

ADVANT E CORP
Form 10QSB
August 07, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington D. C. 20549

FORM 10-QSB

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2006

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from _____ to _____

COMMISSION FILE NUMBER: 0-30983

ADVANT-E CORPORATION

(Exact name of small business issuer as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

2680 Indian Ripple Rd.

Dayton, Ohio 45440

(Address of principal executive offices)

(937) 429-4288

88-0339012
(IRS Employer

Identification No.)

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(Issuer's telephone number)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of August 7, 2006 the issuer had 6,403,714 outstanding shares of Common Stock, \$.001 Par Value.

Transitional Small Business Disclosure Format: Yes No

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

ADVANT-E CORPORATION AND SUBSIDIARY

CONSOLIDATED CONDENSED STATEMENTS OF INCOME (Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Revenue	\$ 1,333,758	1,076,385	2,595,927	2,115,873
Cost of revenue	369,661	374,335	777,529	763,379
Gross margin	964,097	702,050	1,818,398	1,352,494
Marketing, general and administrative expenses	614,066	501,680	1,209,921	977,015
Operating income	350,031	200,370	608,477	375,479
Other income, net	15,414		32,389	
Income before taxes	365,445	200,370	640,866	375,479
Income tax expense	134,590	80,100	242,305	150,100
Net income	\$ 230,855	120,270	398,561	225,379
Basic earnings per share	\$ 0.03	0.02	0.06	0.04
Diluted earnings per share	\$ 0.03	0.02	0.06	0.04
Weighted average shares outstanding	6,403,174	6,294,917	6,403,174	6,281,657
Weighted average shares outstanding, assuming dilution	6,434,196	6,294,917	6,428,439	6,281,657

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

ADVANT-E CORPORATION AND SUBSIDIARY
CONSOLIDATED CONDENSED BALANCE SHEETS

	June 30, 2006	December 31,
	(Unaudited)	2005
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,707,047	1,763,435
Short-term investments	244,303	225,902
Accounts receivable, net	432,485	351,482
Prepaid expenses and deposit	40,345	25,128
Total current assets	2,424,180	2,365,947
Software development costs, net	227,063	160,656
Property and equipment, net	338,578	262,523
Total assets	\$ 2,989,821	2,789,126
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 61,009	44,838
Accrued salaries and other expenses	167,971	115,510
Income taxes payable	15,819	375,652
Deferred income taxes	49,266	26,000
Deferred revenue	94,135	76,173
Total current liabilities	388,200	638,173
Deferred income taxes	180,845	136,000
Total liabilities	569,045	774,173
Shareholders' equity:		
Common stock, \$.001 par value; 20,000,000 shares authorized; 6,403,714 outstanding	6,403	6,403
Paid-in capital	1,551,606	1,551,606
Accumulated other comprehensive income	12,877	5,615
Retained earnings	849,890	451,329
Total shareholders' equity	2,420,776	2,014,953
Total liabilities and shareholders' equity	\$ 2,989,821	2,789,126

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

ADVANT-E CORPORATION AND SUBSIDIARY

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (Unaudited)

	Six Months Ended	
	2006	June 30, 2005
Cash flows from operating activities:		
Net income	\$ 398,561	225,379
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation	61,746	51,389
Amortization of software development costs	63,088	134,639
Loss on disposal of assets	24,221	
Net realized gains on sales of available-for-sale investments	(9,005)	
Deferred income taxes	63,678	(32,000)
Increase (decrease) in cash arising from changes in assets and liabilities:		
Accounts receivable	(81,003)	(12,722)
Prepaid expenses	(15,217)	(6,290)
Accounts payable	16,171	69,529
Accrued salaries and other expenses	52,461	6,735
Income taxes payable	(359,833)	148,100
Deferred revenue	17,962	(58,628)
Net cash flows from operating activities	232,830	526,131
Cash flows from investing activities:		
Purchases of available-for-sale investments	(56,943)	
Proceeds from sales of available-for-sale investments	59,242	
Purchases of equipment	(154,468)	(74,719)
Software development costs	(137,049)	(44,309)
Net cash flows from investing activities	(289,218)	(119,028)
Cash flows from financing activities:		
Issuance of common stock		60,250
Net cash flows from financing activities		60,250
Net increase (decrease) in cash and cash equivalents	(56,388)	467,353
Cash and cash equivalents, beginning of period	1,763,435	944,892
Cash and cash equivalents, end of period	\$ 1,707,047	1,412,245
Supplemental disclosures of cash flow items:		
Income taxes paid	\$ 559,000	

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

ADVANT-E CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Unaudited)

June 30, 2006

Note 1: Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of Advant-e Corporation and its wholly-owned subsidiary Edict Systems, Inc. (the Company). Inter-company accounts and transactions are eliminated in consolidation.

The statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and the instructions to Form 10-QSB. Accordingly, they do not include all of the information and notes to financial statements required by U.S. generally accepted accounting principles for complete financial statements. 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.

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.

Results of operations for the six months ended June 30, 2006 are not necessarily indicative of the results to be expected for the full year ending December 31, 2006. 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 2005 Form 10-KSB filed with the Securities and Exchange Commission.

Note 2: Software Development Costs

Software development costs at June 30, 2006 and the changes during the six months then ended are summarized as follows:

	Accumulated		
	Cost	Amortization	Net
Balance, January 1, 2006	\$ 1,296,485	1,135,829	160,656
Additions	137,049		137,049
Disposals	(18,130)	(10,576)	(7,554)
Amortization		63,088	(63,088)
Balance, June 30, 2006	\$ 1,415,404	1,188,341	227,063

The unamortized costs relate exclusively to internal use software and costs associated with web site development and related enhancements.

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.

Note 3: Income taxes

Income tax expense consists of the following:

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	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2006	2005	2006	2005
Current expense	\$ 106,635	84,100	178,627	128,000
Deferred expense (benefit)	27,955	(4,000)	63,678	22,100
Total income tax expense	\$ 134,590	80,100	242,305	150,100

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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		Six Months Ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Income taxes at federal statutory rate	\$ 124,251	68,000	217,894	128,000
State income taxes	10,339	12,100	24,411	22,100
Income tax expense	\$ 134,590	80,100	242,305	150,100

Note 4: Earnings per share

The reconciliation of the numerators and denominators of the basic and diluted earnings per share calculations for the three months and the six months ended June 30, 2006 and 2005, respectively, follows:

	Income (Numerator)	Average Shares (Denominator)	Per Share Amount
<u>Three months ended June 30, 2006</u>			
Basic earnings per share:			
Net income available to shareholders	\$ 230,855	6,403,174	\$ 0.03
Effect of potentially dilutive securities:			
Outstanding warrants		31,022	
Diluted earnings per share:			
Net income available to shareholders plus assumed exercise of warrants	\$ 230,855	6,434,196	\$ 0.03

Three months ended June 30, 2005

Basic and diluted earnings per share:			
Net income available to shareholders	\$ 120,270	6,294,917	\$ 0.02
Effect of potentially dilutive securities:			
Outstanding warrants			
Net income available to shareholders plus assumed exercise of warrants	\$ 120,270	6,294,917	\$ 0.02

	Income (Numerator)	Average Shares (Denominator)	Per Share Amount
<u>Six months ended June 30, 2006</u>			
Basic earnings per share:			
Net income available to shareholders	\$ 398,561	6,403,174	\$ 0.06
Effect of potentially dilutive securities:			
Outstanding warrants		25,265	
Diluted earnings per share:			
Net income available to shareholders plus assumed exercise of warrants	\$ 398,561	6,428,439	\$ 0.06

Six months ended June 30, 2005

Basic and diluted earnings per share:			
Net income available to shareholders	\$ 225,379	6,281,657	\$ 0.04

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Effect of potentially dilutive securities:
Outstanding warrants

Net income available to shareholders plus assumed exercise of warrants	\$ 225,379	6,281,657	\$ 0.04
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Warrants for 50,000 shares at \$1.205 per share were exercised in February 2005 resulting in proceeds of \$60,250.

At June 30, 2006 the Company has outstanding 75,000 warrants for the purchase of 75,000 shares of the Company's common stock at \$1.205 per share, expiring on December 6, 2006.

Note 5: Comprehensive income

The components of comprehensive income, net of tax, were as follows:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2006	2005	2006	2005
Net income	\$ 230,855	120,270	398,561	225,379
Other comprehensive income:				
Net unrealized gain on available-for-sale securities	1,304		20,700	
Income tax expense	462		7,861	
	842		12,839	

Reclassification adjustment for net realized gains on sale