the third quarter of 2008:

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
August 2008	57,954	\$ 1.50	57,954	\$ 588,069
September 2008	1,100	\$ 1.50	1,100	\$ 586,419
Total	59,054	\$ 1.50	59,054	\$ 586,419

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

**Exhibit**

<b>Number</b>	<b>Description</b>	<b>Method of Filing</b>
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)
4.1	Amendment to warrant certificated dated August 9, 2005	Previously filed (D)
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

(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.

(D) Filed with Form 10-QSB for the quarterly period ended September 30, 2005 as of November 14, 2005.

**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, 2008

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

November 14, 2008

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