ADVANT E CORP
Form 10-Q
November 09, 2012

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 September 30, 2012

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______ to ______

COMMISSION FILE NUMBER: 0-30983

ADVANT-E CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE	**88-0339012**
(State or other jurisdiction of	**(IRS Employer**
incorporation or organization)	**Identification No.)**

2434 Esquire Dr.

Beavercreek, Ohio 45431

(Address of principal executive offices)

(937) 429-4288

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 x 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	x

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 November 7, 2012 the issuer had 66,722,590 outstanding shares of Common Stock, $.001 Par Value.

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

ADVANT-E CORPORATION AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF INCOME (Unaudited)

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Revenue	$ 2,576,729	2,447,674	7,588,418	7,107,718
Cost of revenue	999,386	955,698	3,006,506	2,850,509
Gross margin	1,577,343	1,491,976	4,581,912	4,257,209
Marketing, general and administrative expenses	733,810	802,075	2,387,145	2,389,125
Operating income	843,533	689,901	2,194,767	1,868,084
Other income, net	264	892	1,704	2,933
Income before income taxes	843,797	690,793	2,196,471	1,871,017
Income tax expense	287,060	235,251	748,022	637,928
Net income	$ 556,737	455,542	1,448,449	1,233,089
Earnings per share basic and diluted	$ .008	.007	.022	.018
Weighted average shares outstanding basic and diluted	66,722,590	66,722,590	66,722,590	66,722,590

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

ADVANT-E CORPORATION AND SUBSIDIARIES

CONSOLIDATED CONDENSED BALANCE SHEETS

		September 30, 2012 (Unaudited)	December 31, 2011
Assets			
Current Assets:			
Cash and cash equivalents	$	5,113,837	3,459,402
Accounts receivable, net		926,791	784,239
Prepaid software maintenance costs		222,362	190,429
Prepaid expenses and deposits		85,369	107,871
Prepaid income taxes			1,910
Deferred income taxes		231,887	207,336
Total current assets		6,580,246	4,751,187
Software development costs, net		174,734	262,102
Property and equipment, net		191,657	171,199
Goodwill		1,474,615	1,474,615
Other intangible assets, net		102,761	159,796
Total assets	$	8,524,013	6,818,899
Liabilities and Shareholders Equity			
Current liabilities:			
Accounts payable	$	183,157	112,402
Income taxes payable		27,934	
Accrued salaries and other expenses		286,027	205,334
Deferred revenue		868,382	748,828
Total current liabilities		1,365,500	1,066,564
Deferred income taxes		156,185	198,456
Total liabilities		1,521,685	1,265,020
Shareholders equity:			
Common stock, $.001 par value; 100,000,000 shares authorized; 66,722,590 shares issued and outstanding		66,723	66,723
Paid-in capital		1,936,257	1,936,257
Retained earnings		4,999,348	3,550,899
Total shareholders equity		7,002,328	5,553,879
Total liabilities and shareholders equity	$	8,524,013	6,818,899

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

ADVANT-E CORPORATION AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (Unaudited)

	Nine Months Ended September 30, 2012	2011
Cash flows from operating activities:		
Net income	$ 1,448,449	1,233,089
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation	85,998	114,861
Amortization of software development costs	87,368	58,244
Amortization of other intangible assets	57,035	63,534
Loss on disposal of assets	195	
Deferred income taxes	(66,822)	(96,849)
Increase (decrease) in cash and cash equivalents arising from changes in assets and liabilities:		
Accounts receivable	(142,552)	(9,384)
Prepaid software maintenance costs	(31,933)	(34,541)
Prepaid expenses and deposits	22,502	29,967
Prepaid income taxes	1,910	
Accounts payable	70,755	77,195
Income taxes payable	27,934	(223)
Accrued salaries and other expenses	80,693	160,395
Deferred revenue	119,554	136,520
Net cash flows from operating activities	1,761,086	1,732,808
Cash flows from investing activities:		
Purchases of property and equipment	(106,651)	(34,691)
Software development costs		(40,636)
Net cash flows from investing activities	(106,651)	(75,327)
Cash flows from financing activities:		
Dividends paid		(667,226)
Net increase in cash and cash equivalents	1,654,435	990,255
Cash and cash equivalents, beginning of period	3,459,402	2,963,172
Cash and cash equivalents, end of period	$ 5,113,837	3,953,427
Supplemental disclosures of cash flow items:		
Income taxes paid	$ 785,000	735,000
Non-cash transactions:		
Declared dividends payable no later than December 31, 2011		667,226

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

ADVANT-E CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Unaudited)

September 30, 2012

Note 1: Basis of Presentation, Organization and Other Matters

The accompanying unaudited interim consolidated condensed financial statements as of September 30, 2012 and for the three and nine month periods ended September 30, 2012 and 2011, together with the accompanying consolidated condensed balance sheet as of December 31, 2011, which has been derived from audited financial statements, have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations, although management believes that the disclosures made are adequate to make the information not misleading. In the opinion of management, the unaudited interim consolidated condensed financial statements include all adjustments, which were normal and recurring in nature, considered necessary for a fair presentation of financial position, results of operations, and cash flows for the interim periods.

Results of operations for the three and nine months ended September 30, 2012 are not necessarily indicative of the results to be expected for the full year ending December 31, 2012. These unaudited interim consolidated condensed financial statements should be read in conjunction with the consolidated financial statements, accounting policies, and financial notes thereto included in Advant-e Corporation s 2011 Form 10-K filed with the Securities and Exchange Commission.

Nature of Operations

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

Principles of Consolidation

The consolidated condensed financial statements include the accounts of Advant-e Corporation and its wholly-owned subsidiaries, Edict Systems, Inc., and Merkur Group, Inc. Inter-company accounts and transactions are eliminated in consolidation. Management evaluates related party relationships for variable interest entity considerations.

Use of Estimates

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

Note 2: Software Development costs

Software development costs at September 30, 2012 and the changes during the nine months then ended are summarized as follows:

	Cost	Accumulated Amortization	Net
Balance, January 1, 2012	$ 1,862,203	1,600,101	262,102
Amortization		87,368	87,368
Balance, September 30, 2012	1,862,203	1,687,469	174,734

Software development costs are for internal use software and for website development and related enhancements. The balance consists primarily of development costs related to the latest version of the Company s Web EDI service. The majority of the enhancements related to this upgrade have been completed.

Note 3: Line of Credit

At September 30, 2012, the Company has a $1,500,000 bank line of credit. Borrowings under the line of credit accrue interest at the bank s prime commercial rate, are collateralized by substantially all of the assets of the Company s subsidiaries, and are payable in full when the line of credit expires on May 25, 2013. Interest is payable monthly. Borrowings under the line of credit are guaranteed by the Company s Chief Executive Officer. No borrowings were outstanding as of September 30, 2012 or during the nine months then ended.

Note 4: Income taxes

Income tax expense consists of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Current expense	$ 297,498	269,835	814,844	734,777
Deferred benefit	(10,438)	(34,584)	(66,822)	(96,849)
Total income tax expense	$ 287,060	235,251	748,022	637,928

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 September 30, 2012 and 2011:

	Three Months Ended September 30, 2012			
	Internet-based	Software	Reconciling Items (a)	Total Consolidated
Revenue	$ 2,260,956	315,773		2,576,729
Income before income taxes	785,438	73,038	(14,679)	843,797
Income tax expense (benefit)	267,218	24,833	(4,991)	287,060
Net income	518,220	48,205	(9,688)	556,737
Segment assets at September 30, 2012	4,717,649	2,229,249	1,577,115	8,524,013

	Three Months Ended September 30, 2011			
	Internet-based	Software	Reconciling Items (a)	Total Consolidated
Revenue	$ 2,122,076	325,598		2,447,674
Income before income taxes	651,650	60,321	(21,178)	690,793
Income tax expense (benefit)	221,943	20,509	(7,201)	235,251
Net income	429,707	39,812	(13,977)	455,542
Segment assets at September 30, 2011	3,744,121	1,890,628	1,654,485	7,289,234

The following segment information is for the nine months ended September 30, 2012 and 2011:

	Nine Months Ended September 30, 2012			
	Internet-based	Software	Reconciling Items (a)	Total Consolidated
Revenue	$ 6,573,107	1,015,311		7,588,418
Income before income taxes	1,988,049	265,457	(57,035)	2,196,471
Income tax expense (benefit)	677,154	90,262	(19,394)	748,022
Net Income	1,310,895	175,195	(37,641)	1,448,449

	Nine Months Ended September 30, 2011			
	Internet-based	Software	Reconciling Items (a)	Total Consolidated
Revenue	$ 6,091,959	1,028,278	(12,519)	7,107,718
Income before income taxes	1,732,772	201,779	(63,534)	1,871,017
Income tax expense (benefit)	590,919	68,613	(21,604)	637,928
Net Income	1,141,853	133,166	(41,930)	1,233,089

(a) Reconciling items generally consist of the elimination of intersegment revenues of $12,519 for the sale of software in 2011, at cost, and goodwill, other intangible assets and related amortization in connection with the Merkur Group, Inc. acquisition.

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

Note 6: Related Party Lease

The Company leases its corporate and administrative offices, effective November 1, 2011, from an entity owned by the Company s CEO and majority shareholder. Payments in connection with this lease were $57,000 for base rent and $29,179 for taxes, insurance, maintenance and other expenses in the three months ended September 30, 2012, and $171,000 for base rent and $86,638 for taxes, insurance, maintenance and other expenses in the nine months ended September 30, 2012.

Note 7: Subsequent Events

On November 5, 2012, the Company s Board of Directors and a majority of its outstanding shares authorized a 1-for-10,000 reverse stock split followed by a 1,000-for-1 forward stock split and a $2,000,000 share repurchase program.

The Company s Board of Directors also announced that it is considering the payment of a potential special cash dividend pending the results of the stock splits, the share repurchase program and the Company s cash flow. Any such potential special cash dividend has not been declared as of September 30, 2012 or through the date the accompanying financial statements were issued, which was November 9, 2012. The Board anticipates that if the dividend is declared, it would be paid in December 2012.

The above corporate actions are being undertaken in preparation to voluntarily suspend the Company s obligation to file periodic reports with the Securities and Exchange Commission.

The date of the reverse and forward stock splits will be announced at a later date pending regulatory compliance. The Company expects to file a Schedule 14C Information Statement with the SEC further describing the reverse and forward stock splits shortly. The Board of Directors has reserved the right to abandon the proposed reverse and forward stock splits at any time prior to the effective date if it believes them to no longer be in the best interest of the Company or its shareholders.

Note 8: Recently Issued Accounting Pronouncements

In July 2012, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) No. 2012-02, Intangibles Goodwill and Other. The objective of this update is to give entities the option of considering qualitative factors first when attempting to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired. If an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the entity need not take further action; however, if an entity concludes otherwise, then it must perform the quantitative impairment test by comparing the fair value of the impaired asset with its carrying amount. An entity may also bypass the qualitative assessment in any period and proceed directly to performing the quantitative impairment test and resume the qualitative assessment in any subsequent period. The guidance is effective for annual and interim impairment tests for fiscal years beginning after September 15, 2012, with early adoption permitted. The Company believes the adoption of this guidance will not have a material impact on the Company s consolidated condensed financial statements.

In September 2011, the FASB issued ASU No. 2011-08, Intangibles-Goodwill and Other: Testing Goodwill for Impairment. This standard was issued to address concerns about the cost and complexity of performing the first step of the two-step goodwill impairment test required under Topic 350, Intangibles-Goodwill and Other . The objective of this Update is to simplify how entities, both public and nonpublic, test goodwill for impairment. The amendments in the Update permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent.

Under the amendments in this Update, an entity is not required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. The guidance is effective for impairment tests for fiscal years beginning after December 15, 2011. The adoption of this guidance had no material impact on the Company s consolidated condensed financial statements.

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

Forward Looking Statements

This Form 10-Q contains forward-looking statements, including statements regarding the expectations of future operations. For this purpose, any statements contained in this Form 10-Q that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, words such as may, will, expect, believe, anticipate, estimate, continue or comparable terminology are intended identify forward-looking statements. These statements by their nature involve substantial risks and uncertainties, and actual results may differ materially depending on a variety of factors, many of which are not within the Company s control. These factors include, but are not limited to, economic conditions generally and in the industries in which the Company may participate, competition within the chosen industry, including competition from much larger competitors, technological advances, and the failure to successfully develop business relationships. In light of these risks and uncertainties, you are cautioned not to place undue reliance on these forward-looking statements. This item should be read in conjunction with Item 1. Financial Statements and other items contained elsewhere in this report.

Products and services

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

Critical Accounting Policies and Estimates

Revenue recognition

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

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

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

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

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

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

Revenue from the sale of software and related products contains multiple element arrangements, and is recognized in accordance with the provisions of Accounting Standards Codification (ASC) Topic 985-605, Software Industry Revenue Recognition . The multiple elements include the sale of software, hardware, professional services and software maintenance contracts. The relative selling price of each element is based on vendor-specific objective evidence, and the elements in the arrangements qualify as separate units of accounting. Revenue from the sale of software and hardware is recognized when title and risk of loss are transferred, which generally occurs upon delivery. Revenue from the sale of professional services is recognized when the services are completed, which is generally soon after the delivery of the software and hardware. Even though customers have a 30-day period in which they can return the software, historically returns have not been significant. Revenue from maintenance contracts is recognized over the life of the maintenance and support contract period, generally twelve months. Revenue from the sale of software and related products are recorded at gross, and any related purchases are included in cost of revenue.

Software Development Costs

The Company accounts for the costs of computer software that it develops for internal use and costs associated with operation of its web sites in accordance with the 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, Software . Capitalized costs are amortized by the straight-line method over the remaining estimated economic lives of the software application, generally three years, and are reported at the lower of unamortized cost or net realizable value.

The ongoing assessment of recoverability of capitalized software development costs requires considerable judgment by management with respect to certain external factors, including, but not limited to, anticipated future revenues, estimated economic life and changes in software and hardware technologies. Impairment of asset value is considered whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Software Maintenance Costs

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

Goodwill and Other Intangible Assets

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

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

Management assesses goodwill for impairment on an annual basis at year-end, and between annual tests if an event occurs or circumstances change that may more likely than not reduce the fair value of the reporting unit below its carrying value. Significant management judgment is required in assessing the impairment of goodwill, including the assignment of assets and liabilities and determination of fair value. Management uses the discounted cash flow method, which requires significant judgments and assumptions for estimates of future cash flows, growth rate, and useful life of the cash flows, and determination of the cost of capital. Changes in these estimates and assumptions could materially affect the determination of fair value and goodwill impairment, if any.

Recently Issued Accounting Pronouncements

For a description of recently issued accounting pronouncements, including the expected dates of adoption and estimated effects, if any, on the Company s consolidated condensed financial statements, see Note 8: Recently Issued Accounting Pronouncements in the Notes to Consolidated Condensed Financial Statements of this Form 10-Q.

Results of Operations: Third Quarter of 2012 Compared to Third Quarter of 2011

Revenue

Revenue for the Company in the third quarter of 2012 increased 5% compared to the third quarter of 2011. Revenue for Edict Systems increased 7% and revenue for Merkur Group decreased 3%.

	Q3 2012		**Q3 2011**		**Increase (Decrease)**	
	Amount	**% of Total**	**Amount**	**% of Total**	**Amount**	**%**
Edict Systems	$ 2,260,956	88	2,122,076	87	138,880	7
Merkur Group	315,773	12	325,598	13	(9,825)	(3)
Revenue	$ 2,576,729	100	2,447,674	100	129,055	5

Edict Systems Revenue

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

	Q3 2012		**Q3 2011**		**Increase (Decrease)**	
	Amount	**% of Total**	**Amount**	**% of Total**	**Amount**	**%**
Web EDI						
GroceryEC	$ 1,474,710	65	1,432,064	68	42,646	3
AutomotiveEC	190,577	9	173,893	8	16,684	10
Other Web EDI	47,615	2	46,241	2	1,374	3

EnterpriseEC	475,792	21	372,431	17	103,361	28
Other products and services	72,262	3	97,447	5	(25,185)	(26)
Total	$ 2,260,956	100	2,122,076	100	138,880	7

Revenue from GroceryEC increased 3% due to increased volume of transactions processed.

Revenue from AutomotiveEC increased 10% due to increased volume of transactions processed from existing customers and from new customers who are suppliers of a Canadian automotive company.

Revenue from EnterpriseEC, the Company s value added network (VAN), increased 28% due to increased VAN services revenue from small customers, increased volume of EDI transactions processed for large grocery companies and increased revenue from the Company s integration solutions. Despite this increase, pricing pressures and the availability of alternate connectivity options continue to adversely affect revenue growth for EnterpriseEC.

Revenue from other products and services decreased 26%, primarily due to decreased web-based testing and certification revenue.

Merkur Group Revenue

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

	Q3 2012		Q3 2011		Increase (Decrease)	
	Amount	**% of Total**	**Amount**	**% of Total**	**Amount**	**%**
Software	$ 29,440	9	39,179	12	(9,739)	(25)
Hardware			6,582	2	(6,582)	(100)
Professional services	34,204	11	41,570	13	(7,366)	(18)
	63,644	20	87,331	27	(23,687)	(27)
Maintenance contracts	227,707	72	225,946	69	1,761	1
On demand	20,617	7	8,847	3	11,770	133
Other	3,805	1	3,474	1	331	10
	252,129	80	238,267	73	13,862	6
Total	$ 315,773	100	325,598	100	(9,825)	(3)

Revenue from the sale of software, hardware, and professional services decreased $23,687 , as general economic conditions continue to exert a dampening effect on the sales of software and related products. This decrease was partially offset by revenue from the sale of on demand services, which increased $11,770.

Revenue from customers in foreign locations

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

Net income

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

			Increase	
	Q3 2012	**Q3 2011**	**Amount**	**%**
Edict Systems	$ 518,220	429,707	88,513	21
Merkur Group	48,205	39,812	8,393	21
Amortization of intangible assets, net of income tax effects	(9,688)	(13,977)	4,289	31

Net income	$ 556,737	455,542	101,195	22

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Net income increased $101,195 primarily as a result of the following:

Revenue increased $129,055 primarily from the sale of Web EDI products and services sold by Edict Systems.

Personnel-related costs and expenses decreased $50,122 primarily due to reductions of fringe benefits, sales commissions, and sales and marketing salaries.

Partially offsetting the above increases to net income were the fo