

ADVANT E CORP  
Form 10-Q  
August 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 June 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 August 14, 2008 the issuer had 6,815,015 outstanding shares of Common Stock, \$.001 Par Value.

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**PART I. FINANCIAL INFORMATION**
**ITEM 1. Financial Statements****ADVANT-E CORPORATION AND SUBSIDIARIES****CONSOLIDATED CONDENSED STATEMENTS OF INCOME (Unaudited)**

|  | <b>Three Months Ended</b> |             | <b>Six Months Ended</b> |             |
|--|---------------------------|-------------|-------------------------|-------------|
|  | <b>June 30,</b>           |             | <b>June 30,</b>         |             |
|  | <b>2008</b>               | <b>2007</b> | <b>2008</b>             | <b>2007</b> |
| Revenue  | \$ 2,300,267              | 1,481,150   | 4,645,501               | 2,897,473   |
| Cost of revenue                                | 902,780                   | 482,776     | 1,823,626               | 991,344     |
| Gross margin                                   | 1,397,487                 | 998,374     | 2,821,875               | 1,906,129   |
| Marketing, general and administrative expenses | 979,392                   | 641,471     | 1,985,394               | 1,354,949   |
| Operating income                               | 418,095                   | 356,903     | 836,481                 | 551,180     |
| Other income, net                              | 18,407                    | 32,587      | 23,611                  | 55,255      |
| Income before income taxes                     | 436,502                   | 389,490     | 860,092                 | 606,435     |
| Income tax expense                             | 156,877                   | 147,917     | 315,557                 | 233,717     |
| Net income                                     | \$ 279,625                | 241,573     | 544,535                 | 372,718     |
| Basic and diluted earnings per share           | \$ .04                    | .04         | .08                     | .06         |
| Weighted average shares outstanding            | 6,815,015                 | 6,478,714   | 6,815,015               | 6,478,714   |

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

**ADVANT-E CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED CONDENSED BALANCE SHEETS**

|   | June 30, 2008<br>(Unaudited) | December 31,<br>2007 |
|---|------------------------------|----------------------|
| <b>Assets</b>   |                              |                      |
| Current Assets:   |                              |                      |
| Cash and cash equivalents   | \$ 2,536,240                 | 2,039,447            |
| Short-term investments  | 273,727                      | 292,151              |
| Accounts receivable, net  | 980,441                      | 805,241              |
| Prepaid software maintenance costs  | 212,088                      | 183,618              |
| Prepaid expenses and deposits   | 44,705                       | 68,930               |
| Deferred income taxes   | 168,804                      | 40,057               |
| <b>Total current assets</b>   | <b>4,216,005</b>             | <b>3,429,444</b>     |
| Software development costs, net   | 153,346                      | 194,238              |
| Property and equipment, net   | 420,758                      | 433,658              |
| Goodwill  | 1,474,615                    | 1,450,368            |
| Other intangible assets, net  | 456,288                      | 498,644              |
| <b>Total assets</b>   | <b>\$ 6,721,012</b>          | <b>6,006,352</b>     |
| <b>Liabilities and Shareholders' Equity</b>   |                              |                      |
| Current liabilities:  |                              |                      |
| Accounts payable  | \$ 321,397                   | 211,738              |
| Accrued salaries and other expenses   | 294,352                      | 273,210              |
| Income taxes payable  | 13,260                       | 112,700              |
| Deferred revenue  | 735,230                      | 645,093              |
| <b>Total current liabilities</b>  | <b>1,364,239</b>             | <b>1,242,741</b>     |
| Deferred income taxes   | 337,485                      | 288,858              |
| <b>Total liabilities</b>  | <b>1,701,724</b>             | <b>1,531,599</b>     |
| Shareholders' equity:   |                              |                      |
| Common stock, \$.001 par value; 20,000,000 shares authorized; 6,815,015 shares issued and outstanding at June 30, 2008; 6,875,015 shares issued and 6,815,015 shares outstanding at December 31, 2007 | 6,815                        | 6,875                |
| Paid-in capital   | 2,135,260                    | 2,210,200            |
| Retained earnings   | 2,877,213                    | 2,332,678            |
| Treasury stock at cost, 60,000 shares at December 31, 2007  |                              | (75,000)             |
| <b>Total shareholders' equity</b>   | <b>5,019,288</b>             | <b>4,474,753</b>     |
| <b>Total liabilities and shareholders' equity</b>   | <b>\$ 6,721,012</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)

|  | Six Months Ended<br>June 30, |           |
|--|------------------------------|-----------|
|  | 2008                         | 2007      |
| Cash flows from operating activities:  |                              |           |
| Net income   | \$ 544,535                   | 372,718   |
| Adjustments to reconcile net income to net cash flows from operating activities: |                              |           |
| Depreciation   | 133,158                      | 100,219   |
| Amortization of software development costs                                       | 40,892                       | 27,854    |
| Amortization of other intangible assets  | 42,356                       |           |
| Deferred income taxes  | (80,120)                     | (18,268)  |
| Purchases of trading securities  | (146,993)                    | (107,507) |
| Proceeds from sales of trading securities  | 162,965                      | 125,968   |
| Net unrealized (gains) losses on trading securities                              | 13,016                       | (6,376)   |
| Net realized gains on sales of securities  | (10,564)                     | (13,377)  |
| Increase (decrease) in cash arising from changes in assets and liabilities:      |                              |           |
| Accounts receivable  | (175,200)                    | 45,446    |
| Prepaid software maintenance costs   | (28,470)                     |           |
| Prepaid expenses and deposits  | 24,225                       | (4,419)   |
| Accounts payable   | 109,659                      | (7,294)   |
| Accrued salaries and other expenses  | 21,142                       | 19,653    |
| Income taxes payable   | (123,687)                    | 424       |
| Deferred revenue   | 90,137                       | 3,270     |
| Net cash flows from operating activities   | 617,051                      | 538,311   |
| Cash flows from investing activities:  |                              |           |
| Purchases of property and equipment  | (120,258)                    | (92,950)  |
| Software development costs   |                              | (15,363)  |
| Net cash flows from investing activities   | (120,258)                    | (108,313) |
| Net increase in cash and cash equivalents  | 496,793                      | 429,998   |
| Cash and cash equivalents, beginning of period                                   | 2,039,447                    | 2,209,782 |
| Cash and cash equivalents, end of period   | \$ 2,536,240                 | 2,639,780 |
| Supplemental disclosures of cash flow items:                                     |                              |           |
| Income taxes paid  | \$ 518,100                   | 251,561   |
| Non-cash transaction   |                              |           |
| Retirement of 60,000 shares repurchased in 2007 and held as treasury stock       | 75,000                       |           |

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)**

**June 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 six months ended June 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<br>June 30, |           | Six Months Ended<br>June 30, |           |
|--------------------------------------|--------------------------------|-----------|------------------------------|-----------|
|                                      | 2008                           | 2007      | 2008                         | 2007      |
| Revenue                              | \$ 2,300,267                   | 1,887,847 | 4,645,501                    | 3,781,822 |
| Income before income taxes           | 436,502                        | 374,114   | 860,092                      | 598,369   |
| Net income                           | 279,625                        | 234,225   | 544,535                      | 376,283   |
| Basic and diluted earnings per share | .04                            | .03       | .08                          | .06       |

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

|                                  | Fair<br>Value | Accumulated<br>Amortization | Net     |
|----------------------------------|---------------|-----------------------------|---------|
| Contractual vendor relationships | \$ 130,000    | 26,000                      | 104,000 |
| Customer relationships           | 185,000       | 26,428                      | 158,572 |
| Proprietary computer software    | 226,000       | 32,284                      | 193,716 |
|                                  | \$ 541,000    | 84,712                      | 456,288 |

Amortization of other intangible assets was \$21,178 and \$42,356 in the three months and six months ended June 30, 2008.

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 June 30, 2008, the Company had two bank lines of credit totaling \$1,350,000. The lines of credit are at interest rates up to the prime commercial rate plus one percent and are collateralized by substantially all of the Company's assets. Any borrowings are payable upon demand. A line of credit for \$350,000 is renewable at the bank's option, and a line of credit for \$1,000,000 expires on May 5, 2009. No borrowings are outstanding at June 30, 2008.

**Note 4: Income taxes**



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Income tax expense consists of the following:

|                                 | <b>Three Months Ended</b> |                | <b>Six Months Ended</b> |                |
|---------------------------------|---------------------------|----------------|-------------------------|----------------|
|                                 | <b>June 30,</b>           |                | <b>June 30,</b>         |                |
|                                 | <b>2008</b>               | <b>2007</b>    | <b>2008</b>             | <b>2007</b>    |
| Current expense                 | \$ 195,977                | 187,218        | 395,677                 | 251,985        |
| Deferred benefit                | (39,100)                  | (39,301)       | (80,120)                | (18,268)       |
| <b>Total income tax expense</b> | <b>\$ 156,877</b>         | <b>147,917</b> | <b>315,557</b>          | <b>233,717</b> |

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The following is a reconciliation of income tax at the federal statutory rate of 34% to the income tax expense:

|  | Three Months Ended<br>June 30, |         | Six Months Ended<br>June 30, |         |
|--|--------------------------------|---------|------------------------------|---------|
|  | 2008                           | 2007    | 2008                         | 2007    |
| Income taxes at federal statutory rate | \$ 148,411                     | 132,427 | 292,431                      | 206,188 |
| State income taxes                     | 8,466                          | 15,490  | 23,126                       | 27,529  |
| Income tax expense                     | \$ 156,877                     | 147,917 | 315,557                      | 233,717 |

**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 segment information is for the three months ended June 30, 2008 and includes segment assets at June 30, 2008:

|                                 | Internet-based | Software  | Reconciling<br>Items (a) | Total<br>Consolidated |
|---------------------------------|----------------|-----------|--------------------------|-----------------------|
| Revenue                         | \$ 1,694,138   | 606,872   | (743)                    | 2,300,267             |
| Income before income taxes      | 396,120        | 61,560    | (21,178)                 | 436,502               |
| Income tax expense              | 140,114        | 24,387    | (7,624)                  | 156,877               |
| Net Income                      | 256,006        | 37,173    | (13,554)                 | 279,625               |
| Segment assets at June 30, 2008 | 3,766,820      | 1,023,289 | 1,930,903                | 6,721,012             |

The following segment information is for the six months ended June 30, 2008:

|                            | Internet-based | Software  | Reconciling<br>Items (a) | Total<br>Consolidated |
|----------------------------|----------------|-----------|--------------------------|-----------------------|
| Revenue                    | \$ 3,303,907   | 1,342,953 | (1,359)                  | 4,645,501             |
| Income before income taxes | 754,443        | 148,005   | (42,356)                 | 860,092               |
| Income tax expense         | 275,480        | 55,325    | (15,248)                 | 315,557               |
| Net Income                 | 478,963        | 92,680    | (27,108)                 | 544,535               |

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

**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 June 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  | Significant | Significant |               |
|   | Prices  |             |             |               |
| In Active Markets for Identical Instruments (Level 1) | (Level 2)                                       | (Level 3)   |             |               |
| Treasury securities                                   | \$ 11,457                                       |             |             | 11,457        |
| Marketable equity securities                          | 262,270   |             |             | 262,270       |
|   | \$ 273,727                                      |             |             | 273,727       |

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

#### Note 7: Recently Issued Accounting Pronouncements

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 expensed as incurred, restructuring costs generally be 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 us 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.

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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 our 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.

## 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 (Web EDI and EnterpriseEC, etc) 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.

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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 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 expensed as incurred, restructuring costs generally be 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 us 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 our overall results of operations, financial position, or cash flows.



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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**

**Quarter Ended June 30, 2008 Compared to Quarter Ended June 30, 2007**

Results of operations for the second quarter of 2008 and 2007, presented as percentages of revenues, are summarized below:

|  | Q2 2008      | % of<br>Net<br>Revenue | Q2 2007   | % of<br>Net<br>Revenue |
|--|--------------|------------------------|-----------|------------------------|
| Revenue  | \$ 2,300,267 | 100%                   | 1,481,150 | 100%                   |
| Cost of revenue                                | 902,780      | 39                     | 482,776   | 33                     |
| Gross Margin                                   | 1,397,487    | 61                     | 998,374   | 67                     |
| Marketing, general and administrative expenses | 979,392      | 43                     | 641,471   | 43                     |
| Operating income                               | 418,095      | 18                     | 356,903   | 24                     |
| Other income, net                              | 18,407       | 1                      | 32,587    | 2                      |
| Income before taxes                            | 436,502      | 19                     | 389,490   | 26                     |
| Income tax expense                             | 156,877      | 7                      | 147,917   | 10                     |
| Net income                                     | \$ 279,625   | 12%                    | 241,573   | 16%                    |

**Revenue**

Revenue in the second quarter of 2008 increased by \$819,117, or 55%, compared to revenue in the second quarter of 2007. The increase resulted from the incremental revenue from software related products and services sold by Merkur Group, Inc., a wholly-owned subsidiary acquired on July 2, 2007, and continued growth of the Company s internet-based EDI services, as indicated below:

|                                     | Q2 2008      |            | Q2 2007   |            | Increase |     |
|-------------------------------------|--------------|------------|-----------|------------|----------|-----|
|                                     | Amount       | % of Total | Amount    | % of Total | Amount   | %   |
| Edict Systems products and services | \$ 1,694,138 | 74%        | 1,481,150 | 100%       | 212,988  | 14% |
| Merkur Group products and services  | 606,129      | 26         |           |            | 606,129  | n/a |
| Total revenue                       | \$ 2,300,267 | 100%       | 1,481,150 | 100%       | 819,117  | 55% |

Revenue in the second 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:

|           | Q2 2008      |            | Q2 2007   |            | Increase (Decrease) |     |
|-----------|--------------|------------|-----------|------------|---------------------|-----|
|           | Amount       | % of Total | Amount    | % of Total | Amount              | %   |
| Web EDI   |              |            |           |            |                     |     |
| GroceryEC | \$ 1,172,014 | 70%        | 1,026,952 | 69%        | 145,062             | 14% |

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|                             |                     |             |                  |             |                |            |
|-----------------------------|---------------------|-------------|------------------|-------------|----------------|------------|
| AutomotiveEC                | 156,434             | 9           | 120,790          | 8           | 35,644         | 30         |
| Other Web EDI               | 53,498              | 3           | 51,212           | 4           | 2,286          | 4          |
| EnterpriseEC                | 259,642             | 15          | 225,806          | 15          | 33,836         | 15         |
| Other products and services | 52,550              | 3           | 56,390           | 4           | (3,840)        | (7)        |
| <b>Total</b>                | <b>\$ 1,694,138</b> | <b>100%</b> | <b>1,481,150</b> | <b>100%</b> | <b>212,988</b> | <b>14%</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 Company expects to continue to allocate resources to strengthen its position of serving small and medium sized suppliers of large grocery store companies.

The growth in revenue from sales of Internet-based EDI services 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 continues to suffer from pricing pressures and the availability of alternate connectivity options.

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

|                       | Amount            | % of Total  |
|-----------------------|-------------------|-------------|
| Software              | \$ 194,814        | 32%         |
| Hardware              | 65,816            | 11          |
| Maintenance contracts | 211,894           | 35          |
| Professional services | 133,605           | 22          |
| <b>Total</b>          | <b>\$ 606,129</b> | <b>100%</b> |

### **Gross Margin**

The Company's gross margin, as a percent of revenue, was 61% in the second quarter of 2008 compared to 67% in the second quarter of 2007. The gross margin decline was attributable primarily 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.

Cost of revenue in the second quarter of 2008 increased by \$420,004, or 87%, compared to cost of revenue in the second quarter of 2007. The increase resulted primarily from the inclusion of \$340,027 of cost of products sold by Merkur Group in results of operations in the second quarter of 2008, additional personnel related costs, and amortization of software development costs.

### **Marketing, general and administrative expenses**

Marketing, general and administrative expenses increased by \$337,921, or 53%, in the second quarter of 2008 compared to the second quarter of 2007. The increase resulted primarily from the inclusion in Q2 2008 results of \$228,437 for marketing, general and administrative expenses incurred by Merkur Group, salary increases for key personnel, and additional travel and other sales-related expenses.

### **Net income**

Net income in the second quarter of 2008 of \$279,625 increased by \$38,052, or 16%, compared to net income in the second quarter of 2007. The increase is attributable primarily to the net income contributed by Merkur Group.

### **Six Months Ended June 30, 2008 Compared to Six Months Ended June 30, 2007**

Results of operations for six months ended June 30, 2008 and 2007, presented as percentages of revenues, are summarized below:

|  | Six months ended<br>June 30, 2008 | % of<br>Net<br>Revenue | Six months ended<br>June 30, 2007 | % of<br>Net<br>Revenue |
|--|-----------------------------------|------------------------|-----------------------------------|------------------------|
| Revenue  | \$ 4,645,501                      | 100%                   | 2,897,473                         | 100%                   |
| Cost of revenue                                | 1,823,626                         | 39                     | 991,344                           | 34                     |
| Gross Margin                                   | 2,821,875                         | 61                     | 1,906,129                         | 66                     |
| Marketing, general and administrative expenses | 1,985,394                         | 43                     | 1,354,949                         | 47                     |
| Operating income                               | 836,481                           | 18                     | 551,180                           | 19                     |
| Other income, net                              | 23,611                            | 1                      | 55,255                            | 2                      |

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|                     |            |     |         |     |
|---------------------|------------|-----|---------|-----|
| Income before taxes | 860,092    | 19  | 606,435 | 21  |
| Income tax expense  | 315,557    | 7   | 233,717 | 8   |
| Net income          | \$ 544,535 | 12% | 372,718 | 13% |

**Revenue**

Revenue for the six months ended June 30, 2008 increased by \$1,748,028, or 60%, compared to revenue in the first six months of 2007, resulting from revenue from software related products and services sold by Merkur Group, Inc., a wholly-owned subsidiary acquired on July 2, 2007, and continued growth of the Company's internet-based EDI services, as indicated below:

|                                     | Six months ended<br>June 30, 2008 |             | Six months ended<br>June 30, 2007 |             | Increase         |            |
|-------------------------------------|-----------------------------------|-------------|-----------------------------------|-------------|------------------|------------|
|                                     | Amount                            | % of Total  | Amount                            | % of Total  | Amount           | %          |
| Edict Systems products and services | \$ 3,303,907                      | 71%         | 2,897,473                         | 100%        | 406,434          | 14%        |
| Merkur Group products and services  | 1,341,594                         | 29          |                                   |             | 1,341,594        | n/a        |
| <b>Total revenue</b>                | <b>\$ 4,645,501</b>               | <b>100%</b> | <b>2,897,473</b>                  | <b>100%</b> | <b>1,748,028</b> | <b>60%</b> |

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

|                             | Six months ended<br>June 30, 2008 |             | Six months ended<br>June 30, 2007 |             | Increase (Decrease) |            |
|-----------------------------|-----------------------------------|-------------|-----------------------------------|-------------|---------------------|------------|
|                             | Amount                            | % of Total  | Amount                            | % of Total  | Amount              | %          |
| Web EDI                     |                                   |             |                                   |             |                     |            |
| GroceryEC                   | \$ 2,311,365                      | 70%         | 2,005,494                         | 69%         | 305,871             | 15%        |
| AutomotiveEC                | 305,088                           | 9           | 227,672                           | 8           | 77,416              | 34         |
| Other Web EDI               | 108,596                           | 3           | 104,603                           | 4           | 3,993               | 4          |
| EnterpriseEC                | 489,869                           | 15          | 447,830                           | 15          | 42,039              | 9          |
| Other products and services | 88,989                            | 3           | 111,874                           | 4           | (22,885)            | (20)       |
| <b>Total</b>                | <b>\$ 3,303,907</b>               | <b>100%</b> | <b>2,897,473</b>                  | <b>100%</b> | <b>406,434</b>      | <b>14%</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 continues to suffer from 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 six months ended June 30, 2008 is summarized below:

|                       | Amount              | % of Total  |
|-----------------------|---------------------|-------------|
| Software              | \$ 553,781          | 41%         |
| Hardware              | 143,324             | 11          |
| Maintenance contracts | 430,636             | 32          |
| Professional services | 213,853             | 16          |
| <b>Total</b>          | <b>\$ 1,341,594</b> | <b>100%</b> |

**Gross Margin**

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The Company's gross margin, as a percent of revenue, was 61% in the six months ended June 30, 2008 compared to 66% in the same period in 2007. The gross margin decline was attributable primarily 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.

### *Marketing, general and administrative expenses*

Marketing, general and administrative expenses increased by \$630,445, or 47%, in the first six months of 2008 compared to the first six months of 2007, due primarily to the incremental expenses incurred by Merkur Group and increased expenses for accounting and auditing and employment service fees. As a percent of revenue, however, marketing, general and administrative expenses decreased from 47% of revenue for the six months in 2007 to 43% of revenue in the first six months of 2008 due primarily to relatively lower marketing general and administrative expenses as a percent of revenue for Merkur Group compared to Edict Systems.

**Net income**

Net income for the six months ended June 30, 2008 of \$544,535 increased by \$171,817, or 46%, compared to net income for the six months ended June 30, 2007. This increase was due largely to the \$133,744 increase in net income in the first quarter of 2008 over net income in the first quarter of 2007.

**Capitalized Development Costs**

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

| <b>Product</b>       | <b>Cost</b>       | <b>Accumulated<br/>Amortization</b> | <b>Net</b>     |
|----------------------|-------------------|-------------------------------------|----------------|
| Web EDI, new version | \$ 229,990        | 86,246                              | 143,744        |
| ValidateEC           | 15,363            | 5,761                               | 9,602          |
| <b>Total</b>         | <b>\$ 245,353</b> | <b>92,007</b>                       | <b>153,346</b> |

**Liquidity and Capital Resources**

In the six months ended June 30, 2008, the Company generated net cash flows from operating activities of \$617,051, invested \$120,258 into primarily computer system infrastructure improvements and increased its balance of cash and cash equivalents by \$496,793.

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

| <b>Exhibit</b> | <b>Description</b> | <b>Method of Filing</b> |
|----------------|--------------------|-------------------------|
|----------------|--------------------|-------------------------|

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| Number |  |                      |
|--------|--|----------------------|
| 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)

August 14, 2008

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

August 14, 2008

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