

ADVANT E CORP
Form 10-Q
August 14, 2012

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 June 30, 2012

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 August 14, 2012 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 June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Revenue	\$ 2,546,251	2,359,624	5,011,689	4,660,044
Cost of revenue	983,383	976,919	2,007,120	1,894,811
Gross margin	1,562,868	1,382,705	3,004,569	2,765,233
Marketing, general and administrative expenses	798,363	787,593	1,653,335	1,587,050
Operating income	764,505	595,112	1,351,234	1,178,183
Other income, net	630	914	1,440	2,041
Income before income taxes	765,135	596,026	1,352,674	1,180,224
Income tax expense	260,630	203,566	460,962	402,677
Net income	\$ 504,505	392,460	891,712	777,547
Earnings per share basic and diluted	\$.008	.006	.013	.012
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

	June 30, 2012 (Unaudited)	December 31, 2011
Assets		
Current Assets:		
Cash and cash equivalents	\$ 4,577,425	3,459,402
Accounts receivable, net	759,465	784,239
Prepaid software maintenance costs	207,683	190,429
Prepaid expenses and deposits	87,582	107,871
Prepaid income taxes		1,910
Deferred income taxes	228,565	207,336
Total current assets	5,860,720	4,751,187
Software development costs, net	203,857	262,102
Property and equipment, net	168,973	171,199
Goodwill	1,474,615	1,474,615
Other intangible assets, net	117,440	159,796
Total assets	\$ 7,825,605	6,818,899
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 112,956	112,402
Income taxes payable	25,436	
Accrued salaries and other expenses	225,389	205,334
Deferred revenue	852,932	748,828
Total current liabilities	1,216,713	1,066,564
Deferred income taxes	163,301	198,456
Total liabilities	1,380,014	1,265,020
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	4,442,611	3,550,899
Total shareholders' equity	6,445,591	5,553,879
Total liabilities and shareholders' equity	\$ 7,825,605	6,818,899

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)

	Six Months Ended June 30,	
	2012	2011
Cash flows from operating activities:		
Net income	\$ 891,712	777,547
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation	56,515	79,875
Amortization of software development costs	58,245	29,122
Amortization of other intangible assets	42,356	42,357
Deferred income taxes	(56,384)	(62,265)
Increase (decrease) in cash and cash equivalents arising from changes in assets and liabilities:		
Accounts receivable	24,774	26,564
Prepaid software maintenance costs	(17,254)	(29,468)
Prepaid expenses and deposits	20,289	(80,004)
Prepaid income taxes	1,910	
Accounts payable	554	39,279
Income taxes payable	25,436	(25,058)
Accrued salaries and other expenses	20,055	210,372
Deferred revenue	104,104	99,252
Net cash flows from operating activities	1,172,312	1,107,573
Cash flows from investing activities:		
Purchases of property and equipment	(54,289)	(14,587)
Software development costs		(40,636)
Net cash flows from investing activities	(54,289)	(55,223)
Cash flows from financing activities:		
Dividends paid		(667,226)
Net increase in cash and cash equivalents	1,118,023	385,124
Cash and cash equivalents, beginning of period	3,459,402	2,963,172
Cash and cash equivalents, end of period	\$ 4,577,425	3,348,296
Supplemental disclosures of cash flow items:		
Income taxes paid	\$ 490,000	490,000
Non-cash transactions:		
Declared dividends payable no later than December 31, 2011		667,226
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)

June 30, 2012

Note 1: Basis of Presentation, Organization and Other Matters

The accompanying unaudited interim consolidated condensed financial statements as of June 30, 2012 and for the three and six month periods ended June 30, 2012 and 2011, together with the accompanying consolidated condensed balance sheet as of December 31, 2011, 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 six months ended June 30, 2012 are not necessarily indicative of the results to be expected for the full year ending December 31, 2012. 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 2011 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 enable its customers to send and receive business documents electronically in standard and proprietary formats. Edict Systems, Inc. specializes in providing hosted Electronic Data Interchange solutions that utilize the Internet as the primary communications method. Customers use Edict Systems, Inc. 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, Inc. 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, Inc. 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 primarily in the United States, and to a much lesser extent in some foreign geographic areas, principally Canada and to a lesser extent Mexico, Europe, 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. Management evaluates related party relationships for variable interest entity considerations.

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 June 30, 2012 and the changes during the six months then ended are summarized as follows:

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	Cost	Accumulated Amortization	Net
Balance, January 1, 2012	\$ 1,862,203	1,600,101	262,102
Amortization		58,245	58,245
Balance, June 30, 2012	1,862,203	1,658,346	203,857

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 service. The majority of the enhancements related to this upgrade have been completed.

Note 3: Line of Credit

At June 30, 2012, 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 May 25, 2013. Interest is payable monthly. Borrowings under the line of credit are guaranteed by the Company's Chief Executive Officer. No borrowings were outstanding as of June 30, 2012 or during the six months then ended.

Note 4: Income taxes

Income tax expense consists of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Current expense	\$ 280,477	245,445	517,346	464,942
Deferred benefit	(19,847)	(41,879)	(56,384)	(62,265)
Total income tax expense	\$ 260,630	203,566	460,962	402,677

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 June 30, 2012 and 2011:

	Three Months Ended June 30, 2012			
	Internet-based	Software	Reconciling Items (a)	Total Consolidated
Revenue	\$ 2,202,685	343,566		2,546,251
Income before income taxes	692,077	94,236	(21,178)	765,135
Income tax expense (benefit)	235,792	32,040	(7,202)	260,630
Net income	456,285	62,196	(13,976)	504,505
Segment assets at June 30, 2012	4,156,702	2,077,193	1,591,710	7,825,605

	Three Months Ended June 30, 2011			
	Internet-based	Software	Reconciling Items (a)	Total Consolidated
Revenue	\$ 2,025,443	346,700	(12,519)	2,359,624
Income before income taxes	557,730	59,474	(21,178)	596,026
Income tax expense (benefit)	190,547	20,221	(7,202)	203,566
Net income	367,183	39,253	(13,976)	392,460
Segment assets at June 30, 2011	3,337,492	1,794,320	1,663,126	6,794,938

The following segment information is for the six months ended June 30, 2012 and 2011:

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	Six Months Ended June 30, 2012			
	Internet-based	Software	Reconciling Items (a)	Total Consolidated
Revenue	\$ 4,312,151	699,538		5,011,689
Income before income taxes	1,202,611	192,419	(42,356)	1,352,674
Income tax expense (benefit)	409,936	65,429	(14,403)	460,962
Net Income	792,675	126,990	(27,953)	891,712

	Six Months Ended June 30, 2011			Total Consolidated
	Internet-based	Software	Reconciling Items (a)	
Revenue	\$ 3,969,883	702,680	(12,519)	4,660,044
Income before income taxes	1,081,122	141,458	(42,356)	1,180,224
Income tax expense (benefit)	368,976	48,104	(14,403)	402,677
Net Income	712,146	93,354	(27,953)	777,547

(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.

The Company has customers located in areas outside the United States, principally in Canada and to a lesser extent in Mexico, Europe, and Puerto Rico. The Company derived approximately 4% of revenue from these customers in both the three-month and six-month periods ended June 30, 2012 and derived less than 3% of revenue in both the three-month and six-month periods ended June 30, 2011. The Company has no facilities or operations in foreign locations.

Note 6: Related Party Lease

The Company leases its corporate and administrative offices, effective November 1, 2011, from an entity owned by the Company's CEO and majority shareholder. Payments in connection with this lease were \$57,000 for base rent and \$28,076 for taxes, insurance, maintenance and other expenses in the three months ended June 30, 2012, and \$114,000 for base rent and \$57,459 for taxes, insurance, maintenance and other expenses in the six months ended June 30, 2012.

Note 7: Recently Issued Accounting Pronouncements

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

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

Forward Looking Statements

This Form 10-Q contains forward-looking statements, including statements regarding the expectations of future operations. For this purpose, any statements contained in this Form 10-Q that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, words such as may, will, expect, believe, anticipate, estimate, 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

See Nature of Operations in Note 1 to the Consolidated Condensed Financial Statements.

Critical Accounting Policies and Estimates

Revenue recognition

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

Revenue 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.

Revenue 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 contains multiple element arrangements, and is recognized in accordance with the provisions of ASC Topic 985-605, Software Industry Revenue Recognition. The multiple elements include the sale of software, hardware, professional services and software maintenance contracts. The relative selling price of each element is based on vendor-specific objective evidence, and the elements in the arrangements qualify as separate units of accounting. Revenue from the sale of software and hardware is recognized when title and risk of loss are transferred, which generally occurs upon delivery. Revenue from the sale of professional services is recognized when the services are completed, which is generally soon after the delivery of the software and hardware. Even though customers have a 30-day period in which they can return the software, historically 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 the sale of software and related products are recorded at gross, and any related purchases are included in cost of revenue.

Software Development Costs

The Company accounts for the costs of computer software that it develops for internal use and costs associated with operation of its web sites in accordance with the Accounting Standards Codification (ASC) Topic 350, Intangibles-Goodwill and Other by capitalizing those costs. Such capitalized costs represent solely the salaries and benefits of employees working on the graphics and content development stages, or adding functionality or features. In accordance with ASC Topic 350, overhead, general and administrative and training costs are not capitalized. The Company accounts for the costs of computer software that it sells, leases and markets as a separate product in accordance with ASC Topic 985,

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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.

Software Maintenance Costs

Prepaid software maintenance costs represent amounts paid to the primary software supplier of Merkur Group, Inc. for providing program upgrades and software modifications to remediate programming errors during the lives of the related customer maintenance and support contracts. These costs are charged to expense over the lives of the maintenance and support contract periods, generally twelve months.

Goodwill and Other Intangible Assets

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

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

Management assesses goodwill 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 7: Recently Issued Accounting Pronouncements in the Notes to Consolidated Condensed Financial Statements of this Form 10-Q.

Results of Operations: Second Quarter of 2012 Compared to Second Quarter of 2011**Revenue**

Revenue for the Company in second quarter of 2012 increased 8% compared to the second quarter of 2011. Revenue for Edict Systems increased 9% and revenue for Merkur Group increased 3%.

	Q2 2012		Q2 2011		Increase	
	Amount	% of Total	Amount	% of Total	Amount	%
Edict Systems	\$ 2,202,685	87	2,025,443	86	177,242	9
Merkur Group	343,566	13	334,181	14	9,385	3
Revenue	\$ 2,546,251	100	2,359,624	100	186,627	8

Edict Systems Revenue

Revenue from the sale of Internet-based Electronic Data Interchange (EDI) products and services sold by Edict Systems in the second quarter of 2012 and 2011 are summarized below:

	Q2 2012		Q2 2011		Increase (Decrease)	
	Amount	% of Total	Amount	% of Total	Amount	%
Web EDI						
GroceryEC	\$ 1,464,595	66	1,388,635	69	75,960	5
AutomotiveEC	198,519	9	168,690	8	29,829	18
Other Web EDI	40,785	2	47,160	2	(6,375)	(14)
EnterpriseEC	432,153	20	360,946	18	71,207	20
Other products and services	66,633	3	60,012	3	6,621	11
Total	\$ 2,202,685	100	2,025,443	100	177,242	9

Revenue from GroceryEC increased by 5% due to increased volume of transactions processed.

Revenue from AutomotiveEC increased by 18% due to increased volume of transactions processed from existing customers and from new customers who are suppliers of a Canadian automotive company.

Revenue from EnterpriseEC, the Company's value added network (VAN), increased by 20% due to increased volume of EDI transactions processed for large grocery companies and increased recurring revenue from the Company's integration solutions. Despite this increase, pricing pressures and the availability of alternate connectivity options continue to adversely affect revenue growth for EnterpriseEC.

Merkur Group Revenue

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Revenue from the sale of software-based products and services sold by Merkur Group in the second quarter of 2012 and 2011 are summarized below:

	Q2 2012		Q2 2011		Increase (Decrease)	
	Amount	% of Total	Amount	% of Total	Amount	%
Software	\$ 42,720	12	11,998	4	30,722	256
Hardware	6,373	2	26,727	8	(20,354)	(76)
Professional services	38,700	11	43,300	13	(4,600)	(11)
	87,793	25	82,025	25	5,768	7
Maintenance contracts	233,636	68	242,048	72	(8,412)	(3)
On demand	18,368	6	5,599	2	12,769	228
Other	3,769	1	4,509	1	(740)	(16)
	255,773	75	252,156	75	3,617	1
Total	\$ 343,566	100	334,181	100	9,385	3

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Revenue from the sale of software, hardware, and professional services totaled \$87,793 in the second quarter of 2012, a 7% increase over the second quarter of 2011. Despite the slight increase, general economic conditions continue to exert a moderating effect on the sale of software and related products. Revenue from maintenance contracts declined by \$8,412, or 3%, but revenue from Merkur's on-demand solutions increased by \$12,769, or 228%.

Revenue from customers in foreign locations

The Company has customers located in areas outside the United States, principally in Canada and to a lesser extent in Mexico, Europe, and Puerto Rico. The Company derived approximately 4% of revenue from these customers in the three-month period ended June 30, 2012 and derived less than 3% of revenue in the three-month period ended June 30, 2011. The Company has no facilities or operations in foreign locations.

Net income

Net income for the second quarter of 2012 compared to the second quarter of 2011 is summarized below.

	Q2 2012	Q2 2011	Increase Amount	%
Edict Systems	\$ 456,285	367,183	89,102	24
Merkur Group	62,196	39,253	22,943	58
Amortization of intangible assets, net of income tax effects	(13,976)	(13,976)		
Net income	\$ 504,505	392,460	112,045	29

Net income increased primarily as a result of the following:

Revenue increased by \$186,627 primarily from the sale of Web EDI products and services sold by Edict Systems.

Personnel-related costs were reduced by \$28,046 due to a restructuring of some fringe benefits. This reduction will be mostly offset by fringe benefit increases in future quarters.

Partially offsetting the above increases to net income were the following:

Building rent and rent-related expenses for taxes, insurance, maintenance, etc. increased by \$29,002 in the second quarter of 2012 compared to the same quarter last year primarily as a result of the fourth quarter 2011 relocation to a new corporate office.

Technical consulting expenses increased by \$24,025 in the second quarter of 2012 for the ongoing process of implementing the new version of the Company's Web EDI service.

Income tax expenses increased by \$57,064 as a result of the increased net income in the second quarter of 2012.

Gross margin and cost of revenue

The Company's gross margin, as a percent of revenue, increased from 59% in the second quarter of 2011 to 61% in the second quarter of 2012 primarily on the strength of increased revenue of \$186,627. Cost of revenue increased slightly.

Marketing, general and administrative expenses

Marketing, general and administrative expenses increased by \$10,770, or 1%, in the second quarter of 2012 compared to the second quarter of 2011 due primarily to increased building rent and rent-related expenses of \$29,002, partially offset by reductions in certain other marketing and administrative expenses. Marketing, general and administrative expenses as a percent of sales were 33% and 31% in the second quarter of 2012 and 2011, respectively.

Results of Operations: Six Months Ended June 30, 2012 compared to Six Months Ended June 30, 2011

Revenue

Revenue for the Company in the first six months of 2012 increased 8% compared to the first six months of 2011. Revenue for Edict Systems increased 9% and revenue for Merkur Group increased 1%.

Six months ended June 30, 2012	Six months ended June 30, 2011
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