ADVANT E CORP
Form 10-Q
May 17, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington D. C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2010

¨ 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)

DELAWARE	**88-0339012**
(State or other jurisdiction	**(IRS Employer**
of incorporation or organization)	**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 x 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 ¨	Smaller reporting company x
		(Do not check if a smaller reporting company)	

Indicate by check mark whether the registrant is a shell company (as defined by Rule12b-2 of the Exchange Act). Yes ¨ No x

As of May 17, 2010 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 March 31, 2010	2009
Revenue	$	2,193,821	2,155,291
Cost of revenue		933,984	899,659
Gross margin		1,259,837	1,255,632
Marketing, general and administrative expenses		859,101	887,285
Operating income		400,736	368,347
Other income (expense), net		800	(19,649)
Income before income taxes		401,536	348,698
Income tax expense		137,257	114,021
Net income	$	264,279	234,677
Earnings per share basic and diluted	$	0.004	0.003
Weighted average shares outstanding basic and diluted		66,722,590	67,116,990

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

ADVANT-E CORPORATION AND SUBSIDIARIES

CONSOLIDATED CONDENSED BALANCE SHEETS

		March 31, 2010 (Unaudited)	December 31, 2009
Assets			
Current Assets:			
Cash and cash equivalents	$	3,240,650	2,713,996
Accounts receivable, net		772,824	634,055
Prepaid software maintenance costs		197,635	162,507
Prepaid expenses and deposits		78,988	75,519
Prepaid income taxes			39,798
Deferred income taxes		163,056	139,144
Total current assets		4,453,153	3,765,019
Software development costs, net		188,119	149,956
Property and equipment, net		305,594	312,821
Goodwill		1,474,615	1,474,615
Other intangible assets, net		308,042	329,220
Total assets	$	6,729,523	6,031,631
Liabilities and Shareholders Equity			
Current liabilities:			
Accounts payable	$	154,087	115,546
Dividend payable		1,334,452	1,334,452
Accrued salaries and other expenses		304,942	146,699
Income taxes payable		120,840	
Deferred revenue		697,756	582,298
Total current liabilities		2,612,077	2,178,995
Deferred income taxes		261,555	261,024
Total liabilities		2,873,632	2,440,019
Shareholders equity:			
Common stock, $.001 par value; 100,000,000 shares authorized; 66,951,010 shares issued and 66,722,590 shares outstanding		66,951	66,951
Paid-in capital		1,964,221	1,964,221
Retained earnings		1,852,911	1,588,632
Treasury stock at cost, 228,420 shares		(28,192)	(28,192)
Total shareholders equity		3,855,891	3,591,612
Total liabilities and shareholders equity	$	6,729,523	6,031,631

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)

		Three Months Ended March 31, 2010	2009
Cash flows from operating activities:			
Net income	$	264,279	234,677
Adjustments to reconcile net income to net cash flows from operating activities:			
Depreciation		55,480	62,767
Amortization of software development costs		20,446	20,445
Amortization of other intangible assets		21,178	21,178
Loss on disposal of property and equipment		800	
Deferred income taxes		(23,381)	(45,039)
Purchases of trading securities			(43,949)
Proceeds from sales of trading securities			49,828
Net unrealized loss on trading securities			4,667
Net realized loss on sale of trading securities			18,401
Increase (decrease) in cash arising from changes in assets and liabilities:			
Accounts receivable		(138,769)	(129,200)
Prepaid software maintenance costs		(35,128)	(16,829)
Prepaid expenses and deposits		(3,469)	(5,240)
Prepaid income taxes		39,798	16,837
Accounts payable		38,541	1,802
Accrued salaries and other expenses		158,243	(37,891)
Income taxes payable		120,840	116,223
Deferred revenue		115,458	30,958
Net cash flows from operating activities		634,316	299,635
Cash flows from investing activities:			
Purchases of property and equipment		(49,053)	(7,390)
Software development costs		(58,609)	
Net cash flows from investing activities		(107,662)	(7,390)
Cash flows from financing activities:			
Purchase of treasury shares			(3,920)
Net increase in cash and cash equivalents		526,654	288,325
Cash and cash equivalents, beginning of period		2,713,996	2,090,005
Cash and cash equivalents, end of period	$	3,240,650	2,378,330
Supplemental disclosures of cash flow items:			
Income taxes paid	$		26,000
Non-cash transaction: retirement of shares			623

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)

March 31, 2010

Note 1: Basis of Presentation, Organization and Other Matters

The accompanying unaudited interim consolidated condensed financial statements as of March 31, 2010 and for the quarterly periods ended March 31, 2010 and 2009, together with the accompanying consolidated condensed balance sheet as of December 31, 2009, 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 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 months ended March 31, 2010 are not necessarily indicative of the results to be expected for the full year ending December 31, 2010. 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 2009 Form 10-K filed with the Securities and Exchange Commission.

Nature of Operations

Advant-e Corporation through its wholly-owned subsidiaries, Edict Systems, Inc. and Merkur Group, Inc. (collectively, the Company), develops, markets, resells, and hosts software and provides services that allow its customers to send and receive business documents electronically in standard and proprietary formats. Edict Systems specializes in providing hosted Electronic Data Interchange solutions that utilize the Internet as the primary communications method. Customers use Edict Systems solutions to connect with business partners, integrate data with internal systems, expand and manage electronic trading communities, and validate data via a hosted business rule service. Merkur Group develops and resells software, provides professional services, and provides technical maintenance and support that enables customers to automate delivery and receipt of business documents. Merkur Group provides proprietary software that integrates and connects large Supply Chain Management (SCM), Customer Relationship Management (CRM), and Enterprise Resource Planning (ERP) systems with third party software that provides multiple delivery and document capture options. Customers consist of businesses across a number of industries primarily throughout the United States, and to a much lesser extent some foreign locations, principally Canada, Mexico, and Puerto Rico.

Principles of Consolidation

The consolidated financial statements include the accounts of Advant-e Corporation and its wholly-owned subsidiaries, Edict Systems, Inc., and Merkur Group, Inc. Inter-company accounts and transactions are eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with U. S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates used in preparing these financial statements include those considered in the assessment of recoverability of capitalized software development costs, the assessment of potential impairment of goodwill, the assessment of the collectability of accounts receivable and the recording of prepaid software maintenance costs and deferred revenue. A reasonable possibility exists that estimates used will change within the next year.

Note 2: Stock Split and Dividend

In 2009 the Company completed a ten-for-one stock split of the Company s common stock, wherein shareholders of record on November 30, 2009 received on December 2, 2009 nine additional shares of stock for each share held on that date. As a result, the Company issued 60,255,909 additional shares. All references to shares and per share amounts in the accompanying consolidated condensed financial statements and notes to consolidated financial statements report the effect of the stock split retrospectively

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In 2009 the Company s Board of Directors declared a dividend of $0.03 per share (after the aforementioned ten-for-one stock split), payable in three installments of $.01 each. The first installment was paid in December 2009. The second and third installments are payable by no later than June 30, 2010 and December 31, 2010. The Company reported as a current liability on the accompanying consolidated condensed balance sheet the second and third installments totaling $1,334,452 ($0.02 per share).

Note 3: Line of Credit

At March 31, 2010, the Company has a $1,500,000 bank line of credit. Any borrowings under the line of credit are collateralized by substantially all of the assets of one of the Company s subsidiaries and are payable upon demand. Interest on the borrowings accrues at the bank s prime commercial rate. The line of credit, which expires on June 30, 2010, is guaranteed by the Company s Chief Executive Officer. No borrowings were outstanding at March 31, 2010.

Note 4: Income taxes

Income tax expense consists of the following:

	Three Months Ended March 31,	
	2010	**2009**
Current expense	$ 160,638	159,060
Deferred benefit	(23,381)	(45,039)
Total income tax expense	$ 137,257	114,021

The difference between total income tax expense and the amount computed at the federal statutory rate of 34% is attributable to the effects of certain non-deductible expenses in the three months ended March 31, 2010 and to the effect of state income taxes in the three months ended March 31, 2009.

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 March 31, 2010 and 2009:

	Three Months Ended March 31, 2010			
	Internet-based	**Software**	**Reconciling Items (a)**	**Total Consolidated**
Revenue	$ 1,901,381	292,440		2,193,821
Income before income taxes	415,358	7,356	(21,178)	401,536
Income tax expense (benefit)	141,957	2,501	(7,201)	137,257
Net income	273,401	4,855	(13,977)	264,279
Segment assets at March 31, 2010	3,414,214	1,532,652	1,782,657	6,729,523

	Three Months Ended March 31, 2009			
	Internet-based	**Software**	**Reconciling Items (a)**	**Total Consolidated**
Revenue	$ 1,720,905	434,386		2,155,291
Income before income taxes	320,525	49,351	(21,178)	348,698
Income tax expense	112,563	16,938	(15,480)	114,021
Net income	207,962	32,413	(5,698)	234,677
Segment assets at March 31, 2009	2,945,768	1,342,064	1,867,369	6,155,201

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

Revenue from customers located in areas outside the United States, principally in Canada, Mexico, and Puerto Rico, totaled approximately 3% of consolidated revenue in both first quarters of 2010 and 2009.

Note 6: Recently Issued Accounting Pronouncements

In October 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2009-13, Multiple-Deliverable Revenue Arrangements, which amends Accounting Standards Codification (ASC) Topic 605, Revenue Recognition. ASU 2009-13 amends the ASC to eliminate the residual method of allocation for multiple-deliverable revenue arrangements, and requires that arrangement consideration be allocated at the inception of an arrangement to all deliverables using the relative selling price method. The ASU also establishes a selling price hierarchy for determining the selling price of a deliverable, which includes: (1) vendor-specific objective evidence if available, (2) third-party evidence if vendor-specific objective evidence is not available, and (3) estimated selling price if neither vendor-specific nor third-party evidence is available. Additionally, ASU 2009-13 expands the disclosure requirements related to a vendor s multiple-deliverable revenue arrangements. The changes to the ASC as a result of this update are effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The Company does not anticipate the adoption of this guidance will have a material impact on the consolidated condensed financial statements.

In October 2009, the FASB issued ASU No. 2009-14, Certain Revenue Arrangements That Include Software Elements, which amends ASC Topic 985, Software. ASU 2009-14 amends the ASC to change the accounting model for revenue arrangements that include both tangible products and software elements, such that tangible products containing both software and non-software components that function together to deliver the tangible product s essential functionality are no longer within the scope of software revenue guidance. The changes to the ASC as a result of this update are effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The Company does not anticipate the adoption of this guidance will have a material impact on the consolidated condensed financial statements.

In December 2009, the FASB issued ASU 2009-17, which codifies Statement of Financial Accounting Standards No. 167, Amendments to FASB Interpretation No. 46(R) issued in June 2009. ASU 2009-17 requires a qualitative approach to identifying a controlling financial interest in a variable interest entity (VIE), and requires ongoing assessment of whether an entity is a VIE and whether an interest in a VIE makes the holder the primary beneficiary of the VIE. ASU 2009-17 was effective for annual reporting periods beginning after November 15, 2009. The adoption of this guidance had no material impact on the Company s consolidated condensed financial statements.

In February 2010, the FASB issued ASU 2010-09, Amendments to Certain Recognition and Disclosure Requirements. Under this amended guidance, SEC filers are no longer required to disclose the date through which subsequent events have been evaluated in originally issued and revised financial statements. Certain elements of this guidance are effective upon issuance and other elements for periods ending after June 15, 2010. The adoption of this guidance had no material impact on the 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, or continue or comparable terminology are intend identify forward-looking statements. These statements by their nature involve substantial risks and uncertainties, and actual results may differ materially depending on a variety of factors, many of which are not within the Company s control. These factors include, but are not limited to, economic conditions generally and in the industries in which the Company may participate, competition within the chosen industry, including competition from much larger competitors, technological advances, and the failure to successfully develop business relationships. In light of these risks and uncertainties, you are cautioned not to place undue reliance on these forward-looking statements. This item should be read in conjunction with Item 1. Financial Statements and other items contained elsewhere in this report.

Products and services

Advant-e Corporation through its wholly-owned subsidiaries, Edict Systems, Inc. and Merkur Group, Inc. (collectively, the Company), develops, markets, resells, and hosts software and provides services that allow its customers to send and receive business documents electronically in standard and proprietary formats. Edict Systems specializes in providing hosted Electronic Data Interchange solutions that utilize the Internet as the primary communications method. Customers use Edict Systems solutions to connect with business partners, integrate data with internal systems, expand and manage electronic trading communities, and validate data via a hosted business rule service. Merkur Group develops and resells software, provides professional services, and provides technical maintenance and support that enables customers to automate delivery and receipt of business documents. Merkur Group provides proprietary software that integrates and connects large Supply Chain Management (SCM), Customer Relationship Management (CRM), and Enterprise Resource Planning (ERP) systems with third party software that provides multiple delivery and document capture options. Customers consist of businesses across a number of industries primarily throughout the United States, and to a much lesser extent some foreign locations, principally Canada, Mexico and Puerto Rico.

Critical Accounting Policies and Estimates

Revenue recognition

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

Revenues from Internet-based products and services are comprised of four components account activation and trading partner set-up fees, monthly subscription fees, usage-based transactional fees and customer payments for the Company s development of applications designed to meet specific customer specifications.

Revenues earned from account activation and trading partner set-up fees are recognized after the Company performs consultative work required in order to establish an electronic trading partnership between the customer and their desired trading partners. Trading partnerships, once established, require no ongoing effort on the part of the Company and customers are able to utilize the electronic trading partnerships either directly with their customers or via a service provider other than the Company.

Revenue from monthly subscription fees is recognized over the period to which the subscription applies.

Revenue from usage based transaction fees is recognized in the period in which the transactions are processed.

Revenue from customer payments for the Company s development of applications designed to meet specific customer specifications is recognized over the contract period, generally twelve months.

Revenue from the sale of software and related products is recognized upon delivery of the software to the customer when title and risk of loss are transferred. Additionally, 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 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. 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.

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Goodwill and Other Intangible Assets

Management assesses goodwill related to the July 2, 2007 acquisition of Merkur Group, Inc. for impairment on an annual basis at year-end, and between annual tests if an event occurs or circumstances change that may more likely than not reduce the fair value of a 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 6: Recently Issued Accounting Pronouncements in the Notes to Consolidated Condensed Financial Statements of this Form 10-Q.

Results of Operations

Revenue

Total revenue for the first quarter of 2010 increased 2% compared to the first quarter of 2009. Revenue for Edict Systems increased by 10% and revenue for Merkur Group decreased by 33%.

Total Revenue

	Q1 2010		Q1 2009		Increase (Decrease)	
	Amount	**% of Total**	**Amount**	**% of Total**	**Amount**	**%**
Edict Systems	$ 1,901,381	87	$ 1,720,905153	80	$ 180,476	10
Merkur Group	292,440	13	434,386	20	(141,946)	(33)
Total revenue	$ 2,193,821	100	$ 2,155,291	100	$ 38,530	2

Edict Systems Revenue

Revenue in the first quarter of 2010 and 2009 from the sale of Internet based Electronic Data Interchange (EDI) products and services sold by Edict Systems is summarized below:

Edict Systems Revenue

	Q1 2010		Q1 2009		Increase	
	Amount	**% of Total**	**Amount**	**% of Total**	**Amount**	**%**
Web EDI						
GroceryEC	$ 1,312,038	69	$ 1,174,140	68	$ 137,898	12
AutomotiveEC	152,892	8	146,404	9	6,488	4
Other Web EDI	50,571	3	49,375	3	1,196	2
EnterpriseEC	333,941	18	321,504	19	12,437	4
Other	51,939	2	29,482	1	22,457	76
Total	$ 1,901,381	100	$ 1,720,905	100	$ 180,476	10

Revenue from GroceryEC increased 12% in the first quarter of 2010 compared to the first quarter of 2009, due to an increase in the volume of transactions processed and due to a nominal price increase.

Revenue from AutomotiveEC increased by 4% in the first quarter of 2010 compared to the first quarter of 2009 due primarily to the aforementioned price increase.

Revenue from EnterpriseEC, the Company s value added network, increased by 4% in the first quarter of 2010 compared to the first quarter of 2009 due to increased volume of EDI transactions processed for large grocery companies. Significant pricing pressures and the availability of alternate connectivity options continue to adversely affect revenue growth for EnterpriseEC.

The Company is continuing its product development and sales and marketing efforts to increase activity in currently supported industries, including the grocery, automotive, and manufacturing industries, as well as diversify and develop additional business in other industries primarily health care and consumer packaged goods

Merkur Group Revenue

Revenue in the first quarter of 2010 and 2009 from the sale of software based products and services sold by Merkur Group is summarized below:

Merkur Group Revenue

	Q1 2010		Q1 2009		Increase (Decrease)	
	Amount	**% of Total**	**Amount**	**% of Total**	**Amount**	**%**
Software	$ 19,955	7	$ 102,690	24	$ (82,735)	(81)
Hardware	22,418	8	18,580	4	3,838	21
Maintenance contracts	214,253	73	227,498	52	(13,245)	(6)
Professional services	30,115	10	83,700	20	(53,585)	(64)
Other	5,699	2	1,918		3,781	197
Total	$ 292,440	100	$ 434,386	100	$ (141,946)	(33)

Revenue for Merkur Group decreased by 33% in the first quarter of 2010 compared to the first quarter of 2009 as the effects of the weak economy and the uncertainty of future economic conditions have continued to persist and caused current customers to postpone software upgrades and prospective customers to delay software purchases. These postponed software decisions have a direct adverse affect on all Merkur s revenue sources.

Net income

Net income for the first quarter of 2010 compared to the first quarter of 2009 is summarized below.

Net Income

	Q1 2010	Q1 2009	Increase (Decrease) Amount	%
Edict Systems, Inc.	$ 273,401	207,962	65,439	31
Merkur Group, Inc.	4,855	32,413	(27,558)	(85)
Amortization of intangible assets, net of income tax effects	(13,977)	(5,698)	(8,279)	(145)
Total Net Income	$ 264,279	234,677	29,602	13

The increase for Edict Systems was due to increased revenue, primarily in the grocery industry, and the elimination of losses on short-term investments, as these investments were sold in the third quarter of 2009. These increases to net income were partially offset by increased personnel-related expenses for the addition of technical personnel in customer service and the addition of marketing personnel.

The decline for Merkur Group was due to decreased revenue, which was partially offset by cost reductions that included workforce cutbacks, decreased sales commissions and profit-related bonuses, and reduced marketing expenses.

Gross margin and cost of revenue

The Company s gross margin, as a percent of revenue, declined from 58% in the first quarter of 2009 to 57% in the first quarter of 2010 primarily due to a decrease of $53,585 in comparatively high-margin professional services revenue for Merkur Group and the completion of a relatively low-margin non-recurring software development contract with an existing customer in the automotive industry for Edict Systems.

Marketing, general and administrative expenses

Marketing, general and administrative expenses decreased by $28,184, or 3%, in the first quarter of 2010 compared to the first quarter of 2009, due primarily to reductions of sales commissions, profit-related bonuses, and certain sales and marketing expenses.

Other income (expense), net

Other income (expense), net improved by $20,449 in the first quarter of 2010 compared to the first quarter of 2009 due to losses on short-term investments in the first quarter of 2009 which were not incurred in the first quarter of 2010.

Liquidity and Capital Resources

In the first quarter of 2010, the Company generated net cash flows from operating activities of $634,316, due to net income adjusted for non-cash expenses for depreciation and amortization and the following items:

Payment of the January 1, 2010 payroll on December 31, 2009

Payment of first quarter of 2010 income taxes in April 2010

Increase in deferred revenue related to software maintenance contracts and certain development contracts

Management believes that the Company will have sufficient financial resources to meet business requirements during the remainder of 2010 that include payment of the final two installments of the dividends declared in 2009 totaling $1,334,452, reported as a current liability on the March 31, 2010 consolidated condensed balance sheet.

The Company has available an unused line of credit for $1.5 million that expires on June 30, 2010 when it is expected to be renewed.

Changes in Consolidated Condensed Balance Sheet from December 31, 2009 to March 31, 2010

Some balance sheet changes that occurred in the first quarter of 2010 that are not described elsewhere in this Management s Discussion and Analysis of Financial Condition and Results of Operations are described below:

Accounts receivable increased by $138,769 due primarily to software maintenance contract billings in the first quarter of 2010 that are substantially higher than in the fourth quarter of 2009. The direct costs associated with these billings caused accounts payable to increase by $38,541 and prepaid software maintenance costs to increase by $35,128.

Software development costs increased by $38,163 due to the capitalization of $58,609 of salaries, wages, and payroll taxes during the first quarter of 2010 related to enhancements of the new version of Web EDI, reduced by amortization expense of $20,446 related to software development costs that were capitalized primarily in 2006 and 2007.

Income taxes payable increased by $120,840 and the related prepaid income taxes decreased by $39,798. These amounts resulted from applying the overpayment of income taxes at December 31, 2009 to the first quarter of 2010 income taxes, which were not paid until the due date in April 2010.

Total shareholders equity increased by $264, 279 as a result of net income for the first quarter of 2010.

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 March 31, 2010.

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

Exhibit Number	Description	Method of Filing
3(i)	Amended Certificate of Incorporation	Previously filed (A)
3(ii)	By-laws	Previously filed (B)
4	Instruments defining the rights of security holders including indentures	Previously filed (C)
31.1	Rule 13a-14(a)/15d-14(a) Certification	Filed herewith
31.2	Rule 13a-14(a)/15d-14(a) Certification	Filed herewith
32.1	Section 1350 Certification	Filed herewith
32.2	Section 1350 Certification	Filed herewith

(A) Filed with Form 10-K filed as of March 30, 2010
(B) Filed with Amendment No. 1 to Form 10-SB filed as of July 17, 2000
(C) Form of Common Stock Certificate Filed with Amendment No. 2 to Form 10-SB filed as of October 13, 2000.

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)
May 17, 2010	By:	/s/ Jason K. Wadzinski Jason K. Wadzinski Chief Executive Officer Chairman of the Board of Directors
May 17, 2010	By:	/s/ James E. Lesch James E. Lesch Chief Financial Officer Principal Accounting Officer Member of the Board of Directors