Attachment E - Financial Information

Applicant is a wholly-owned subsidiary of iMergent, Inc., a publicly traded company.
See Attached SEC Form 10-KT for period ended December 31, 2009 for iMergent, Inc.

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FORM 10-KT

IMERGENT INC - IIG

Filed: March 02, 2010 (period: December 31, 2009)

Annual transition reports filed rule 13a-10 or 15d-10 of the Securities Exchange Act

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KT

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

For the fiscal year ended:

or

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

For the transition period from: July 1, 2009 to December 31, 2009

iMergent, Inc.

(Exact name of registrant as specified in its charter)

Delaware	001-32277	87-0591719
(State or Other Jurisdiction of Incorporation or Organization)	(Commission File Number)	(I.R.S. Employer Identification No.)

10201 South 51st Street, Suite A-265, Phoenix, AZ 85044
(Address of Principal Executive Office) (Zip Code)

(623) 242-5959
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.001 per share	New York Stock Exchange - AmexSecurities

Securities registered pursuant to Section 12(g) of the Act:

None
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☑

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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 preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KT or any amendment to this Form 10-KT. ☑

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☑

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☑

The aggregate market value of the common stock held by nonaffiliates of the registrant as of December 31, 2008 (end of the Company's second most recent fiscal quarter) was approximately $32,696,000.

The number of shares of the registrant's common stock outstanding as of March 1, 2010 was 11,466,320.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement to be used by the registrant in connection with its 2010 Annual Meeting of Stockholders and to be filed with the Securities and Exchange Commission within 120 days of the close of the fiscal year are incorporated by reference into Part III of this Transition Report on Form 10-KT.

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PART I

Throughout this Transition Report, we refer to iMergent, Inc., together with its subsidiaries, as "we," "us," "our Company" or "the Company." As used in the Form 10-KT, "StoresOnline ™" is a registered trademark of our Company in the United States and other countries. All other product names are or may be trademarks of, and are used to identify the products and services of, their respective owners.

THIS TRANSITION REPORT ON FORM 10-KT CONTAINS FORWARD-LOOKING STATEMENTS. THESE STATEMENTS RELATE TO FUTURE EVENTS OR OUR FUTURE FINANCIAL PERFORMANCE. IN SOME CASES, YOU CAN IDENTIFY FORWARD-LOOKING STATEMENTS BY TERMINOLOGY SUCH AS MAY, WILL, SHOULD, EXPECT, PLAN, INTEND, ANTICIPATE, BELIEVE, ESTIMATE, PROJECT, PREDICT, POTENTIAL OR CONTINUE (INCLUDING THE NEGATIVE OF SUCH TERMS), OR OTHER SIMILAR TERMINOLOGY. THESE STATEMENTS ARE ONLY PREDICTIONS AND ARE BASED UPON VARIOUS ASSUMPTIONS THAT MAY NOT BE REALIZED. ACTUAL EVENTS OR RESULTS MAY DIFFER MATERIALLY. IN EVALUATING THESE STATEMENTS, YOU SHOULD SPECIFICALLY CONSIDER VARIOUS FACTORS, INCLUDING, BUT NOT LIMITED TO, THE RISKS OUTLINED BELOW UNDER ITEM 1A. THESE FACTORS MAY CAUSE OUR ACTUAL RESULTS TO DIFFER MATERIALLY FROM ANY FORWARD-LOOKING STATEMENT.

ALTHOUGH WE BELIEVE THAT THE EXPECTATIONS REFLECTED IN THE FORWARD-LOOKING STATEMENTS ARE REASONABLE, WE CANNOT GUARANTEE FUTURE RESULTS, LEVELS OF ACTIVITY, PERFORMANCE OR ACHIEVEMENTS. MOREOVER, NEITHER WE NOR ANY OTHER PERSON ASSUMES RESPONSIBILITY FOR THE ACCURACY AND COMPLETENESS OF THE FORWARD-LOOKING STATEMENTS. WE DO NOT INTEND TO UPDATE ANY OF THE FORWARD-LOOKING STATEMENTS AFTER THE DATE OF THIS TRANSITION REPORT TO CONFORM SUCH STATEMENTS TO ACTUAL RESULTS OR TO CHANGES IN OUR EXPECTATIONS, UNLESS REQUIRED BY LAW.

ITEM 1. BUSINESS

GENERAL

We provide eServices, eCommerce technology, training and a variety of web-based technologies and resources including search engine optimization and search engine management services to entrepreneurs and small and medium enterprises. Our eServices offerings leverage industry and client practices and are designed to help increase the predictability of success for Internet merchants. Our services are also designed to help decrease the risks associated with eCommerce implementation by providing low-cost, scalable solutions with ongoing software and training updates and support. The Company's strategic vision is to remain an eServices provider focused on our target markets. We sell and market our products and services in the United States and international (English-speaking) markets, including Canada, the UK, Australia, New Zealand, and Singapore.

iMergent, Inc. was incorporated as a Nevada corporation on April 13, 1995. In November 1999, we were reincorporated under the laws of Delaware. Effective July 3, 2002, we changed our corporate name to "iMergent, Inc." to better reflect the scope and direction of our business activities of assisting and providing web-based technology solutions to entrepreneurs and small businesses who are seeking to establish a viable eCommerce presence on the Internet.

FISCAL YEAR CHANGE

In November 2009, our Board of Directors approved a change of the Company's fiscal year from a June 30 fiscal year end to a December 31 fiscal year end. This Form 10-KT is a Transition Report for the six month transition period ended December 31, 2009.

iMERGENT WEBSITE

The Company is headquartered at 10201 South 51st Street, Suite A-265, Phoenix, AZ, 85044, and our telephone number is (623) 242-5959. Our website is www.imergentinc.com. To assist investors, we publish our Transition Report on Form 10-KT, Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and any amendments to those reports filed, or furnished, pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 which are filed with the Securities and Exchange Commission ("SEC") on our website under the "Investor Relations" tab. All such filings are available free of charge.

INDUSTRY BACKGROUND

The Internet has transformed the way business is conducted. To address current economic conditions, companies have turned to the Internet as a less expensive marketing channel which allows them to compete and communicate with a network of consumers and partners on a local, national, and global level. Introducing a business to the Internet can unleash new opportunities which enable them to drive revenue growth, services opportunities, product innovation, and operational efficiencies. Companies need to be able to offer and deliver their services and products through the Internet to capitalize on this potential.

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A company seeking to effect such a transformation or launch a website on the Internet often needs outside technical expertise to assist in identifying viable Internet tools, and to develop and implement strategies within a realistic budget. This outside technical assistance is essential to create a competitive advantage over other organizations attempting to market their products and services over the Internet.

We believe this environment has created a significant and growing demand for third-party Internet professional services which has resulted in a proliferation of eServices companies offering specialized solutions, such as order processing, transaction reporting, help desk support, training, consulting, security, website design, website optimization and web hosting. We believe there is a large, fragmented and under-served population of businesses and entrepreneurs searching for professional services firms who offer business-to-entrepreneur (B2E) and business-to-business (B2B) eServices solutions accompanied by support and continuing education.

We believe this market requires platforms of products and services which embrace the opportunities presented by the Internet. Accordingly, we believe organizations increasingly are searching for B2E and B2B eServices solutions, which focus on promoting their business on the Internet. These solutions include technology, education, creative design, website optimization, transaction processing, data warehousing/hosting, transaction reporting and help desk support. Furthermore, we believe our target market will increasingly seek Internet solutions providers who leverage industry and customer practices, increase predictability of their Internet initiatives and decrease implementation risks by providing low-cost, scalable solutions with minimal lead-time.

INDUSTRY AND BUSINESS SEGMENT SUMMARY

Management has chosen to organize the Company around differences in products and services. In the twelve months ended June 30, 2009, iMergent introduced two new segments into the market named Crexendo Business Solutions and Crexendo Network Services.

StoresOnline, Inc. - Offering Services to Entrepreneurs and Small Office/Home Office

Our StoresOnline business segment offers a continuum of services and technology to the Small Office/Home Office (SOHO) business owner and entrepreneur seeking the tools and training to establish a successful website on the Internet. Specifically, StoresOnline services a market segment looking for a “do-it-yourself” option as an alternative to the high cost of contracting an eCommerce or lead generation web developer and, most importantly, an ad agency for website promotion. Both are difficult barriers to many entrepreneurs looking to establish a presence on the Internet. StoresOnline delivers the tools, training, and support to help entrepreneurs and SOHO business owners maintain and promote their websites on their own, thus making the Internet a viable option for their businesses.

Our services start with a complimentary 90-minute informational “Preview Training Session” aimed toward those interested in extending their business to the Internet. These Preview Training Sessions have been proven to increase awareness of and excitement for the opportunities presented by the Internet. At these Preview Training Sessions, our instructors (i) preview the advantages of establishing a website on the Internet, (ii) answer many of the most common questions new or prospective Internet merchants have, (iii) explain, in general terms, how to develop an effective Internet strategy and (iv) explain how to transform an existing “brick and mortar” company into an eCommerce enabled company.

At the Preview Training Session, the attending entrepreneur or small business owner has the opportunity to purchase a license to use our proprietary StoresOnline Express software and website development platform and thereby become an Internet merchant. The attending small business owner or entrepreneur is also presented an opportunity to attend a full day Internet Training Workshop. The StoresOnline Express software package includes the following products and services:

- a license to create one fully enabled eCommerce website, with the option to host this website on our servers;
- helpdesk technical support via on-line chat;
- fully integrated StoresOnline shopping cart technology; and
- Pay-Pal merchant account integration for real-time online credit card processing.

Approximately two weeks after each Preview Training Session, we conduct an intensive “Internet Training Workshop” which teaches Internet eCommerce and website implementation training to the small business owners and entrepreneurs who purchased the StoresOnline Express package at the Preview Training Session. Instructors of the Internet Training Workshop expand upon the principles taught at the Preview Training Session elaborating on the details, requirements, demands, tips, and techniques required to extend their business or product to the Internet. Specifically, this instruction consists of a plain English explanation of eCommerce requirements and tools, specific details and tips on how to promote and drive traffic to a website, and techniques to increase sales from a website.

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In addition to the training provided at the workshop, our customers are presented an opportunity to upgrade their StoresOnline Express license to our proprietary StoresOnline Pro software and website development platform which is purchased in a separate transaction for an additional fee. StoresOnline Pro software includes:

- access to an unlimited number of site keys which allow the merchant to build as many eCommerce-enabled websites as desired, with the option to host those websites on the Company's servers;
- library of promotional tools and strategies that provides ongoing promotional tips to optimize websites for higher ranking in search engines and improved Web-traffic conversion;
- helpdesk technical support via on-line chat, emails, and telephone, which also includes access to our detailed Merchant Services resource center of Internet marketing information;
- tracking software to monitor website traffic (hits, unique visitors, page views, referring URL, search engine and keywords used, time of visit, etc.);
- drop shipper integration which allows customers the ability to access product pictures and descriptions of thousands of products offered by drop shipping companies with which the customer may form a relationship;
- merchant accounts for real-time online credit card processing;
- testing and marketing software tools; and
- the Avail 24/7 communications package, an all-in-one email, phone, fax, and contact management solution.

A license to our StoresOnline Pro software and website development platform permits a customer to create as many custom websites as desired. Programming of the customer's first website is free of charge if submitted within the first 90 days of the upgrade to StoresOnline Pro. After this time, our development team can assist with the design and setup of the website for an additional fee. Customers can choose to download the software and create websites which can be hosted by third-party providers, or host their websites with us for an additional monthly fee. Websites hosted by us allow the customers to take advantage of our hosting and support services.

Following the initial sale of the license, we seek to provide additional technology and services to our customers. Consequently, we offer custom programming to create distinctive web page graphics and banners and to enhance websites with features such as streaming audio and video content. For this purpose we have partnered with third-party companies who offer our customers additional marketing tools, training, and/or tax and legal services for their web-based businesses. We receive a commission from these companies when our customers purchase any of their products or services. For a commission, we allow third parties to market certain products and services which we believe are complementary to our own products and services, available to customers in our Preview Training Sessions, Internet Training Workshops, and through other direct marketing efforts. Furthermore, we continually explore ideas, products and services which will enhance ongoing customer training and assistance.

Seasonality

Our revenues are subject to seasonal fluctuations. Responses to our marketing for Preview Training Sessions and Internet Training Workshops are historically lower during the period from June through Labor Day, and during the holiday season from Thanksgiving Day through the first few weeks of January.

Technology

We believe a key our developed proprietary technologies represent a key component of our business model. We believe these technologies distinguish our services and products from the services and products offered by our competitors. In particular, our technologies include our website development software (StoresOnline Express and StoresOnline Pro), advanced editing capabilities in terms of content and website creation, dynamic image creation, hosting environment and infrastructure, and total customer relationship management.

Our software platform is continuously enhanced and is an innovative website-building environment. Features and functions of our StoresOnline software include:

- during website development, our customers can experience the look and feel of their websites as if they were their own customers. They can shop, navigate, order products, track orders, and more. If they want to change or add more elements, they can edit, rearrange, add, and delete the elements all within a dynamic, point-and-click environment;
- all designs are customized based on the customers' choices and arrangements. Customers can modify the look and feel of the design to complement their services or products. In addition, design modification and arrangement are executed within a streamlined, point-and-click environment;

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- blogs, online journals, message boards, and forums that are easily integrated into the content of the website. As administrators, the customers have full control in terms of filtering content, allowing images, and other blog, message board, and forum permissions;

- customizable forms that address customer-specific needs. By using customized forms, our customers can set up secure, encrypted forms with improved ease to collect sensitive information from their customers. This is especially useful for service-based businesses, as these forms can be used for job, loan, applications, questionnaires, bids, quotes, lead generation, etc.; and

- the Avail 24/7 communications package, an all-in-one email, phone, fax, and contact management solution. This product allows businesses to manage all correspondence with customers in one easy-to-use application.

Sales and Marketing

Because a majority of our products are sold to persons who have attended both our Preview Training Session and our Internet Training Workshop, we incur a significant marketing investment for potential customers. Therefore, the cost of customer acquisition and sell-through percentages are critical components to the success of our business. We are continuously testing and implementing changes to our business model, which are intended to reduce the level of investment necessary to get customers to attend our events and to increase our value proposition to these customers.

We advertise our Preview Training Sessions mostly through direct mail. The mailing lists we use are obtained from list brokers and the Company's own database. The direct mail pieces are mailed several weeks prior to the date of the Preview Training Session.

Research and Development

During the six months ended December 31, 2009 and 2008 and the twelve months ended June 30, 2009 and 2008, we invested $1,044,000, $1,080,000 (unaudited), $2,177,000, and $2,113,000, respectively, in the research and development of our technologies. The majority of these expenditures were for our StoresOnline Pro software platform. In general, our research and development efforts during the six months ended December 31, 2009 consisted of the following:

- built a new platform for SEO automation and SEO tools;

- completed the alpha version of StoresOnline 6.0 which includes customizable templates, new design, and integration through Simple Object Access Protocol (SOAP);

- converted 40% of our internal database to a new Java Platform that builds on the same technology as our StoresOnline technology; and

- integrated telecom platform utilizing web services to interface with Avail 24/7.

In general, our research and development efforts during the twelve months ended June 30, 2009 consisted of the following:

- added advanced customization to our StoresOnline Pro platform, allowing more flexibility using CSS, Java, and HTML 5.0 features;

- improved image processing features for faster image delivery;

- updated our data center facility and improved all network components;

- transitioned legacy applications to our standard Java platform; and

- launched initial development of hosted telecom solution.

In general, our research and development efforts during the twelve months ended June 30, 2008 consisted of the following:

- integration with drop shippers allowing for seamless product delivery;

- enhanced research tools, including search engine optimization tools as well as new charting and graphing features;

- integration of Avail 24/7 into StoresOnline Pro;

- addition of social networking features such as product reviews and customer feedback; and

- single sign-on features that simplify account management.

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Crexendo Business Solutions, Inc. – eCommerce Software Platform which can be offered as either a Software as a Service (SaaS) or a Licensed Software Model to the Small and Medium Business

Crexendo Business Solutions (Crexendo) serves a different market segment than StoresOnline. While StoresOnline markets to entrepreneurs looking for a "do-it-yourself" option, Crexendo facilitates businesses looking for a trusted partner to manage their eCommerce or lead generation offering, web site, search engine optimization/management and online promotional needs. As a SaaS or licensed software based platform, Crexendo provides a solution to the SME market segment. These services include:

- full functioning eCommerce or lead generation enabled site including integrated shopping cart and merchant account technologies;
- integrated SKU management;
- analytics set up, training, and ongoing support;
- search engine optimization services including keyword research, competitive analysis, content writing, and content management;
- search engine marketing services (paid search or pay-per-click) including keyword research, ad campaign setup, and advertising management for the top paid search engines like Google, Adwords, Yahoo Search Marketing, and Bing;
- link building campaigns to build page rank and attain higher relevancy search results; and
- search engine optimization and search engine marketing training courses for businesses looking to develop that core competency in house.

These services are primarily offered through direct marketing efforts, as well as a network of value-added resellers (VARs). The initial step in the sales approach typically starts with an in-depth analysis of the potential customer's website using our Crexendo Business Solutions proprietary tools and software for analyzing search demand, identification of keywords, keyword density, and effective pay-per-click strategies. Utilizing these tools allows our search engine optimization professionals to efficiently develop a long-term web-marketing strategy focused on generating qualified leads and traffic to our customers' websites.

Our Crexendo Business Solutions division recognized revenue of $127,000 during the six months ended December 31, 2009. Costs associated with the start-up of Crexendo Business Solutions for the six months ended December 31, 2009 and twelve months ended June 30, 2009 were $1,031,000 and $253,000 and are included in the Company's respective consolidated statements of operations for the six months ended December 31, 2009 and twelve months ended June 30, 2009, respectively. We did not recognize any expenses relating to Crexendo Business Solutions prior to January 1, 2009.

Crexendo Network Services

Crexendo Network Services is focused on developing, marketing, and selling telecommunication and data services and technology for Internet Protocol, or IP telephony and video applications. We currently have in development broadband digital phone service, total office hosted PBX service, and hosted key system service utilizing Secession Initiation Protocol (SIP) equipment and services.

The voice and video broadband phone service will enable broadband Internet users to add digital voice and video communications services to their high-speed Internet connections. Customers can choose a direct-dial phone number from any of the rate centers offered by the service and then use Crexendo Network Services supplied IP phones to connect to a broadband Internet connection and make or receive calls to/from the Public Switched Telephone Network and other Crexendo endpoints.

We are in the process of developing a suite of business services called Crexendo Total Office that we anticipate will offer feature-rich communications services to small and medium-sized businesses, eliminating the need for traditional telecommunications services and business phone systems. Our primary focus with the Crexendo Total Office service is to replace private branch exchange, or PBX, telephone systems in the small business marketplace with a hosted, Internet-based business phone service solution. We anticipate when completed, Crexendo Total Office will completely replace a company's PBX infrastructure by delivering all telecom services over a managed Internet connection.

Crexendo intends to offer pre-programmed IP telephones with speakerphones and display as well as Analog Telephone Adapters (ATA) for use with existing customer analog devices.

We intend to offer these services through both our StoresOnline division and Crexendo Business Solutions division.

Our Crexendo Network Services division is currently in the development phase and as of December 31, 2009 had not generated any revenues. Costs associated with the start-up of Crexendo Network Services for the six months ended December 31, 2009 and the twelve months ended June 30, 2009 were $210,000 and $199,000, respectively and are included in the Company's respective consolidated statement of operations. No expenses were recognized prior to January 1, 2009 relating to Crexendo Network

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Services.

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Segment revenue and operating income (loss) was as follows (in thousands):

	Six Months Ended December 31,		Twelve Months Ended June 30,	
	(audited)	(unaudited)	(audited)	
	2009	2008	2009	2008
Revenue:				
StoresOnline	$ 35,589	$ 54,120	$ 94,411	128,048
Crexendo Business Solutions	127	—	—	—
Crexendo Network Services	—	—	—	—
Consolidated	35,716	54,120	94,411	128,048

	Six Months Ended December 31,		Twelve Months Ended June 30,	
	(audited)	(unaudited)	(audited)	
	2009	2008	2009	2008
Operating Income (Loss):				
StoresOnline	$ 591	$ (10,189)	$ (7,427)	(3,253)
Crexendo Business Solutions	(904)	—	(253)	—
Crexendo Network Services	(210)	—	(199)	—
Consolidated	(523)	(10,189)	(7,879)	(3,253)

Crexendo Network Services is a development stage company. Since the inception of Crexendo Network Services in March 2009 through December 31, 2009, this segment has incurred $409,000 in expenses.

COMPETITION

Our markets are increasingly competitive. Our competitors include companies which sell through workshop formats like ours, as well as portals, application service providers, software vendors, systems integrators and information technology consulting services providers.

Most of these competitors, however, do not yet offer the full range of Internet professional services we believe our target market requires. These competitors could elect to focus additional resources in our target markets, which could adversely affect our business prospects, financial position and results of operations materially. Many of our current and potential competitors have longer operating histories, larger customer bases and longer relationships with customers as well as significantly greater financial, technical, marketing and public relations resources than we do.

Additionally, should we determine to pursue acquisition opportunities, we may compete with other companies with similar growth strategies. Some of these competitors may be larger and have greater financial and other resources than us. Competition for these acquisition targets could also result in increased prices of acquisition targets and a diminished pool of companies available for acquisition.

There are relatively low barriers to entry into our business. Our proprietary technology does not preclude or inhibit competitors from entering our markets. In particular, we anticipate new entrants will attempt to develop competing products and services or new forums for conducting eCommerce which could be deemed competition. Additionally, if eCommerce or Internet based enterprises with more resources and name recognition were to enter our markets, they may redefine our industry and make it difficult for us to compete.

Expected technology advances associated with the Internet, increasing use of the Internet, and new software products are welcome advancements that we believe will broaden the Internet's viability as a marketplace. We anticipate that we can compete successfully by relying on our infrastructure, marketing strategies and techniques, systems and procedures, and by adding additional products and services in the future. We believe we can continue the operation of our business by periodic review and revision to our product offerings and marketing approach.

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INTELLECTUAL PROPERTY

Our success depends in part on using and protecting our proprietary technology and other intellectual property. Furthermore, we must conduct our operations without infringing on the proprietary rights of third parties. We also rely upon trade secrets and the know-how and expertise of our key employees and independent contractors. To protect our proprietary technology and other intellectual property, we rely on a combination of the protections provided by applicable copyright, trademark and trade secret laws, as well as confidentiality procedures and licensing arrangements. Although we believe we have taken appropriate steps to protect our intellectual property rights, including requiring employees and third parties who are granted access to our intellectual property to enter into confidentiality agreements, these measures may not be sufficient to protect our rights against third parties. Others may independently develop or otherwise acquire unpatented technologies or products similar or superior to ours.

We license from third parties certain software and Internet tools which we include in our services and products. If any of these licenses were terminated, we could be required to seek licenses for similar software and Internet tools from other third parties or develop these tools internally. We may not be able to obtain such licenses or develop such tools in a timely fashion, on acceptable terms, or at all.

Companies participating in the software and Internet technology industries are frequently involved in disputes relating to intellectual property. We may be required to defend our intellectual property rights against infringement, duplication, discovery and misappropriation by third parties or to defend against third-party claims of infringement. Likewise, disputes may arise in the future with respect to ownership of technology developed by employees who were previously employed by other companies. Any such litigation or disputes could be costly and divert our attention from our business. An adverse determination could subject us to significant liabilities to third parties, require us to seek licenses from, or pay royalties to, third parties, or require us to develop appropriate alternative technology. Some or all of these licenses may not be available to us on acceptable terms, or at all. In addition, we may be unable to develop alternate technology at an acceptable price, or at all. Any of these events could have a material adverse effect on our business prospects, financial position or results of operations.

EMPLOYEES

As of February 28, 2010, we had 329 employees; 295 full time and 34 part time, including 6 executives, 109 in sales, 18 in marketing and event planning, 28 in the development of our eCommerce solutions and IT, 27 in website production, 48 in event reservations, 43 in customer support, 45 in finance, legal and general administration and 5 in business development. We also draw from a pool of independent contractors, some of whom are guest presenters, sales consultants, and trainers. We have never experienced any labor disruption and are not party to any collective bargaining agreements. We believe that our employee relations are good.

GOVERNMENTAL REGULATION

We are subject to regulations generally applicable to all businesses. In addition, because of our workshop sales format, we are subject to laws and regulations concerning sales and marketing practices, and particularly those with regard to business opportunities, franchises and selling practices. We assert that we do not offer our customers a “business opportunity” or a “franchise”, as those terms are defined in applicable statutes of the states and other jurisdictions in which we operate. In general, with the exception of California, in order to be subject to business opportunity regulations in a state, a company is typically required to provide a representation guaranteeing a return in excess of the purchase price and/or provide a marketing plan. We do neither. Various states and other jurisdictions, however, have contended we sell a business opportunity and we have been involved in multiple regulatory proceedings as a result of those contentions. It is possible that we will be required to register as a seller of a business opportunity in some states or other jurisdictions in which we do business. The requirement to register may have an adverse impact on our business. We believe we operate in compliance with laws concerning sales practices, which laws in some jurisdictions require us to offer the customer a three-day “cooling off” or rescission period in which customers may cancel their workshop purchases. If we are required to register as a seller of business opportunities we may be subject to rescission periods in excess of three days. Although we do not believe we are required to offer rescission rights in most states, we voluntarily provide such rescission rights. These rights could reduce our sales if customers who purchase products and services at our workshops elect to exercise those rights.

We are also subject to an increasing number of laws and regulations directly applicable to Internet access and commerce. The adoption of any such additional laws or regulations may decrease the rate of growth of the Internet, which could in turn decrease the demand for our products and services. Such laws may also increase our costs of doing business or otherwise have an adverse effect on our business prospects, financial position or results of operations. Moreover, the applicability to the Internet of existing laws governing issues such as property ownership, libel, and personal privacy is uncertain. In particular, one channel we use to initially contact our customers is e-mail. The use of e-mail for this purpose has become the subject of a number of recently adopted and proposed laws and regulations. Future federal or state legislation or regulation could have a material adverse effect on our business prospects, financial condition and results of operations.

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INTERNATIONAL OPERATIONS

For a discussion of revenues relating to our international activities, see Note 1, entitled *Segment Information,* in our consolidated financial statements.

ITEM 1A. RISK FACTORS.

In addition to factors discussed elsewhere in this Form 10-KT, the following are important risks which could adversely affect our future results. If any of the risks we describe below materialize, or if any unforeseen risk develops, our operating results may suffer, our financial condition may deteriorate, the trading price of our common stock may decline and our investors could lose all or part of their investment.

Proposed Federal Trade Commission rules could adversely impact the manner in which we solicit potential customers.

On April 5, 2006, the Federal Trade Commission announced proposed rules affecting sellers of business opportunities. Under the rules the Company could be required to provide a disclosure statement to potential customers prior to the sale of a license. The Company would then either be required to provide disclosure documents to all potential customers who sign up for a preview or provide the disclosure document to all preview customers who elect to attend the workshop. If those rules were adopted and the Company was determined to be a seller of business opportunities, such determination could negatively impact the manner in which we solicit potential customers and could lead to a decrease in sales. The Company currently complies with the business opportunity statute in the State of California, and provides the disclosure document to all preview customers who elect to attend the workshop.

We have been subject to a number of claims by governmental agencies that we are required to register as a seller of business opportunities, including actions seeking restraining orders or injunctions, and adverse decisions in these matters could adversely affect our business.

We have been subject to a number of claims by governmental agencies which claim that we are required to register as a seller or provider of business opportunities. We have successfully defended such claims, except in the State of California which has a statute with different requirements than other jurisdictions. No assurances can be given that there will not be other jurisdictions which may bring actions on similar grounds, or that such claims may be successfully defended. We assert we do not sell a business opportunity and have not therefore registered as a seller under the various statutes (other than California). Any new actions filed against the Company could also have a material negative impact on sales and operations of the Company. If it is determined in any other state that we are required to register as a seller of business opportunities in order to engage in business in that state, the requirement to do so could materially impair our business operations and/or force us to change our business model and consequently may adversely affect our revenue, increase our compliance costs, and reduce our profitability.

Changes in international and domestic laws and regulations and the interpretation and enforcement of such laws and regulations could adversely impact our financial results or ability to conduct business.

We are subject to a variety of international, federal and state laws and regulations as well as oversight from a variety of international and domestic governmental agencies. The laws governing our business may change in ways that harm our business. Federal, state or foreign governmental agencies administering and enforcing such laws may also choose to interpret and apply them in ways that harm our business. These interpretations are also subject to change. Regulatory action could materially impair or force us to change our business model and may adversely affect our revenue, increase our compliance costs, and reduce our profitability. In addition, governmental agencies such as the SEC, IRS or state taxing authorities may conclude that we have violated federal laws, state laws or other rules and regulations, and we could be subject to fines, penalties or other actions that could adversely impact our financial results or our ability to conduct business.

From time to time we are and have been the subject of governmental inquiries and investigations into our business practices that could require us to change our sales and marketing practices or pay damages or fines, which could negatively impact our financial results or ability to conduct business.

From time to time, we receive inquiries from federal, national, state, city and local government officials in the various jurisdictions in which we operate. These inquiries and investigations generally concern compliance with various city, county, state and/or federal regulations involving sales, representations made, customer service, refund policies, and marketing practices. We respond to these inquiries and have generally been successful in addressing the concerns of these persons and entities, without a formal complaint or charge being made, although there is often no formal closing of the inquiry or investigation. See Part I, Item 3, *Legal Proceedings*, for a discussion of some of these pending matters. The ultimate resolution of these or other inquiries or investigations may have a material adverse effect on our business or operations, or a formal complaint could be initiated. During the ordinary course of business we also receive a number of complaints and inquiries from customers, governmental and private entities. In some cases these complaints and inquiries have ended up in civil court. While we attempt to resolve these matters on a mutually satisfactory basis, there can be no assurance that the ultimate resolution of these matters will not have a material adverse effect on our business or results of operations.

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We also are subject to various claims and legal proceedings covering matters which arise in the ordinary course of business. We believe the resolution of these other cases will not have a material adverse effect on our business, financial position, or results of operations.

From time to time we are and have been the subject of customer complaints and lawsuits relating to our business practices which could require us to change our sales and marketing practices or pay damages or fines, which could negatively impact our financial results.

We often receive complaints and inquiries in the ordinary course of business from both customers and governmental and non-governmental bodies on behalf of customers and, in some cases, these customer complaints have resulted in litigation. Some of these matters are pending. The ultimate resolution of these matters may have a material adverse effect on our financial position or results of operations.

We may be required to reduce our prices in order to compete which could negatively impact our profitability.

As competition with our software continues to expand, we may be required to respond to additional competition which could require us to lower prices and engage in price competition. If intense price competition occurs, we may be forced to lower prices, which could result in lower revenue and gross margins.

We collect personal and credit card information from our customers and employees which could be subject to misuse.

We maintain credit card and other personal information in our systems. Due to the sensitive nature of retaining such information we have implemented policies and procedures to preserve and protect our data and our customers' data against loss, misuse, corruption, misappropriation caused by systems failures, unauthorized access or misuse. Notwithstanding these policies, we could be subject to liability claims by individuals and customers whose data resides in our databases for the misuse of that information.

We are being investigated by the Securities and Exchange Commission, which could subject us to fines, penalties or other actions, which could adversely affect our financial results.

On October 24, 2005, the Company announced it had been notified by the SEC that a formal order of investigation related to the Company had been issued. Prior to the order, the Company had announced a change of the independent registered public accounting firm for the Company. The Company also issued a Form 8-K of Non-Reliance on Previously Issued Financial Statements or a Related Audit Report or Completed Interim Review. Although we have cooperated with the SEC in this matter, and intend to continue to cooperate with the SEC, the SEC may find that we have violated securities laws. The SEC has not taken any formal action related to the investigation since 2007. We cannot predict the ultimate outcome of the investigation, nor can we predict whether other federal, state or foreign governmental authorities will initiate separate investigations. The outcome of the investigation and any related legal and administrative proceedings could include the institution of administrative, civil, injunctive or criminal proceedings involving us and/or our current or former employees, officers and/or directors, the imposition of fines and other penalties, remedies and/or sanctions, modifications to business practices and compliance programs and/or referral to other governmental agencies for other actions. It is not possible to accurately predict, at this time, when matters relating to the investigation will be completed, the final outcome of the investigation, or what, if any, actions may be taken by the SEC or by other governmental agencies in federal, state or foreign jurisdictions. Such actions may negatively impact our consolidated financial statements, results of operations, business prospects or liquidity.

We are subject to claims that our software is "defective" and difficult to use and that a substantial number of our customers do not activate their web pages.

We have been subject to claims by purchasers that our software is "defective" and difficult to use. Our software is hosted remotely on our servers in Orem, Utah, and as such cannot be selectively defective, but the continual claims of defective software could have a negative effect on our ability to sell licenses. We have also been subject to various claims that our software is difficult to use. We contend our software is interactive, and can be used properly by our customers. However, the claims of it being difficult to use are investigated by various regulatory agencies, and the persistence of such claims by regulatory agencies, in the news media, and on the Internet, may have a substantial negative impact on our ability to transact business. The claims that a substantial number of our customers do not activate their websites may impact the manner in which we conduct our seminars and may have a negative impact on our operations.

Fluctuations in our operating results may affect our stock price and ability to raise capital.

Our operating results for any given quarter or fiscal year should not be relied upon as an indication of future performance. Quarter to quarter comparisons of our results of operations may not be meaningful as a result of (i) our limited operating history relating to Crexendo Business Solutions and Crexendo Network Services and (ii) the emerging nature of the markets in which we compete. Our future results will fluctuate, and those results may fall below the expectations of investors and may cause the trading price of our common stock to fall. This may impair our ability to raise capital, should we seek to do so. Our quarterly results may fluctuate based on, but not limited to, the following factors:

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- our ability to attract and retain customers;
- negative publicity about our industry, events, or products;
- one-time events that negatively impact attendance and sales at our Preview Training Sessions and Internet Training Workshops;
- seasonal fluctuations in our business;
- fluctuations in collections of our extended payment term agreements;
- number of workshops in a given period;
- intense competition;
- changes in pricing policies;
- regulatory actions and legal proceedings;
- Internet and online services usage levels and the rate of market acceptance of these services for transacting commerce;
- our ability to timely and effectively upgrade and develop our systems and infrastructure;
- changes to our business model resulting from regulatory requirements;
- our ability to control certain costs;
- our ability to attract, train and retain skilled management, as well as strategic, technical and creative professionals;
- technical, legal and regulatory difficulties with respect to our workshop distribution channel and Internet use generally;
- the availability of working capital and the amount and timing of costs relating to our expansion; and
- general economic conditions and economic conditions specific to Internet technology usage and eCommerce.

Adverse publicity could reduce customer interest in our workshops and harm our financial results.

We have received adverse publicity concerning our business, and may, in the future, receive additional adverse publicity concerning our business. Adverse publicity concerning our business, including our Internet Training Workshops, products, services, management or legal proceedings could reduce the response rates to our advertisements, reduce attendance and purchase rates at our workshops and third-party sales to our customers, and thereby adversely affect our revenues. We do not always know when adverse publicity may occur and cannot accurately predict its impact on our business and results of operations.

We may need to monetize a substantial portion of the customer receivables generated by our workshop business. If we are unable to do so we may be required to raise additional working capital.

We offer our customers a choice of payment options at our Internet Training Workshops, including an installment payment plan. These installment contracts are either sold to one of several third-party finance companies, with or without recourse, or are retained by us. Thereafter, we sometimes seek to sell the service contracts to the servicer or other third parties. We have in the past experienced difficulties selling these installment contracts at levels that provide adequate cash flow for our business, and a recurrence of these difficulties would likely require us to raise additional working capital to allow us to service these assets on our own. Since May 2004, we have not sold installment contracts with any recourse provisions.

Our ability to use our net operating loss carryforwards may be reduced in the event of an ownership change, and could adversely affect our financial results.

As of December 31, 2009, the Company had net operating loss (NOL) carryforwards of approximately $6,044,000. Section 382 imposes limitations on a corporation's ability to utilize its NOL carryforwards. In general terms, an ownership change results from transactions increasing the ownership of certain stockholders in the stock of a corporation by more than 50% over a three-year period. Since our formation, we have issued a significant number of shares, and purchasers of those shares have sold some of them, resulting in two ownership changes, as defined by Section 382. As a result of the most recent ownership change, utilization of our NOL is subject to an annual limitation determined by multiplying the value of our stock at the time of the ownership change by the applicable federal long-term tax-exempt rate. The annual limitation is approximately $461,000. Any limited amounts may be carried over into later years, and the amount of the limitation may, under certain circumstances, be increased by the "recognized built-in gains" that occur during the five-year period after the ownership change (the recognition period). Future changes in ownership of more

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than 50% may also limit the use of these remaining NOL carryforwards. Our earnings, if any, and cash resources would be materially and adversely affected if we cannot receive the full benefit of the remaining NOL carryforwards. An ownership change could occur as a result of circumstances that are not within our control.

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We depend on our senior management and other key personnel, and a loss of these individuals could adversely impact our ability to execute our business plan and grow our business.

We depend on the continued services of our key personnel, including but not limited to our Chief Executive Officer, Steven G Mihaylo, Chief Financial Officer, Jonathan Erickson, Chief Technical Officer, David Rosenvall, Chief Administrative Officer, David Krietzberg, Chief Legal Officer, Jeffery Korn, and Sr. Vice President, Clint Sanderson, as well as certain speakers at our Preview Training Sessions and Internet Training Workshops. Each of these individuals has acquired specialized knowledge and skills with respect to our operations. The loss of one or more of these key personnel could negatively impact our performance. In addition, we expect to hire additional personnel as we continue to execute our strategic plan, particularly if we are successful in expanding our operations. Competition for the limited number of qualified personnel in our industry is intense. At times, we have experienced difficulties in hiring personnel with the necessary training or experience.

We are dependent on credit card issuers who provide us with merchant accounts that are used to receive payments from our customers and if we cannot maintain these merchant accounts our business would be harmed.

Each financial institution that issues merchant accounts establishes limits on the amount of payments which may be received through the account. Our merchant account requires us to keep reserves on deposit with them to protect the financial institution against losses it may incur with respect to the account. We have, in the past, experienced difficulty in maintaining these merchant accounts in good standing due to changes in the reserve requirements imposed by the issuing banks and the transaction amount permitted and changes in the rate of charge-backs. If we were to experience a significant reduction in or loss of these merchant accounts our business would be severely and negatively impacted.

We might require additional capital to support business growth and fund other needs of the business, and such capital might not be available.

We intend to continue to make investments to support business growth and may require additional funds to respond to business opportunities and challenges, which include the opportunity to increase our revenue by increasing the number of customer installment contracts that we retain rather than sell, the need to develop new products or enhance existing products, the need to enhance our operating infrastructure and the opportunity to acquire complementary businesses and technologies. Accordingly, we may elect or need to engage in equity or debt financing to secure additional funds. However, equity and debt financing might not be available when needed or, if available, might not be available on terms satisfactory to us. If we are unable to obtain financing on terms satisfactory to us, our ability to continue to support our business growth and to respond to business challenges could be significantly limited.

Our operations could be hurt by a natural disaster, network security breach, or other catastrophic event.

Substantially our entire network infrastructure is located in Utah, an area susceptible to earthquakes. We do not have multiple site capacity if any catastrophic event occurs and, although we do have a redundant network system, this system does not guarantee continued reliability if a catastrophic event occurs. Despite implementation of network security measures, our servers may be vulnerable to computer viruses, break-ins and similar disruptions from unauthorized tampering with our computer systems. In addition, if there is a breach or alleged breach of security or privacy involving our services, or if any third party undertakes illegal or harmful actions using our communications or eCommerce services, our business and reputation could suffer substantial adverse publicity and impairment.

Our operations could be hurt by terrorist attacks, fear of disease and other activity and events that make air travel difficult or reduce the willingness of customers to attend our workshops.

We rely on frequent presentations of our Preview Training Sessions and Internet Training Workshops by a limited number of persons in various cities and these persons generally travel by air. In addition, these Preview Training Sessions and Internet Training Workshops involve large groups of persons in upscale and sometimes marquis hotel facilities. Our business would be materially and adversely affected by air travel becoming less available due to significant cutbacks in the frequency of service or significant increases in processing times at airports due to security or other factors or by air travel becoming unavailable due to governmental or other action as was the case during a brief period in September 2001. In addition, our business would be materially and adversely affected if our potential customers were to become fearful of attending large public meetings.

The market for our products and services is evolving and our position in that market is uncertain.

The markets for our products and services are continuing to evolve and are increasingly competitive. Demand and market acceptance for recently introduced and proposed new products and services and sales of such products and services internationally are subject to a high level of uncertainty and risk. Our business may suffer if the market develops in an unexpected manner, develops more slowly than in the past or becomes saturated with competitors, if any new products and services do not sustain market acceptance or if our efforts to expand internationally do not sustain market acceptance.

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We may not have the resources to compete with other companies within our industry.

Many of our direct competitors have announced their intention to offer a range of Internet products and services comparable to those offered by us. These competitors at any time could elect to focus additional resources in our target markets, which could materially and adversely affect us. Many of our current and potential competitors have stronger brand recognition, longer operating histories, larger customer bases, longer relationships with customers and significantly greater financial, technical, marketing and public relations resources than we do. We believe our competitors may be able to adapt more quickly to new technologies and customer needs, devote greater resources to the promotion or sale of their products and services, initiate or withstand substantial price competition, take advantage of acquisition or other opportunities more readily or develop and expand their product and service offerings more quickly.

Our expansion into international markets and development of country-specific eCommerce products and services may be difficult or unprofitable.

We have commenced operations in selected international markets. There are difficulties inherent in doing business in international markets such as:

- cultural, language and other differences between markets could result in lower than anticipated attendance at our Preview Training Sessions and Internet Training Workshops and/or lower than anticipated sales;
- banking and payment mechanisms that differ from those in the United States and make it more difficult for us to both accept payments by credit card and offer to customers a product that allows customers to accept credit card payments on their websites;
- unproven markets for our services and products;
- unexpected changes in regulatory requirements;
- terrorism, war and international conflict;
- potentially adverse tax environment;
- export restrictions and tariffs and other trade barriers;
- burdens of complying with applicable foreign laws and exposures to different legal standards, particularly with respect to sales and marketing practices, intellectual property, privacy and distribution of potentially offensive or unlawful content over the Internet;
- fluctuations in currency exchange rates; and
- restrictions on repatriating cash from foreign markets.

Evolving regulation of the Internet, including the use of e-mail as a marketing tool, may harm our business.

As eCommerce continues to evolve it is subject to increasing regulation by federal, state, and foreign agencies. Areas subject to regulation include, but may not be limited to, the use of e-mail, user privacy, pricing, content, quality of products and services, taxation, advertising, intellectual property rights, and information security. In particular, our initial contact with many of our customers is through e-mail. The use of e-mail for this purpose has become the subject of a number of recently adopted and proposed laws and regulations. In addition, laws and regulations applying to the solicitation, collection, or processing of personal or consumer information could negatively affect our activities. The perception of security and privacy concerns, whether or not valid, may inhibit market acceptance of our products. In addition, legislative or regulatory requirements may heighten these concerns if businesses must notify website users that the data captured after visiting websites may be used by marketing entities to unilaterally direct product promotion and advertising to that user. Moreover, the applicability to the Internet of existing laws governing issues such as intellectual property ownership and infringement, copyright, trademark, trade secret, obscenity and libel is uncertain and developing. Furthermore, any regulation imposing fees or assessing taxes for Internet use could result in a decline in the use of the Internet and the viability of eCommerce. Any new legislation or regulation, or the application or interpretation of existing laws or regulations, may decrease the growth in the use of the Internet, may impose additional burdens on eCommerce or may require us to alter how we conduct our business. This could decrease the demand for our products and services, increase our cost of doing business, increase the costs of products sold through the Internet or otherwise have a negative effect on our business, results of operations and financial position.

Internet security issues pose risks to the development of eCommerce and our business.

Security and privacy concerns may inhibit the growth of the Internet and other online services generally, especially as a means of conducting commercial transactions.

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We could experience security breaches in the transmission and analysis of confidential and proprietary information of the consumer, the merchant, or both, as well as our own confidential and proprietary information.

Anyone able to circumvent security measures could misappropriate proprietary information or cause interruptions in our operations, as well as the operations of the merchant. We may be required to expend significant capital and other resources to protect against security breaches or to minimize problems caused by security breaches. To the extent that we experience breaches in the security of proprietary information which we store and transmit, our reputation could be damaged and we could be exposed to a risk of loss or litigation.

We depend upon our proprietary intellectual property rights, none of which can be completely safeguarded against infringement.

We rely upon copyright law, trade secret protection and confidentiality or license agreements with our employees, customers, business partners and others to protect our proprietary rights, but we cannot guarantee that the steps we have taken to protect our proprietary rights will be adequate. We do not currently have any patents or registered trademarks, and effective trademark, copyright and trade secret protection may not be available in every country in which our products are distributed or made available through the Internet. In addition, there can be no assurance that a patent will issue or a trademark will be referred based on our pending applications.

We may incur substantial expenses in defending against third-party patent and trademark infringement claims regardless of their merit.

From time to time, parties may assert patent infringement claims against us in the form of letters, lawsuits and other forms of communication. Third parties may also assert claims against us alleging infringement of copyrights, trademark rights, trade secret rights or other proprietary rights or alleging unfair competition. If there is a determination that we have infringed third-party proprietary rights, we could incur substantial monetary liability and be prevented from using the rights in the future.

We are aware of lawsuits filed against certain of our competitors regarding the presentment of advertisements in response to search requests on “keywords” that may be trademarks of third parties. It is not clear what, if any, impact an adverse ruling in these recently filed lawsuits would have on us. Many parties are actively developing search, indexing, eCommerce and other web-related technologies. We believe that these parties will continue to take steps to protect these technologies, including seeking patent protection. As a result, we believe that disputes regarding the ownership of these technologies are likely to arise in the future.

There are low barriers to entry into the eCommerce services market and, as a result, we face significant competition in a rapidly evolving industry.

We have no patented technology, and only a limited amount of other proprietary technology, that would preclude or inhibit competitors from entering our business. In addition, the costs to develop and provide eCommerce services are relatively low. Therefore, we expect that we will continually face additional competition from new entrants into the market in the future. There is also the risk that our employees or independent contractors may leave and start competing businesses. The emergence of these enterprises could have a material adverse effect on us. Existing or future competitors may better address new developments or react more favorably to changes within our industry and may develop or offer eCommerce services providing significant technological, creative, performance, price or other advantages over the services that we offer.

Future sales of common stock by our existing stockholders and stock options granted by us could adversely affect our stock price.

The market price of our common stock could decline as a result of sales of a large number of shares of our common stock in the market or the perception that these sales could occur. These sales also might make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate. As of March 1, 2010, we had outstanding 11,466,320 shares of common stock.

Additional dilution will result if outstanding options are exercised. As of March 1, 2010, we had outstanding stock options to purchase 758,011 shares of common stock. In addition, in the event future financings should be in the form of, convertible into or exchangeable for our equity securities, investors may experience additional dilution.

Our business could be materially and adversely affected as a result of general economic and market conditions.

We are subject to the effects of general global economic and market conditions. Unfavorable changes in economic conditions, including inflation, recession, or other changes in economic conditions may cause businesses and entrepreneurs to curtail or eliminate spending on eCommerce services or to reduce demand for our products and services. An adverse change in economic conditions may adversely affect our business.

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Some provisions of our certificate of incorporation and bylaws may deter takeover attempts that may limit the opportunity of our stockholders to sell their shares at a favorable price.

Some of the provisions of our certificate of incorporation and bylaws could make it more difficult for a third party to acquire us, even if doing so might be beneficial to our stockholders by providing them with the opportunity to sell their shares at a premium to the then market price. Our bylaws contain provisions regulating the introduction of business at annual stockholders' meetings by anyone other than the board of directors. These provisions may have the effect of making it more difficult, delaying, discouraging, preventing or rendering more costly an acquisition or a change in control of our Company.

In addition, our corporate charter provides for a staggered board of directors divided into two classes. Provided that we have at least four directors, it will take at least two annual meetings to effectuate a change in control of the board of directors because a majority of the directors cannot be elected at a single meeting. This extends the time required to effect a change in control of the board of directors and may discourage hostile takeover bids. We currently have six directors.

Further, our certificate of incorporation authorizes the board of directors to issue up to 5,000,000 shares of preferred stock, which may be issued in one or more series, the terms of which may be determined at the time of issuance by the board of directors without further action by stockholders. Such terms may include voting rights, including the right to vote as a series on particular matters, preferences as to dividends and liquidation, conversion and redemption rights and sinking fund provisions. No shares of preferred stock are currently outstanding and we have no present plans for the issuance of any preferred stock. However, the issuance of any preferred stock could materially adversely affect the rights of holders of our common stock, and therefore could reduce its value. In addition, specific rights granted to future holders of preferred stock could be used to restrict our ability to merge with, or sell assets to, a third party. The ability of the board of directors to issue preferred stock could make it more difficult, delay, discourage, prevent or make it more costly to effect a change in control, thereby preserving the current stockholders' control.

If we do not successfully expand our sales teams, we may be unable to substantially increase our sales.

We sell our products primarily through our training workshops, and we must expand the number of our workshop sales teams to increase revenue substantially. If we are unable to hire or retain qualified speakers and sales team members or if new team members fail to develop the necessary skills to be productive, or if they reach productivity more slowly than anticipated, our ability to increase our revenue and grow our business could be compromised. Our workshop team members may require a long period of time to become productive. The time required to achieve efficiency, as well as the challenge of attracting, training, and retaining qualified candidates, may make it difficult to grow revenue. Further, we may not generate sufficient sales to offset the increased expense resulting from growing our workshop sales force, or we may be unable to manage a larger workshop sales force.

Our stock price could decline further because of the activities of short sellers.

Our stock has historically attracted significant interest from short sellers. The activities of short sellers could further reduce the price of our stock or inhibit increases in our stock price.

Our stock price and operations may be affected by potential stock manipulation.

We believe certain parties are acting in a manner to attempt to denigrate our business for personal profit. We believe certain parties may have engaged in actions intended to cause harm to the Company, and certain parties have made efforts to decrease the market price of our common stock. To the extent such parties engage in any such actions or take any other actions to interfere with our existing and/or prospective business relationships with regulators, vendors, media, partners, customers, lenders, or others, our business, prospects, financial condition and results of operations may suffer, and the price of our common stock may trade at prices below those that might prevail in the absence of any such efforts.

Increased competition, including the entry of new competitors, the introduction of new products by new and existing competitors, or price competition, could have a materially adverse effect on operating results and financial condition.

A number of very large, well capitalized, high profile companies serve the eCommerce and technology markets. If any of these companies entered our markets in a focused and concentrated fashion, we could lose customers, particularly more sophisticated and financially stable customers, and our revenue and profitability would suffer. These potential competitors could likely offer a broad array of products and services that would compete favorably with our product offerings. They could also likely offer these products at prices that would be difficult for us to match.

Our ability to continue to pay cash dividends may be affected by our operating results and other conditions.

In December 2008, the Board of Directors decreased the quarterly cash dividend to $0.02 from $0.11 per common share. Although we expect to continue to pay cash dividends to our stockholders, the ability to do so will depend upon our results of operations, financial conditions, cash requirements, as well as other factors. Also, there can be no assurance that we will continue to pay cash dividends even if the necessary financial conditions are met and if sufficient cash is available for distribution.

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Our publicly filed SEC reports are reviewed by the SEC from time to time and any significant changes required as a result of any such review may result in material liability to us and have a material adverse impact on the trading price of our common stock.

The reports of publicly traded companies are subject to review by the SEC from time to time for the purpose of assisting companies in complying with applicable disclosure requirements and to enhance the overall effectiveness of companies' public filings. Comprehensive reviews by the SEC of such reports are now required at least every three years under the Sarbanes-Oxley Act of 2002. SEC reviews often occur at the time companies file registration statements, but reviews may be initiated at any time by the SEC. While we believe that our previously filed SEC reports comply, and we intend that all future reports will comply in all material respects with the published rules and regulations of the SEC, we could be required to modify or reformulate information contained in prior filings as a result of an SEC review. Any modification or reformulation of information contained in such reports could be significant and result in a material liability to us and have a material adverse impact on the trading price of our common stock.

Our business and results of operations are affected by general economic conditions and are dependent upon the price of postage, air transportation and food service. Continuing high postage, airfare, and food costs or further cost increases could have a material adverse effect on our operating results.

Our operating results are affected by general economic conditions, including inflation, recession and currency volatility. Currency fluctuations may make our software product less attractive to international purchasers which could negatively impact our revenues. The economic environment may cause reduced demand for our software and widespread national and international concern over instability in the economy may result in customers declining to pay for our product in cash and using financing options which could negatively impact our results of operations and financial position.

Our ability to pass along the increased costs of postage, airfare and food service to our customers is limited by the competitive nature of the software and Internet industry. Often we have not been able to increase our fees to fully offset the effect of increased costs in the past and we may not be able to do so in the future. Additional increases in postage, air transportation and food service costs or disruptions in air transportation or food service supplies could have additional negative effects on us.

We are exposed to fluctuations in currency exchange rates.

Because we conduct business outside the United States but report our results in U.S. dollars, we face exposure to adverse movements in currency exchange rates. As of December 31, 2009, we had approximately $1,736,000 of net trade receivables denominated in foreign currencies and $1,399,000 in cash and cash equivalents denominated in foreign currencies. If the U.S. dollar weakens against foreign currencies, the translation of these foreign currency denominated transactions will result in increased net revenues as cash is collected from net trade receivables and cash sales. Similarly, our net revenues as cash is collected from trade receivables and cash sales will be negatively impacted if the U.S. dollar strengthens against foreign currencies.

Examinations by relevant tax authorities may result in material changes in related tax reserves for tax positions taken in previously filed tax returns or may impact the valuation of certain deferred income tax assets, such as net operating loss carryforwards.

Based on the outcome of examinations by relevant tax authorities, or as a result of the expiration of statutes of limitations for specific jurisdictions, it is reasonably possible that the related tax reserves for tax positions taken regarding previously filed tax returns will materially change from those recorded in our financial statements. In addition, the outcome of examinations may impact the valuation of certain deferred income tax assets (such as net operating loss carryforwards) in future periods. It is not possible to estimate the impact of the amount of such changes, if any, to previously recorded uncertain tax positions.

We expect to rely on a multi disciplinary strategy in the sale of our Crexendo products. We intend to rely on distribution partners which include value added resellers (VARs), and Affiliates (Companies providing lead generation) to assist in selling our products. We further intend to have a direct sales force, as well as small fulfillment offices with sales staff located in larger metropolitan areas. If we do not establish, develop and manage these relationships effectively, our ability to generate revenue and control expenses will be adversely affected.

Our success in developing our newly formed Crexendo Business Solutions division is dependent in part upon our ability to establish and maintain successful relationships with VARs and Affiliates. Although we have entered into some contracts with VARs and Affiliates and expect to continue to add organizations to drive business leads to our network, our contractual arrangements are not exclusive and do not obligate our VARs or Affiliates to order, purchase or distribute any fixed or minimum quantities of our services or products. Generally, products or services are ordered by the VARs or Affiliates after they have sold that product or service to their customer. Accordingly, our ability to sell our products and services and generate significant revenue through third party leads is highly dependent on the continued desire and willingness of our partner to either distribute our services and products or introduce our sales force to their clients.

Our ability to increase our revenues in the future may depend in large part on our success in developing and maintaining a direct sales force to (i) sell to existing customers, (ii) sell to prospects developed by and through our VAR's and Affiliates, (iii) make sales to leads generated through other sources and (iv) through cold sales. Any failure to develop or maintain the appropriate sales level could limit our ability to make sales and could disrupt our relationships with the VAR's and Affiliates and could harm our business, financial condition and results of operations.

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Our ability to increase our revenues in the future for Crexendo Search Engine Optimization (SEO) sales may depend on the strategy to develop small fulfillment and sales offices in major metropolitan areas. Our strategy includes the ability to either cost effectively develop offices and hire qualified employees or to acquire SEO offices on an accretive cost basis paying for such office primarily with an "earn out". The failure to properly develop this strategy could impede our penetration of Crexendo in larger metropolitan areas and could harm our business, financial condition and results of operations.

We may undertake acquisitions to expand our business, which may pose risks to our business and dilute the ownership of our existing stockholders.

As part of a potential growth strategy we may attempt to acquire certain businesses. Whether we realize benefits from any transaction will depend in part upon the integration of the acquired business, the performance of the acquired products, services, capacities of the technologies acquired as well as the personnel hired in connection therewith. Accordingly, our results of operations could be adversely affected from transaction-related charges, amortization of intangible assets and charges for impairment of long-term assets. While we believe that we have established appropriate and adequate procedures and processes to mitigate these risks, there can be no assurance that any potential transaction will be successful.

In addition, the financing of any acquisition may require us to raise additional funds through public or private sources. Additional funds may not be available on terms that are favorable to us and, in the case of equity financings, may result in dilution to our stockholders. Future acquisitions by us could also result in large and immediate write-offs or assumptions of debt and contingent liabilities, any of which may have a material adverse effect on our consolidated financial position, results of operations, and cash flows.

Our dependence on outside contractors and third-party agents for fulfillment of certain items and critical manufacturing services could result in product or delivery delays and/or damage our customer relations.

We outsource the manufacturing of certain products we sell and products we provide. We submit purchase orders to agents or the companies that manufacture the products. We describe, among other things, the type and quantities of products or components to be supplied or manufactured and the delivery date and other terms applicable to the products or components. Our suppliers or manufacturers potentially may not accept any purchase order that we submit. Our reliance on outside parties involves a number of potential risks, including: (1) the absence of adequate capacity, (2) the unavailability of, or interruptions in access to, production or manufacturing processes, (3) reduced control over delivery schedules, (4) errors in the product, and (5) claims of third party intellectual infringement or defective merchandise. If delays, problems or defects were to occur, it could adversely affect our business, cause claims for damages to be filed against us, and negatively impact our consolidated operations and cash flows.

If the market for our new products does not develop as we anticipate, our revenue may decline or fail to grow, which would adversely affect our operating results.

We have started to market our Crexendo Business Solutions products and services, as well as develop additional products including, but not limited to, hosted telecom. The market for these products is still evolving, and it is uncertain whether these products and services will achieve and sustain high levels of demand and market acceptance.

If potential customers do not perceive the benefits of our product lines, sales may not develop or may develop more slowly than we expect, either of which would adversely affect our operations. Because the market for new product development is difficult to predict, we may make errors in predicting and reacting to relevant business trends, which may have a material adverse effect on our consolidated financial position, results of operations, and cash flows.

Our Chief Executive Officer owns a significant amount of our common stock and could exercise substantial corporate control.

Steven G Mihaylo, our Chief Executive Officer (CEO), owns approximately 28% of our outstanding shares of common stock based on the number of shares outstanding as of March 1, 2010. As a result, the CEO may have the ability to determine the outcome of matters submitted to our stockholders for approval, including the election of directors and any merger, amalgamation, consolidation or sale of all or substantially all of our assets. The CEO may have the ability to control the management and affairs of our Company. The CEO also may have interests different than, or adverse to our other stockholders. Accordingly, even though certain transactions may be in the best interests of other stockholders, this concentration of ownership may harm the market price of our common stock by, among other things, delaying, deferring or preventing a change in control of our Company, impeding a merger, amalgamation, consolidation, takeover or other business combination involving our Company, or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of our Company.

In addition, sales or other dispositions of our shares by our CEO may depress our stock price. Sales of a significant number of shares of our common stock in the public market could harm the market price of our common stock. As additional shares of our common stock become available for resale in the public market, the supply of our common stock will increase, which could result in a decrease in the market price of our common stock.

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We have incurred operating losses.

We sustained operating losses in prior years. Our ability to sustain profitability and positive cash flows from operating activities will depend on factors including, but not limited to, our ability to (i) reduce costs, (ii) improve sales and marketing efficiencies, (iii) respond to the current economic slowdown, (iv) reach more highly qualified prospects, and (v) achieve operational improvements.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We lease and sub-lease office and training facilities totaling approximately 80,000 square feet from unaffiliated third parties. Our corporate office and Crexendo Network Services division are located at 10201 South 51st Street, Phoenix, Arizona 85044 and our StoresOnline, Inc. and Crexendo Business Solutions office is located at 1303 North Research Way, Orem, Utah 84097. The lease for our StoresOnline, Inc. and Crexendo Business Solutions office terminates on September 30, 2013 and the lease for our training facility located in Salt Lake City, Utah terminates on July 31, 2013. Our lease for the corporate and Crexendo Network Services office terminates on April 30, 2010. The annual rent expense for all of our office space and training facilities will be approximately $1,412,000 for the fiscal year ending December 31, 2010. We maintain tenant fire and casualty insurance on our assets located in these buildings in an amount that we deem adequate. We also rent, on a daily basis, hotel conference rooms and facilities from time to time in various cities throughout the United States, Canada and other countries at which we host our Preview Training Sessions and Internet Training Workshops. We are under no long-term obligations related to the hotel facilities.

ITEM 3. LEGAL PROCEEDINGS

On October 9, 2007, the Federal Court of Australia New South Wales District Registry (the Court) set a hearing on a request for an injunction by the Australian Competition and Consumer Commission (ACCC). The ACCC sought a temporary injunction barring the Company from conducting business in Australia until such time as a permanent injunction is entered which would require certain actions on the part of the Company. The ACCC has alleged that the Company failed to comply with the terms of a previous agreement by: (i) failing to have notified the ACCC of seminars which were being held in Australia; (ii) failing to provide copies of tapes of seminars to the ACCC which were requested; (iii) failing to notify purchasers of the three-day cooling-off period (right to rescind); and (iv) failing to provide certain disclosures relating to the software, which were enumerated in the previous agreement. The ACCC also alleged that the prior sales offer used by the Company in its Workshops, whereby the Company compared the price of the software package sold at the Workshop to a list price available to attendees for 90 days (the "90 day offer") was deceptive. The Company admitted that it did not notify the ACCC, in a timely manner, of seminars which were previously held due to the failure of a former employee of the Company. Additionally, the Company also admitted that it was not able to provide one of several tapes requested by the ACCC. The Company disputed that it had failed to notify customers of the cooling-off period or to provide the specified disclosures. The Company also disputed that the 90 day offer was deceptive. The Court found that the Company did breach some of the terms of the previous agreement regarding the notification and the tapes. The Court also was not certain if all disclosures regarding the software were made in the terms required by the previous agreement. The Court declined to enter an injunction which barred the Company from conducting business in Australia. Consequently, the Company was not required to cancel any scheduled workshops, and has continued to transact sales in Australia. The Court did require certain disclosures on the part of the Company and required compliance with the previous agreement. The Court indicated failure to follow the Court's requirements could be deemed contempt. On December 1, 2009, the parties agreed to a settlement which made permanent the temporary Orders. The Company agreed to reimburse purchasers for any claims they may make with the ACCC and pay costs and fees to the ACCC up to December 1, 2009. The Company has agreed to a total payment of $823,000 which has been paid to accomplish the refunds and reimbursement of costs and fees. The Court has taken the matter of the 90 day offer under advisement. Regardless of the judgment by the Court, the Company is not liable for any further customer refunds in this action. There may be an award of fees for actions undertaken by the ACCC after December 1, 2009, but that amount (if any) should be minimal as the Court indicated it would make its ruling based on the written record.

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On August 4, 2008, the Company and the State of North Carolina agreed to a Consent Judgment ("North Carolina Judgment"). The North Carolina Judgment was a consequence of a preliminary injunction order (the "Order") entered in the State of North Carolina. The Order required that the Company not market or sell in the State of North Carolina. In the North Carolina Judgment, the Company agreed to pay fees totaling $90,000. The Company also agreed that it would refund any customers in the State of North Carolina who filed claims within 60 days of entry of the North Carolina Judgment. The claim had to include a declaration issued under penalty of perjury that the customer had been unable to activate a website and get it fully operational. The State of North Carolina also notified certain customers of the right to the refund. As a result of the North Carolina Judgment, the injunction issued under the Order was lifted and the Company was permitted to immediately schedule seminars in the State of North Carolina. There was no finding that the Company is a seller of a "Business Opportunity." The Company also agreed to certain actions intended to clarify the business practices of the Company. The North Carolina Judgment does not otherwise limit the Company's ability to conduct business in the State of North Carolina. The Company received a substantial number of claims which included an untrue (according to the records of the Company) declaration under penalty of perjury that the customer attempted to activate a website and also attempted to contact customer service. The Company notified the State of North Carolina that it did not believe it was obligated to pay claims made under penalty of perjury which were not factually accurate. On August 10, 2009, the North Carolina Court entered an Order requiring the Company to pay all claims filed, the North Carolina Court ruling that the filing of the declaration was determinative not the truth of the statement made under penalty of perjury. The Company has filed a notice of appeal of the August 10, 2009 order. The Company also may file actions against those who filed false declarations. The Company has reserved the amounts paid by customers who filed the false claims. On January 29, 2010, the Company and the North Carolina Attorney General agreed to resolve the issue of the disputed claims. The Company has agreed to allow reimbursements of the disputed claims of approximately $900,000. The Attorney General is waiving any right to fees and costs as well as interest they claim owed to the people who filed claims. The parties are awaiting the Court dismissing the action based on the settlement.

On October 24, 2005, the Company announced it had been notified by the Securities and Exchange Commission (SEC) that it had issued a formal order of investigation related to the Company. Prior to the order, the Company had announced a change of the independent registered public accounting firm for the Company. The Company also issued a Form 8-K with notification of Non-Reliance on Previously Issued Financial Statements or a Related Audit Report or Completed Interim Review. The Company has fully cooperated with the SEC in this matter and has had no communication with the SEC related to this matter since 2006.

On January 13, 2010, the Court of Shelby County, Tennessee For The 30th Judicial District at Memphis entered a final Order approving settlement in a consumer class action lawsuit. The settlement stems from a 2008 arbitration action known as Lyle Hill, on behalf of himself and all others similarly situated, v. iMergent, et.al. which claimed the Company through its StoresOnline division engaged in deceptive sales practices and sold defective software. The approved settlement is on a "claims made" basis and requires supporting documentation with the claim. The settlement resolves all claims of purchasers who do not choose to opt out of the class action settlement, which includes purchasers prior to January 1, 2009.

Under the terms of the settlement purchasers who can establish they activated their software, spent a minimum of 23 hours working with the software including working with customer service but could not develop a web site may be entitled to a refund of up to $1,254. All other customers will be entitled to compensation which includes either the development of a website(s) or discounts on the development of websites. The settlement has been funded in part from the Company E&O policy and in part from reserves made in previous quarters.

In addition to the foregoing proceedings, from time to time the Company receives inquiries from federal, state, city and local government officials in the various jurisdictions in which the Company operates. These inquiries and investigations generally concern compliance with various city, county, state and/or federal regulations involving sales, representations made, customer service, refund policies, and marketing practices. The Company responds to these inquiries and has generally been successful in addressing the concerns of these persons and entities, without a formal complaint or charge being made, although there is often no formal closing of the inquiry or investigation. There can be no assurance that the ultimate resolution of these or other inquiries and investigations will not have a material adverse effect on the Company's business or operations, or that a formal complaint will not be initiated. The Company also receives complaints and inquiries in the ordinary course of its business from both customers and governmental and non-governmental bodies on behalf of customers, and in some cases these customer complaints have risen to the level of litigation. There can be no assurance that the ultimate resolution of these matters will not have a material adverse affect on the Company's business or results of operations.

The Company has recorded a liability of approximately $1,079,000, $2,182,000 and $1,460,000 as of December 31, 2009, June 30, 2009 and June 30, 2008, respectively, for estimated losses resulting from various legal proceedings against the Company. Attorney fees associated with the various legal proceedings are expensed as incurred. Other key estimates are discussed elsewhere in the notes to the consolidated financial statements.

The Company also is subject to various claims and legal proceedings covering matters that arise in the ordinary course of business. The Company believes that the resolution of these other cases will not have a material adverse effect on its business, financial position, or results of operations.

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ITEM 4. NO LONGER REQUIRED

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

MARKET INFORMATION

Our common stock began trading on the AMEX Equities Stock Exchange on August 16, 2004 under the symbol "IIG." The following table sets forth the range of high and low bid prices as reported on the American Stock Exchange for the periods indicated.

	High	Low
Six Months Ended December 31, 2009		
October to December 2009	$ 7.85	$ 5.79
July to September 2009	8.30	6.10
Twelve Months Ended June 30, 2009		
April to June 2009	8.50	4.00
January to March 2009	5.90	3.10
October to December 2008	11.10	3.46
July to September 2008	12.15	9.15
Twelve Months Ended June 30, 2008		
April to June 2008	13.02	10.60
January to March 2008	13.67	8.48
October to December 2007	24.99	9.59
July to September 2007	24.72	16.90

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SECURITY HOLDERS

There were 334 holders of record of our shares of common stock as of March 1, 2010. The number of holders does not include individual participants in security positions listings.

DIVIDENDS

The following table sets forth information regarding cash dividends declared by the Company's board of directors for the six months ended December 31, 2009 and the twelve months ended June 30, 2009 and 2008:

Declaration Date	Per Share Dividend	Record Date	Total Amount	Payment Date
Six Months Ended December 31, 2009				
December 22, 2009	$ 0.02	December 29, 2009	$ 229,000	Janaury 5, 2010
September 14, 2009	$ 0.02	September 22, 2009	$ 229,000	September 29, 2009
Twelve Months Ended June 30, 2009				
June 30, 2009	$ 0.02	July 15, 2009	$ 229,000	July 31, 2009
March 25, 2009	$ 0.02	April 6, 2009	$ 228,000	April 20, 2009
December 19, 2008	$ 0.02	January 4, 2009	$ 227,000	January 20, 2009
September 3, 2008	$ 0.11	September 20, 2008	$ 1,259,000	September 26, 2008
Twelve Months Ended June 30, 2008				
June 10, 2008	$ 0.11	June 20, 2008	$ 1,242,000	June 30, 2008
March 10, 2008	$ 0.11	March 20, 2008	$ 1,261,000	March 28, 2008
December 10, 2007	$ 0.11	December 20, 2007	$ 1,294,000	December 29, 2007
September 4, 2007	$ 0.11	September 20, 2007	$ 1,316,000	September 28, 2007

There are no contractual restrictions on dividends declared for the six months ended December 31, 2009 and 2008 and twelve months ended June 30, 2009 and 2008.

RECENT SALES OF UNREGISTERED SECURITIES

None

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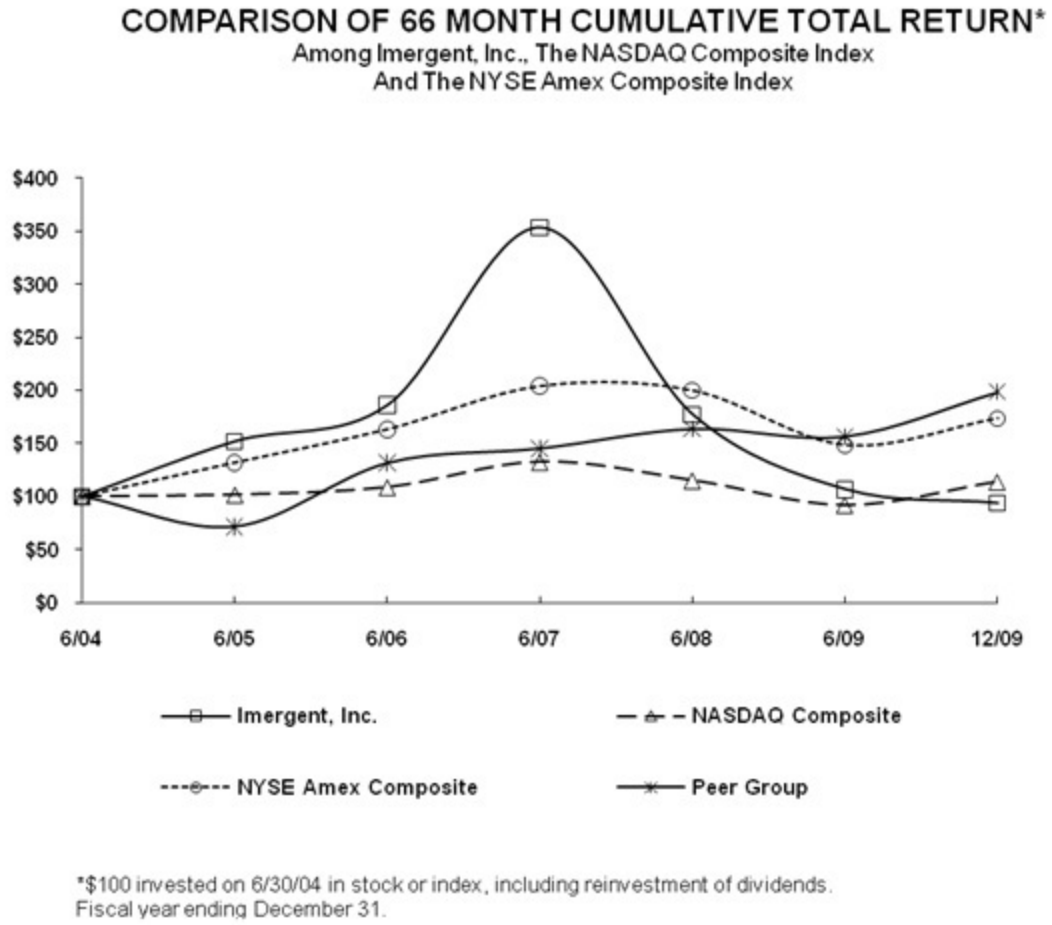
PERFORMANCE GRAPH

The following graph compares the cumulative 5-year total return provided stockholders on iMergent, Inc.'s common stock relative to the cumulative total returns of the NASDAQ Composite index, the AMEX Composite index and a customized peer group of three companies that includes: Art Technology Group Inc, Broadvision Inc and Cybersource Corp. An investment of $100 (with reinvestment of all dividends) is assumed to have been made in our common stock, in each index and in the peer group on June 30, 2004 and its relative performance is tracked through December 31, 2009.



	6/04	6/05	6/06	6/07	6/08	6/09	12/09
iMergent, Inc.	100.00	151.86	186.25	353.55	177.09	106.68	93.64
NASDAQ Composite	100.00	101.58	108.62	132.65	115.08	91.71	113.82
AMEX Composite	100.00	131.81	163.30	203.95	199.70	148.31	173.62
Peer Group	100.00	71.30	131.69	145.32	163.85	156.69	198.59

The stock price performance included in this graph is not necessarily indicative of future stock price performance. The Company will neither make nor endorse any predictions as to future stock performance.

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ITEM 6. SELECTED FINANCIAL DATA

In November 2009, we changed our fiscal year end from June 30 to December 31. The following selected financial data should be read in conjunction with the consolidated financial statements and the notes thereto, as well as the discussion under Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, included in this Form 10-KT.

The consolidated statement of operations data for the six months ended December 31, 2009 and the twelve months ended June 30, 2009, 2008, and 2007 and the consolidated balance sheet data as of December 31, 2009, June 30, 2009, and June 30, 2008 are derived from our audited consolidated financial statements included elsewhere in the Form 10-KT. The consolidated statement of operations data for the six months ended December 31, 2008 and the consolidated balance sheet data as of December 31, 2008 are derived from our unaudited consolidated financial statements not included in the Form 10-KT. The consolidated statement of operations data for the twelve months ended June 30, 2006 and 2005 and the consolidated balance sheet data as of June 30, 2007, 2006 and 2005 are derived from audited consolidated financial statements not included in this Form 10-KT. Historical results are not necessarily indicative of the results to be expected in the future.

	Six Months Ended December 31,		Twelve Months ended June 30,				
	2009	2008	2009	2008	2007	2006	2005
	(in thousands, except per share amounts)		(in thousands, except per share amounts)				
Consolidated Statement of Operations Data:(1)							
Revenue	$ 35,716	$ 54,120	$ 94,411	$ 128,048	$ 151,617	$ 185,089	$ 39,075
Net income (loss)	$ 1,331	$ (17,628)	$ (7,542)	$ 3,142	$ 24,001	$ 110,622	$ (29,517)
Net income (loss) per common share:							
Basic	$ 0.12	$ (1.55)	$ (0.66)	$ 0.27	$ 1.94	$ 9.09	$ (2.49)
Diluted	$ 0.12	$ (1.55)	$ (0.66)	$ 0.26	$ 1.87	$ 8.76	$ (2.49)
Dividends per common share	$ 0.04	$ 0.13	$ 0.17	$ 0.44	$ 0.20	$ -	$ -
Weighted average common shares outstanding:							
Basic	11,402	11,351	11,371	11,676	12,344	12,164	11,835
Diluted	11,485	11,351	11,371	11,858	12,830	12,625	11,835

	As of December 31,		As of June 30,				
	2009	2008	2009	2008	2007	2006	2005
	(in thousands)		(in thousands)				
Consolidated Balance Sheet Data:(1)							
Cash and cash equivalents	$ 21,549	$ 18,762	$ 20,474	$ 26,184	$ 36,859	$ 30,023	$ 10,691
Working capital (deficit)	17,604	14,140	16,337	20,558	35,755	19,492	(6,212)
Total assets	56,442	75,772	67,354	86,614	96,710	66,012	38,927
Deferred revenue	22,274	40,962	33,863	43,191	42,455	28,757	114,050
Debt and collateralized borrowings	—	148	115	179	—	—	763
Capital lease obligations	—	—	—	—	—	91	170
Stockholders' equity (deficit)	25,982	13,666	24,400	32,475	44,408	29,979	(83,603)

(1) In December 2005, the Company changed its business model to: (1) limit certain "free" services to a period of one year for all customers who purchased the StoresOnline software prior to December 20, 2005, and (2) begin charging customers for those services as part of customer support. This change in business model resulted in the recognition of previously deferred product and other revenue of $108 million in December 2005, which would have been recognized in future periods had the change in business model not occurred. Subsequent to the change in business model in December 2005, cash sales of the StoresOnline Software ("SOS") licenses and other products are recognized as revenue, net of expected customer refunds, upon expiration of the customers' rescission period, which occurs three days after the licenses and products are delivered. Fees for SOS licenses sold under extended payment term arrangements ("EPTAs") are recognized as revenue as cash payments are received from the customer and not at the time of sale.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

"Management's Discussion and Analysis of Financial Condition and Results of Operations" and other portions of this report contain forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated by this forward-looking information. Factors that may cause such differences include, but are not limited to, those discussed under the heading, "Risk Factors," and elsewhere in this report.

OVERVIEW

The following Management's Discussion and Analysis ("MD&A") is intended to help the reader understand the results of operations and financial condition of iMergent, Inc. MD&A is provided as a supplement to, and should be read in conjunction with, our financial statements and the accompanying notes to the financial statements ("Notes").

Sources of Revenue

We generate revenue by developing, licensing, training and supporting eServices technology, and a variety of web-based technologies and resources including search engine optimization and search engine management services to entrepreneurs and small, medium, and large enterprises. Our eServices offerings leverage industry and client practices and are designed for Internet merchants. Our services are also designed to help decrease the risks associated with eServices implementation by providing low-cost, scalable solutions with ongoing industry updates and support. Our strategic vision is to remain an eServices provider focused on our target markets. We sell and market our products and services in the United States and international (English-speaking) markets, including Canada, the UK, Australia, New Zealand, and Singapore.

Revenue from our StoresOnline division is generated primarily through cash collected on the sale of StoresOnline software licenses at workshop events held throughout the year, as well as principal collected on the sale of StoresOnline software licenses sold through extended payment term arrangements (EPTAs). In addition to sales of StoresOnline software licenses, we also generate revenue from monthly web hosting fees and commissions paid by contracted third-party companies who telemarket complementary products and services to our customer base. As we are reliant upon sales generated through our workshop channel, for both current revenue in the form of cash collected on the initial sale of the StoresOnline software license and future revenue in the form of principal cash collected on EPTA contracts, our revenue will fluctuate based upon the quantity of sales teams we have deployed at any point in time, quantity of events held, average cash percentage of buyers at events, average number of buying units at events, average purchase price, and average sales rate at each event. In addition to the metrics associated with our workshop events, our revenue will fluctuate with the dollar volume of collections on our receivables, because we recognize revenue upon receipt of cash from our customers and not at the time of sale.

We have historically sold our software licenses through a seminar model which has subjected us to claims by governmental agencies that we are required to register as a seller of business opportunities, as well as raised questions about the manner in which we sell the product. While we have successfully defended the claim of selling a business opportunity, except in the State of California which has a statute with different requirements than other jurisdictions, we have made changes to the manner in which we sell the product at our seminars in an effort to be more transparent. We do not believe our model constitutes a business opportunity, but we have the ability to adjust our model if there are changes in the law relative to selling business opportunities. Our ability to effectively align our business model with the needs of our customers will impact our future growth opportunities.

Economic Factors

The unfavorable global economic environment adversely affected our business in our six month transition period ended December 31, 2009 ("Transition Period") as consumers and businesses cut back on spending. Since we offer a product focused on providing a more efficient and effective use of marketing and infrastructure spend, we believe that we are well-positioned to weather the economic downturn. As the global economy improves, this will create new opportunities to increase revenue. To further help weather the economic downturn during the transition period we made several adjustments to our cost structure and streamlined internal business processes.

Opportunities

Technological and product innovation is the foundation of our long-term growth, and we intend to maintain our commitment to investment in product development, engineering excellence, and delivering high-quality products and services to customers. Recognizing that one of our primary business objectives is to help entrepreneurs, small, medium, and large enterprises increase the effectiveness and visibility of their online presence, we have created our Crexendo Business Solutions division. The Crexendo division offers a wide range of services, including content management software as a service, search engine optimization services, search engine management services, website and logo design services and conversion rate optimization services.

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Our long-term focus on investing in products and developing customers is enabling us to build a foundation for growth by delivering innovative products, creating opportunities for potential channel partners, and improving customer satisfaction. Our focus in 2010 is to continue to execute in key areas through ongoing innovation on our integrated content management software solution, responding effectively to customer and partner needs, and focusing internally on product excellence, business efficacy, and accountability across the Company.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our consolidated financial statements have been prepared in accordance with US GAAP and form the basis for the following discussion and analysis on critical accounting policies and estimates. The preparation of these financial statements requires estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On a regular basis we evaluate our estimates and assumptions. Estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Management has discussed the development, selection and disclosure of these estimates with the Board of Directors and its Audit Committee.

A summary of our significant accounting policies is provided in Note 1 to our consolidated financial statements. We believe the critical accounting policies and estimates described below reflect our more significant estimates and assumptions used in the preparation of our consolidated financial statements. The impact and any associated risks on our business that are related to these policies are also discussed throughout this "Management's Discussion and Analysis of Financial Condition and Results of Operations" where such policies affect reported and expected financial results.

Revenue Recognition

Product and Other Revenue

Cash sales of SOS licenses are recognized as revenue when the cash is received, net of expected customer refunds, upon expiration of the customers' rescission period, which typically occurs three days after the licenses and products are delivered or when the Internet training workshop takes place, whichever occurs later.

SOS licenses sold under extended payment term arrangements (EPTAs) are recognized as revenue upon receipt of cash from customers and not at the time of sale. Although the Company is able to reasonably estimate the collectability of its receivables based upon its long history of offering EPTAs, accounting standards require revenue to be deferred until customer payments are received if collection of the original principal balance is not probable. Additionally, if the Company subsequently sells the receivables on a non-recourse basis, accounting standards require that the related revenue be deferred until the customer makes cash payments to the third-party purchaser of the receivables. There are no receivable balances outstanding that are subject to recourse by the Company

Fees collected for services, including customer support, follow-up training and programming, are recognized as revenue, net of expected customer refunds, over the period during which the services are expected to be performed, based upon the vendor specific objective evidence (VSOE), if applicable, of fair value for such services. Fees related to EPTA contracts are deferred and recognized as revenue during the service period or when cash is collected, whichever occurs later.

In April 2007, the Company began marketing and selling Avail 24/7, an all-in-one communications service which assists small businesses and entrepreneurs to manage phone menus, voicemail, email, and fax in one online application. Customers purchasing the Avail product are charged a non-refundable activation fee along with a monthly service fee. The non-refundable activation fee is deferred and recognized ratably over the estimated customer life, which is currently estimated to be four and one half years. The monthly service fee is recognized ratably over the service period.

The Company has changed the contract that is associated with the sale of Avail 24/7. Effective March 31, 2010 any customers that have not activated their Avail 24/7 subscriptions will be assessed an activation fee of $34.95. For customers that activate before March 31, 2010, this activation fee will be waived. All customers have been notified of the change in contract. If no additional customers activated before March 31, 2010, the Company would recognize up to $1,000,000 in additional revenue in the first fiscal quarter of 2010. Concurrent with this change, all new customers will have 60 days to activate their Avail 24/7 subscription without paying the $34.95 fee. Any customer activating after the 60 day-period will be required to pay the $34.95 activation fee.

Fees collected for services related to our Crexendo Business Solutions which provide Search Engine Optimization services, Search Engine Management services, and link building are recognized as revenue, net of expected customer refunds, when the project is completed.

Fees collected related to sales tax and other government assessed taxes are recognized on a net basis.

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Commission and Other Revenue

The Company has contracts with third-party entities with respect to telemarketing product sales to the Company's customers following the sale of the initial software licenses. These products and services are intended to assist the customers with their Internet businesses. These products are sold and delivered completely by third parties. The Company receives commissions from these third parties, and recognizes the commissions as revenue as the commissions are received, net of expected customer refunds.

Fees collected for website hosting, are recognized as revenue, net of expected customer refunds, over the period during which the services are expected to be performed.

Allowance for Doubtful Accounts

Since 1999, the Company has offered to its customers the option to finance, through EPTAs, purchases made at the Internet training workshops. The Company records the receivable and deferred revenue, along with an allowance for doubtful accounts, at the time the EPTA contract is perfected. The allowance represents estimated losses resulting from the customers' failure to make required payments. The allowances for doubtful accounts for EPTAs retained by the Company are netted against the current and long-term trade receivable balances in the consolidated balance sheets. All allowance estimates are based on historical collection experience, specific identification of probable bad debts based on collection efforts, aging of trade receivables, customer payment history, and other known factors, including current economic conditions. If allowances prove inadequate, additional allowances would be required. Because revenue generated from customers financing through EPTAs is deferred and not recognized prior to the collection of cash, adjustments to allowances for doubtful accounts are made through deferred revenue and do not impact operating income or loss. Trade receivables are written-off against the allowance when the related customers are no longer making required payments and the trade receivables are determined to be uncollectible, typically 90 days past their original due date.

Income Taxes

In preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating current income tax liabilities together with assessing temporary differences resulting from differing treatment of items for tax and financial reporting purposes. These temporary differences result in deferred income tax assets and liabilities. Our deferred income tax assets consist primarily of the future benefit of net operating loss carryforwards, certain deferred revenue, accrued expenses and tax credit carryforwards. We may recognize the tax benefits from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position.

RESULTS OF OPERATIONS

Six Months ended December 31, 2009 compared to Six Months ended December 31, 2008

Revenues

Revenues for the six months ended December 2009 decreased 34% to $35,716,000 from $54,120,000 for the six months ended December 2008. Product and other revenue decreased 34% to $25,886,000 for the six months ended December 31, 2009 from $39,481,000 for the six months ended December 31, 2008.

Fees for SOS licenses sold under EPTAs are recognized as revenue as cash payments are received from the customer and not at the time of sale. Revenues related to cash collected under EPTA agreements included in product and other revenue decreased to $10,654,000 for the six months ended December 31, 2009 compared to $15,819,000 for the six months ended December 31, 2008. The decrease in cash collected under EPTA agreements is primarily due to an increase in uncollectable accounts which we believe is a result of worsening economic conditions. During the six months ended December 31, 2009 we increased our reserve on uncollectable accounts by an additional $8,738,000 as a result of increasing deterioration in our accounts receivable collections. The remaining decrease in product and other revenues from the six months ended December 31, 2009 compared to the six months ended December 31, 2008 is primarily related to a decrease in cash sales of SOS licenses at workshop and preview events which decreased to $15,161,000 in the six months ended December 2009 compared to $21,717,000 in the six months ended December 31, 2008. The decrease is attributable to: (1) The number of Internet Training Workshops conducted during the six months ended December 31, 2009 decreased 24% to 342 (including 21 that were held outside the United States) compared to 452 (including 81 that were held outside the United States) during the six months ended December 31, 2008, (2) The average number of buying units in attendance at our workshops during the six months ended December 31, 2009 decreased to 76 from 87 during the six months ended December 31, 2008. Persons who pay an enrollment fee to attend our workshops are allowed to bring a guest at no additional charge, and that individual and his/her guest constitute one buying unit. If the person attends alone, that single person also counts as one buying unit, (3) Approximately 23% of the buying units made a purchase at the workshops during six months ended December 31, 2009, compared to 29% for the six months ended December 31, 2008. As a result of the decrease in number of events, number of buying units per event, and percent purchased per event, we had approximately 4,300 fewer workshop buyers in the six months ended December 31, 2009 as compared to the six months ended December 31, 2008. The result of the decrease in number of workshop buyers reduced revenue by approximately $9,332,000. (4) Cash purchases as a percentage of total workshop purchases increased to 43 % for the six months ended December 31, 2009 compared to 41% for the six months ended December 31, 2008. The increase in cash percentage of total workshop purchases increased revenue by approximately $474,000.

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Revenues were reduced by $207,000 during the six months ended December 31, 2009 and $1,280,000 during the six months ended December 31 2008, as a result of various legal matters discussed elsewhere within this document in which agreements were reached, or expected to be reached, allowing for customer refunds.

Commission and other revenue decreased 33% to $9,830,000 for the six months ended December 31, 2009 compared to $14,639,000 for the six months ended December 31, 2008. The decrease was primarily attributable to a decrease in commission from third parties as a result of fewer leads sent to third parties due to a decrease in the Company's product and other sales.

Cost of Product and Other Revenues

Cost of product and other revenues consists primarily of the cost to conduct Internet Training Workshops, credit card fees and the cost of products sold. Cost of product and other revenues for the six months ended December 31, 2009 decreased 35% to $11,608,000 from $17,804,000 for the six months ended December 31, 2008. The decrease in cost of product and other revenues is primarily attributable to the decrease in workshop revenue along with the implementation of cost saving measures designed to reduce travel and event costs. Trends in cost of product and other revenues will not always be consistent with the trends in revenue due to the fact that cost of product and other revenues is typically recognized at the time of sale and no later than the expiration of the customer's three-day cancellation period, but the related revenue is often deferred in accordance with accounting standards.

Selling and Marketing

Selling and marketing expenses consist of payroll and related expenses for sales and marketing activities, advertising, and promotional and public relations expenses. Selling and marketing expenses for the six months ended December 31, 2009 decreased 53% to $16,391,000 from $34,646,000 for the six months ended December 31, 2008. The decrease in selling and marketing expenses is primarily due to the implementation of cost savings programs which lowered our cost per mail piece, which resulted in a 28% decrease in selling and marketing expenses as a percentage of revenue to 46% for the six months ended December 31, 2009 compared to 64% for the six months ended December 31, 2008. The remaining decrease in selling and marketing expenses is primarily attributable to a 24% decrease in the number of Internet Training Workshops conducted during six months ended December 31, 2009 compared to six months ended December 31, 2008. Trends in selling and marketing expenses will not always be consistent with the trends in revenues due to the fact that selling and marketing expenses are typically recognized when incurred, at the time of sale, and no later than the expiration of the customer's three-day cancellation period, but the related revenues are often deferred in accordance with accounting guidance.

General and Administrative

General and administrative expenses consist of payroll and related expenses for executive, accounting and administrative personnel, legal, accounting and other professional fees, finance company service fees, and other general corporate expenses. General and administrative expenses for the six months ended December 31, 2009 decreased 33% to $7,196,000 from $10,779,000 for the six months ended December 31, 2008. The decrease is primarily due to a decrease in legal expenses of $1,380,000, as a result of several legal settlements in the prior year, and a decrease in finance servicing company payments of $842,000 as a result of a reduction in principal collected on our receivables portfolio. The remaining decrease is due to several cost savings initiatives in the current year which reduced our telephone, office supply, shareholder and investor relations as well as other general and administrative expenses.

Interest Income

Interest income is primarily derived from the EPTA contracts, which generally carry an 18% simple interest rate. Interest income for the six months ended December 31, 2009 decreased 29% to $2,596,000 compared to $3,681,000 for six months ended December 31, 2008. The decrease is attributable to the decrease in the collection of trade receivables.

Income Tax Provision

During the six months ended December 31, 2009, we recorded an income tax provision of $637,000. This compares to an income tax provision of $10,330,000 for the six months ended December 31, 2008. Income taxes are based on the estimated effective federal, state and foreign income tax rates. The income tax provision recorded for the six months ended December 31, 2008 is higher than federal, state, and foreign statutory rates as a result of our settlement with the Internal Revenue Service ("IRS") and the creation of a valuation allowance on certain deferred income tax assets, as discussed below.

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RESULTS OF OPERATIONS

Twelve months year ended June 30, 2009 compared to twelve months ended June 30, 2008

Revenues

Revenues for the **twelve months** ended June 30, 2009 ("fiscal 2009") decreased 26% to $94,411,000 from $128,048,000 for the **twelve months** ended June 30, 2008 ("fiscal 2008"). Product and other revenue decreased 29% to $68,664,000 for fiscal 2009 from $97,141,000 for fiscal 2008.

Fees for SOS licenses sold under EPTAs are recognized as revenue as cash payments are received from the customer and not at the time of sale. Revenues related to cash collected under EPTA agreements included in product and other revenue decreased to $30,131,000 for fiscal 2009 compared to $33,970,000 for fiscal 2008. The decrease in cash collected under EPTA agreements is primarily due to an increase in uncollectible accounts which we believe is a result of worsening economic conditions. The remaining decrease in product and other revenues from fiscal 2009 compared to fiscal 2008 is primarily related to a decrease in cash sales of SOS licenses at workshop and preview events which decreased to $37,395,000 in fiscal 2009 compared to $61,487,000 in fiscal 2008. The decrease is attributable to: (1) The number of Internet Training Workshops conducted during fiscal 2009 decreased 24% to 783 (including 81 that were held outside the United States) compared to 1,028 (including 184 that were held outside the United States) during fiscal 2008, (2) The average number of buying units in attendance at our workshops during fiscal 2009 was relatively constant at 85 compared to 84 during fiscal 2008. As a result of the decrease of number of events and number of buying units per event, we had approximately 5,400 fewer workshop buyers in fiscal 2009 as compared to fiscal 2008. The result of the decrease in number of workshop buyers reduced revenue by approximately $11,780,000; and (3) cash purchases as a percentage of total workshop purchases decreased to 41% in fiscal 2009 compared to 52% in fiscal 2008. Revenue was reduced by approximately $11,108,000 as a result of this cash percentage decrease. The remaining decrease in product and other revenue is primarily due to an increase in the number of refunds given to customers as a result of various legal settlements.

Revenues were reduced by $1,840,000 during fiscal 2009 and $998,000 during fiscal 2008 as a result of various legal matters discussed elsewhere within this document in which agreements were reached, or expected to be reached, allowing for customer refunds.

Commission and other revenue decreased 17% to $25,747,000 in fiscal 2009 compared to $30,907,000 in fiscal 2008. The decrease was primarily attributable to a decrease in commissions from third parties as a result of fewer leads sent to third parties due to a decrease in the Company's product and other sales.

Cost of Product and Other Revenues

Cost of product and other revenues consists primarily of the cost to conduct Internet Training Workshops, credit card fees and the cost of products sold. Cost of product and other revenues for fiscal 2009 decreased 29% to $29,138,000 from $41,191,000 for fiscal 2008. The decrease in cost of product and other revenues is primarily attributable to the decrease in workshop revenue along with the implementation of cost saving measures designed to reduce travel and event costs. Trends in cost of product and other revenues will not always be consistent with the trends in revenue due to the fact that cost of product and other revenues is typically recognized at the time of sale and no later than the expiration of the customer's three-day cancellation period, but the related revenue is often deferred in accordance with accounting guidance.

Selling and Marketing

Selling and marketing expenses consist of payroll and related expenses for sales and marketing activities, advertising, and promotional and public relations expenses. Selling and marketing expenses for fiscal 2009 decreased 25% to $52,434,000 from $69,787,000 for fiscal 2008. The decrease in selling and marketing expenses is primarily attributable to a 24% decrease in the number of Internet Training Workshops conducted during fiscal 2009 compared to fiscal 2008. The increase in selling and marketing expense as a percentage of workshop revenue, to 76% for fiscal 2009 from 72% for fiscal 2008, is primarily related to a lower response to our marketing efforts at the Preview Training Sessions due to several factors including the unfavorable global economic environment which resulted in a cutback in consumer and business spending. Trends in selling and marketing expenses will not always be consistent with the trends in revenues due to the fact that selling and marketing expenses are typically recognized when incurred, at the time of sale, and no later than the expiration of the customer's three-day cancellation period, but the related revenues are often deferred in accordance with accounting guidance.

General and Administrative

General and administrative expenses consist of payroll and related expenses for executive, accounting and administrative personnel, legal, accounting and other professional fees, finance company service fees, and other general corporate expenses. General and administrative expenses for fiscal 2009 increased 2% to $18,541,000 from $18,210,000 for fiscal 2008. The small increase in general and administrative expenses is primarily due to an increase in professional fees related to the IRS audit as discussed in Note 6 to the consolidated financial statements.

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Interest Income

Interest income is primarily derived from the EPTA contracts, which generally carry an 18% simple interest rate. Interest income for fiscal 2009 decreased 23% to $6,799,000 compared to $8,858,000 for fiscal 2008. The decrease is attributable to the decrease in the collection of trade receivables.

Income Tax Provision

For fiscal 2009, we recorded an income tax provision of $5,681,000. This compares to an income tax provision of $3,039,000 for fiscal 2008. Income taxes are based on the estimated effective federal, state and foreign income tax rates. The income tax provision recorded in fiscal 2009 is higher than federal, state, and foreign statutory rates as a result of our settlement with the Internal Revenue Service ("IRS") and the creation of a valuation allowance on certain deferred income tax assets.

In August 2009, we reached a settlement with the IRS resulting from its audit of our income tax returns for fiscal years 2007, 2006, and 2005. The settlement with the IRS related to the following items:

- the deductibility, under the provisions of Internal Revenue Code Section 274 ("Section 274"), of 50% of the cost of meals provided to attendees at our preview and workshop training sessions. The settlement reached with the IRS appeals office allows us to deduct 100% of all meals provided to attendees at both the preview and workshop training sessions. Therefore, no liabilities are recognized in the consolidated financial statements related to this issue.

- limitations imposed by Internal Revenue Code Section 382 ("Section 382"). Section 382 imposes limitations on a corporation's ability to utilize its NOLs if it experiences an "ownership change." In general terms, an ownership change results from transactions increasing the ownership of certain stockholders in the stock of a corporation by more than 50 percentage points over a three-year period. From the time of our formation through fiscal 2002, we issued a significant number of shares, resulting in two changes of control, as defined by Section 382. As a result of the most recent ownership change, utilization of our pre-ownership change NOL carryovers are subject to an annual limitation under Section 382. The annual limitation is determined by multiplying the value of our stock at the time of the ownership change by the applicable federal long-term tax-exempt rate. Any unused annual limitation may be carried over to later years (until those NOLs expire), and the amount of the limitation may, under certain circumstances, be increased by the "recognized built-in gains" that occur during the five-year period after the ownership change (the "recognition period"). We had previously determined we had sufficient built-in gains to offset future income without limitation. As a result of the settlement reached with the IRS, we conceded that the fiscal 2002 ownership change resulted in a Section 382 limitation of $461,000 per year and that there were not sufficient built-in gains to offset future income. Based on this settlement, we have determined that it is more likely than not that approximately $14,871,000 of our federal NOL carry forwards will expire unutilized. Accordingly, during fiscal 2009, we recorded a valuation allowance of $5,124,000 related to these federal NOL carry forwards.

- the IRS argued to re-open our income tax returns for the fiscal years ended June 30, 2004 and 2003, both of which are closed from examination. The IRS argued that under Section 481(a) there was a change in "method of accounting" with respect to our recognized built-in-gains described above. As part of the settlement, the IRS appeals office found no merit to the assertion that Section 481(a) can be applied to the fiscal 2004 and 2003 tax returns. Therefore, no liabilities are recognized in the consolidated financial statements related to this issue.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2009, we had working capital of $17,604,000 compared to working capital of $16,337,000 and $20,558,000 as of June 30, 2009 and 2008, respectively. As of December 31, 2009, we had working capital, excluding deferred revenue, of $33,431,000 compared to $39,964,000 and $53,417,000 as of June 30, 2009 and 2008, respectively. Deferred revenue balances represent historical sales for which the Company cannot immediately recognize revenue. The costs and expenses we incur as these deferred revenue amounts are recognized as product and other revenues are expected to be insignificant. Consequently, we do not consider deferred revenue to be a factor that impacts our liquidity or future cash requirements.

Cash and Cash Equivalents

As of December 31, 2009, we had $21,549,000 of cash and cash equivalents compared to $20,474,000 and $26,184,000 as of June 30, 2009 and 2008, respectively. For the six months ended December 31, 2009 we generated positive cash flows from operating activities of $2,578,000 compared to a use of cash for operating activities of $6,083,000 (unaudited) for the six months ended December 31, 2008. During the twelve months ended June 30 2009 we used $6,985,000 of cash for operating activities. During the twelve months ended June 30, 2008, we generated positive cash flows from operating activities of $10,361,000.

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Available-For-Sale Securities

As of December 31, 2009 and June 30, 2009 we held no available-for-sale securities compared to $3,800,000 as of June 30, 2008. Available-for-sale securities consisted primarily of auction rate securities ("ARS"). These were long-term variable rate bonds tied to short-term interest rates that reset through a "dutch auction" process, historically occurring every 7 to 35 days, and other variable rate debt and equity securities, which were held by Merrill Lynch. In January 2009, we liquidated all of our ARS at par value.

Trade Receivables

Trade receivables and long-term trade receivables, net of allowance for doubtful accounts, totaled $20,426,000 as of December 31, 2009, compared to $30,756,000 and $38,568,000 as of June 30, 2009 and 2008, respectively. Long-term trade receivables, net of allowance for doubtful accounts, were $6,264,000 as of December 31, 2009 compared to $9,985,000 and $9,845,000 as of June 30, 2009 and 2008, respectively. We offer our customers a 24-month installment contract as one of several payment options. The payments that become due more than 12 months after the end of the fiscal period are classified as long-term trade receivables.

We have sold some of our domestic trade receivables in the past. In the future, we may evaluate agreements with third-party financing companies for the sale of our international and domestic trade receivables.

Accounts Payable

Accounts payable as of December 31, 2009 totaled $3,154,000 compared to $2,265,000 and $4,760,000 as of June 30, 2009 and 2008, respectively. The aging of accounts payable as of December 31, 2009, June 30, 2009 and 2008 was generally within our vendors' terms of payment.

Capital Requirements – Contractual Obligations

The following table summarizes our significant contractual obligations as of December 31, 2009:

	Payments due by Period (1)				
	Total	Less than 1 year	1 to 3 years	3 to 5 years	5 years and thereafter
			(in thousands)		
Operating leases (2)	$ 6,133	$ 1,569	$ 4,564	$ —	$ —
Advertising commitments (3)	155	155	—	—	—
Consulting agreements (4)	300	210	90	—	—
Total contractual cash obligations	$ 6,588	$ 1,934	$ 4,654	$ —	$ —

(1) Payments are included in the period in which they are contractually required to be made. Actual payments may be made prior to the contractually required date.

(2) Represents our commitments associated with operating leases and includes contracts that expire in various years through 2013. Payments due reflect cash to be paid for rent.

(3) Represents our commitments associated with certain advertising contracts and includes contracts that expire in 2010.

(4) Represents our commitments associated with certain consulting agreements and includes contracts that expire in 2010 and 2011.

We have approximately $140,000 of unrecognized tax positions that have been recognized as liabilities that have not been included in the contractual obligations table due to uncertainty as to when such amounts may be settled.

Capital

As of December 31, 2009, total stockholders' equity was $25,982,000, up 6% from $24,400,000 as of June 30, 2009. As of June 30, 2009, total stockholders' equity was $24,400,000, down 25% from $32,475,000 as of June 30, 2008. The increase for the six months ended December 31, 2009 in total stockholders' equity was attributable to net income of $1,331,000 and for stock option compensation expense of $709,000. The increase in total stockholders' equity was partially offset by the declaration of $458,000 in dividends to common stockholders. The decrease for the twelve months ended June 30, 2009 and 2008, in total stockholders' equity was attributable to a net loss of $7,542,000, the purchase and retirement of $734,000 of our common stock and the payment of $1,943,000 in dividends to common stockholders. The decrease in total stockholders' equity was partially offset by $600,000 in proceeds from the exercise of stock options and related income tax benefit, and $1,544,000 for stock option compensation expense.

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In December 2008, the Board of Directors decreased the quarterly cash dividend to $0.02 from $0.11 per common share. The dividend payout ratio, representing dividends per common share divided by basic and diluted net income per common share, was 33%.

Common Stock Repurchase Program

On September 5, 2006, the Company's board of directors authorized the repurchase of up to $20,000,000 of the Company's common stock. In September 2007, the board of directors authorized the repurchase of an additional $50,000,000 of the Company's common stock. During the six months ended December 31, 2008 and during the years ended June 30, 2009 and 2008 the Company repurchased $734,000 (unaudited), $734,000, and $12,580,000 of common stock, respectively. The Company expects to purchase common stock from time to time over the next two years but may suspend or discontinue purchasing the common stock at any time. The repurchased common stock was retired.

OFF BALANCE SHEET ARRANGEMENTS

We have no off-balance sheet arrangements other than operating leases. We do not believe that these operating leases are material to our current or future financial position, results of operations, revenues or expenses, liquidity, capital expenditures or capital resources.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Recently Adopted Accounting Pronouncements

On July 1, 2009, we adopted authoritative guidance issued by the Financial Accounting Standards Board ("FASB") on business combinations. The guidance retains the fundamental requirements that the acquisition method of accounting (previously referred to as the purchase method of accounting) be used for all business combinations, but requires a number of changes, including changes in the way assets and liabilities are recognized and measured as a result of business combinations. It also requires the capitalization of in-process research and development at fair value and requires the expensing of acquisition-related costs as incurred. Adoption of the new guidance did not have a material impact on our financial statements.

On July 1, 2009, we adopted the authoritative guidance issued by the FASB that changes the accounting and reporting for non-controlling interests. Non-controlling interests are to be reported as a component of equity separate from the parent's equity, and purchases or sales of equity interests that do not result in a change in control are to be accounted for as equity transactions. In addition, net income attributable to a non-controlling interest is to be included in net income and, upon a loss of control, the interest sold, as well as any interest retained, is to be recorded at fair value with any gain or loss recognized in net income. Adoption of the new guidance did not have a material impact on our financial statements.

On July 1, 2009, we adopted the authoritative guidance on fair value measurement for nonfinancial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Adoption of the new guidance did not have a material impact on our financial statements.

Recent Accounting Pronouncements Not Yet Adopted

In January 2010, the FASB issued guidance to amend the disclosure requirements related to recurring and nonrecurring fair value measurements. The guidance requires new disclosures on the transfers of assets and liabilities between Level 1 (quoted prices in active market for identical assets or liabilities) and Level 2 (significant other observable inputs) of the fair value measurement hierarchy, including the reasons and the timing of the transfers. Additionally, the guidance requires a roll forward of activities on purchases, sales, issuance, and settlements of the assets and liabilities measured using significant unobservable inputs (Level 3 fair value measurements). The guidance will become effective for us with the reporting period beginning January 1, 2010, except for the disclosure on the roll forward activities for Level 3 fair value measurements, which will become effective for us with the reporting period beginning July 1, 2011. Other than requiring additional disclosures, adoption of this new guidance will not have a material impact on our financial statements.

In October 2009, the FASB issued authoritative guidance on revenue recognition that will become effective for us beginning January 1, 2010, with earlier adoption permitted. Under the new guidance on arrangements that include software elements, tangible products that have software components that are essential to the functionality of the tangible product will no longer be within the scope of the software revenue recognition guidance, and software-enabled products will now be subject to other relevant revenue recognition guidance. Additionally, the FASB issued authoritative guidance on revenue arrangements with multiple deliverables that are outside the scope of the software revenue recognition guidance. Under the new guidance, when vendor specific objective evidence or third party evidence for deliverables in an arrangement cannot be determined, a best estimate of the selling price is required to separate deliverables and allocate arrangement consideration using the relative selling price method. The new guidance includes new disclosure requirements on how the application of the relative selling price method affects the timing and amount of revenue recognition. We believe adoption of this new guidance will not have a material impact on our financial statements.

In June 2009, the FASB issued authoritative guidance on the consolidation of variable interest entities, which is effective for us beginning January 1, 2010. The new guidance requires revised evaluations of whether entities represent variable interest entities, ongoing assessments of control over such entities, and additional disclosures for variable interests. We believe adoption of this new

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guidance will not have a material impact on our financial statements.

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FORWARD-LOOKING STATEMENTS AND FACTORS THAT MAY AFFECT FUTURE RESULTS AND FINANCIAL CONDITION

With the exception of historical facts, the statements contained in Management's Discussion and Analysis of Financial Condition and Results of Operations are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, which reflect our current expectations and beliefs regarding our future results of operations, performance and achievements. The section entitled "Business" above in Part I, Item 1 of this Form 10-KT also includes forward-looking statements. These statements are subject to risks and uncertainties and are based upon assumptions and beliefs that may or may not materialize. These forward-looking statements include, but are not limited to, statements concerning:

- our belief that our target market will increasingly look to Internet solutions providers who leverage industry and customer practices, increase predictability of success of their Internet initiatives and decrease implementation risks by providing low-cost, scalable solutions with minimal lead time;
- our belief that we can compete successfully by relying on our infrastructure, marketing strategies as well as techniques, systems and procedures, and by adding additional products and services in the future;
- our belief that we can continue our success by periodic review and revision of our methods of doing business and by continuing our expansion into domestic and international markets;
- our belief that a key component of our success comes from a number of new, recently developed proprietary technologies and that these technologies and advances distinguish our services and products from our competitors and further help to substantially reduce our operating costs and expenses;
- our contention that we do not offer our customers a "business opportunity" or a "franchise" as those terms are defined in applicable statutes of the states in which we operate;
- our belief that we operate in compliance with laws concerning sales practices and more particularly that we are not obligated to offer more than a three-day right of rescission;
- our belief there is a large, fragmented and under-served population of small businesses and entrepreneurs searching for professional services firms that offer business-to-consumer eCommerce solutions coupled with support and continuing education;
- our belief that continuously testing and implementing changes to our business model may further reduce the level of investment necessary to get customers to attend our events and to increase our value proposition to these customers;
- our expectation that our offering of products and services will evolve as some products are replaced by new and enhanced products intended to help our customers achieve success with their Internet-related businesses;
- our expectation that Crexendo Network Services will have a product launch in calendar 2010; and
- our expectation that the costs and expenses we incur will be insignificant as deferred revenue amounts are recognized as product and other revenues when cash is collected.

We caution readers that our operating results are subject to various risks and uncertainties that could cause our actual results and outcomes to differ materially from those discussed or anticipated, including changes in economic conditions and internet technologies, fluctuations in weather patterns, interest rate fluctuations, and the factors set forth in the section entitled, "Risk Factors," under Part I, Item 1A of this Form 10-KT. We also advise readers not to place any undue reliance on the forward-looking statements contained in this report, which reflect our beliefs and expectations only as of the date of this report. We assume no obligation to update or revise these forward-looking statements to reflect new events or circumstances or any changes in our beliefs or expectations, other than as required by law.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

We are exposed to market risk from changes in interest and foreign exchange rates.

As of December 31, 2009, we had approximately $21,549,000 of cash and cash equivalents. These amounts were invested primarily in money market funds, U.S. government securities, corporate bonds and commercial paper. We believe that while the instruments we hold are subject to changes in the financial standing of the issuer of such securities, we are not subject to any material risks arising from changes in interest rates, commodity prices or other market changes that affect market risk sensitive instruments. However, should interest rates decline; our future interest income will decrease. If overall interest rates had fallen by 10% in the six months ended December 31, 2009 our interest income would have decreased by an immaterial amount assuming consistent levels of interest-bearing instruments.

Source: IMERGENT INC, 10-KT, March 02, 2010 Powered by Morningstar® Document Research℠

As of December 31, 2009, we had approximately $1,736,000 of net trade receivables denominated in foreign currencies with maturity dates between 2010 and 2011. These trade receivables are translated into U.S. dollars at the exchange rates as of each balance sheet date and the corresponding adjustments are recorded in deferred revenue. As amounts are collected on our foreign denominated trade receivables, future revenues and cash flows may be adversely impacted by fluctuations in foreign currency exchange rates. If the U.S. dollar had strengthened overall by 1% as of December 31, 2009 our net trade receivable balance would have decreased by approximately $17,000.

As of December 31, 2009, we had approximately $1,399,000 of cash and cash equivalents denominated in foreign currencies. These cash and cash equivalent balances are translated into U.S. dollars at the exchange rates as of each balance sheet date and the corresponding adjustments are recorded in other income, net. Future earnings and cash and cash equivalent balances may be adversely impacted by fluctuations in foreign currency exchange rates. If the U.S. dollar had strengthened overall by 1% as of December 31, 2009, our cash and cash equivalents would have decreased by approximately $14,000.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO FINANCIAL STATEMENTS

Financial Statements

iMergent, Inc. and Subsidiaries

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Financial Statement Schedule

iMergent, Inc. and Subsidiaries

The following consolidated financial statement schedule of iMergent, Inc. and subsidiaries is filed as part of this Form 10-KT. All other schedules have been omitted because they are not applicable, not required, or the information is included in the consolidated financial statements or notes thereto.

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Exhibits. The exhibits listed in the accompanying index to exhibits immediately following the financial statements are filed as part of, or hereby incorporated by reference into, this Form 10-KT.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
iMergent, Inc.

We have audited the accompanying consolidated balance sheet of iMergent, Inc. and subsidiaries (the "Company") as of December 31, 2009, and the related consolidated statements of operations, stockholders' equity, and cash flows for the six month period ended December 31, 2009. Our audit also included the financial statement schedule listed in the Index at Item 15 for the six months ended December 31, 2009. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such December 2009 consolidated financial statements present fairly, in all material respects, the financial position of iMergent, Inc. and subsidiaries at December 31, 2009, and the results of their operations and their cash flows for the six month period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, the Company changed its fiscal year end from June 30 to December 31.

/s/ Deloitte & Touche LLP

Salt Lake City, Utah
March 2, 2010

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
iMergent, Inc.

We have audited the accompanying consolidated balance sheets of iMergent, Inc. and subsidiaries (collectively, the Company) as of June 30, 2009 and 2008, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the twelve-month periods ended June 30, 2009 and 2008. Our audits also included the financial statement schedule listed in the Index at Item 15(2) with respect to the twelve-month periods ended June 30, 2009 and 2008. These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of iMergent, Inc. and subsidiaries as of June 30, 2009 and 2008, and the results of their operations and their cash flows for each of the twelve-month periods ended June 30, 2009 and 2008 in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule for the twelve-month periods ended June 30, 2009 and 2008, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ Tanner LC

Salt Lake City, Utah
September 1, 2009

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IMERGENT, INC. AND SUBSIDIARIES

Consolidated Balance Sheets
(In thousands, except par value and share data)

	December 31, 2009	June 30, 2009	June 30, 2008
Assets			
Current assets:			
Cash and cash equivalents	$ 21,549	$ 20,474	$ 26,184
Restricted cash	1,088	1,802	—
Trade receivables, net of allowance for doubtful accounts of $11,827, $9,670, and $13,797, respectively	14,162	20,771	28,723
Inventories	243	256	627
Income tax receivable	387	1,826	793
Deferred income tax assets, net	1,009	2,171	3,891
Prepaid expenses and other	2,988	1,524	3,849
Total current assets	41,426	48,824	64,067
Certificate of deposit	500	500	500
Available-for-sale securities	—	—	3,800
Long-term trade receivables, net of allowance for doubtful accounts of $5,882, $4,437, and $4,786, respectively	6,264	9,985	9,845
Property and equipment, net	1,446	1,322	1,672
Deferred income tax assets, net	5,298	4,975	4,385
Intangible assets	1,206	1,400	1,831
Merchant account deposits and other	302	348	514
Total Assets	$ 56,442	$ 67,354	$ 86,614
Liabilities and Stockholders' Equity			
Current liabilities:			
Accounts payable	$ 3,154	$ 2,265	$ 4,760
Accrued expenses and other	4,588	6,257	5,614
Dividend payable	229	229	—
Income taxes payable	24	41	212
Deferred revenue, current portion	15,827	23,627	32,859
Note payable, current portion	—	68	64
Total current liabilities	23,822	32,487	43,509
Deferred revenue, net of current portion	6,447	10,236	10,332
Note payable, net of current portion	—	47	115
Other long-term liabilities	191	184	183
Total liabilities	30,460	42,954	54,139
Commitments and contingencies (Note 10)			
Stockholders' equity:			
Preferred stock, par value $0.001 per share - authorized 5,000,000 shares; none issued	—	—	—
Common stock, par value $0.001 per share - authorized 100,000,000 shares; 11,446,320 11,425,320 and 11,304,410 shares outstanding, respectively	11	11	11
Additional paid-in capital	53,033	52,782	53,315
Accumulated deficit	(27,062)	(28,393)	(20,851)
Total stockholders' equity	25,982	24,400	32,475
Total Liabilities and Stockholders' Equity	$ 56,442	$ 67,354	$ 86,614

See accompanying notes.

Source: IMERGENT INC, 10-KT, March 02, 2010 Powered by Morningstar® Document Research℠

iMERGENT, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
(In thousands, except per share and share data)

	Six Months Ended December 31,		Twelve Months Ended June 30,	
	(audited)	(unaudited)	(audited)	
	2009	2008	2009	2008
Revenues:				
Product and other	$ 25,886	$ 39,481	$ 68,664	$ 97,141
Commission and other	9,830	14,639	25,747	30,907
Total revenues	35,716	54,120	94,411	128,048
Operating expenses:				
Cost of product and other revenues	11,608	17,804	29,138	41,191
Selling and marketing	16,391	34,646	52,434	69,787
General and administrative	7,196	10,779	18,541	18,210
Research and development	1,044	1,080	2,177	2,113
Total operating expenses	36,239	64,309	102,290	131,301
Loss from operations	(523)	(10,189)	(7,879)	(3,253)
Other income (expense):				
Interest income	2,596	3,681	6,799	8,858
Interest expense	(7)	(7)	(13)	(3)
Other income (expense), net	(98)	(783)	(768)	579
Total other income, net	2,491	2,891	6,018	9,434
Income (loss) before income tax provision	1,968	(7,298)	(1,861)	6,181
Income tax provision	(637)	(10,330)	(5,681)	(3,039)
Net income (loss)	$ 1,331	$ (17,628)	$ (7,542)	$ 3,142
Net income (loss) per common share:				
Basic	$ 0.12	$ (1.55)	$ (0.66)	$ 0.27
Diluted	$ 0.12	$ (1.55)	$ (0.66)	$ 0.26
Dividends per common share	$ 0.04	$ 0.13	$ 0.17	$ 0.44
Weighted-average common shares outstanding:				
Basic	11,402,442	11,351,094	11,371,303	11,676,188
Diluted	11,484,684	11,351,094	11,371,303	11,857,808

See accompanying notes.

Source: IMERGENT INC, 10-KT, March 02, 2010 Powered by Morningstar® Document Research℠

iMERGENT, INC. AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity
Six Months Ended December 31, 2009 and
Twelve Months Ended June 30, 2009 and 2008 (In thousands, except share data)

	Common Stock		Additional Paid-in	Accumulated	Total Stockholders'
	Shares	Amount	Capital	Deficit	Equity
Balance, June 30, 2007	**12,106,707**	**$ 12**	**$ 68,190**	**$ (23,794)**	**$ 44,408**
Uncertain tax positions cumulative adjustment	—	—	—	(199)	(199)
Stock compensation expense	—	—	1,902	—	1,902
Stock issued under stock award plans (net of forfeitures) and related income tax benefit of $263	146,000	—	916	—	916
Repurchase of common stock	(948,297)	(1)	(12,580)	—	(12,581)
Dividends declared	—	—	(5,113)	—	(5,113)
Net income	—	—	—	3,142	3,142
Balance, June 30, 2008	**11,304,410**	**11**	**53,315**	**(20,851)**	**32,475**
Stock compensation expense	—	—	1,544	—	1,544
Stock issued under stock award plans (net of forfeitures) and related income tax benefit of $1	155,109	—	600	—	600
Issuance of restricted stock (net of forfeitures)	74,901	—	—	—	—
Repurchase of common stock	(109,100)	—	(734)	—	(734)
Dividends declared	—	—	(1,943)	—	(1,943)
Net loss	—	—	—	(7,542)	(7,542)
Balance, June 30, 2009	**11,425,320**	**11**	**52,782**	**(28,393)**	**24,400**
Stock compensation expense	—	—	709	—	709
Dividends declared	—	—	(458)	—	(458)
Issuance of restricted stock	21,000	—	—	—	
Net income	—	—	—	1,331	1,331
Balance, December 31, 2009	**11,446,320**	**$ 11**	**$ 53,033**	**$ (27,062)**	**$ 25,982**

See accompanying notes.

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iMERGENT, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(In thousands)

	Six Months Ended December 31,		Twelve Months Ended June 30,	
	(audited)	(unaudited)	(audited)	
	2009	2008	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income (loss)	$ 1,331	$ (17,628)	$ (7,542)	$ 3,142
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:				
Depreciation and amortization	704	722	1,468	1,196
Impairment of property held-for-sale	90	—	—	—
Expense for stock options issued to employees	709	810	1,544	1,902
Deferred income tax provision (benefit)	839	752	1,130	2,460
Changes in assets and liabilities:				
Restricted cash	714	(1,197)	(1,802)	—
Trade receivables	10,330	852	7,812	342
Inventories	13	(93)	371	(200)
Income tax receivable	1,439	7	(1,033)	(498)
Prepaid expenses and other	(1,258)	1,834	2,325	307
Merchant account deposits and other	46	118	166	251
Accounts payable, accrued expenses and other	(780)	1,073	(1,926)	2,451
Income taxes payable	(17)	(212)	(171)	(1,712)
Deferred revenue	(11,589)	(2,229)	(9,328)	736
Other long-term liabilities	7	9,108	1	(16)
Net cash provided by (used for) operating activities	2,578	(6,083)	(6,985)	10,361
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of property and equipment	(634)	(475)	(613)	(604)
Acquisition of property held-for-sale	(296)	—	—	—
Repayment of note receivable	—	—	—	167
Purchase of available-for-sale securities	—	—	—	(3,800)
Sale of available-for-sale securities	—	900	3,800	—
Net cash provided by (used for) investing activities	(930)	425	3,187	(4,237)
CASH FLOWS FROM FINANCING ACTIVITIES				
Repurchase of common stock	—	(734)	(734)	(12,581)
Proceeds from exercise of options and related income tax benefit	—	229	600	916
Principal payments on note payable	(115)	—	(64)	(21)
Dividend payments	(458)	(1,259)	(1,714)	(5,113)
Net cash used for financing activities	(573)	(1,764)	(1,912)	(16,799)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,075	(7,422)	(5,710)	(10,675)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	20,474	26,184	26,184	36,859
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	$ 21,549	$ 18,762	$ 20,474	$ 26,184

See accompanying notes.

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iMERGENT, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows (CONTINUED)
(In thousands)

	Six Months Ended December 31,		Years Ended June 30,	
	(audited)	(unaudited)	(audited)	
	2009	2008	2009	2008
Supplemental disclosures of non cash flow information for investing and financing activities:				
Dividends declared and not yet paid	$ 229	$ 227	$ 229	$ —
Cumulative effect of adoption of uncertain tax positions	—	—	—	199
Conversion of note receivable to intangible asset	—	—	—	833
Purchase of property and equipment with note payable	—	—	—	200
Supplemental disclosure of cash flow information:				
Cash paid (received) during the year for:				
Interest	7	7	7	3
Income taxes	(1,624)	456	5,790	2,546

See accompanying notes.

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iMERGENT, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

1. Significant Accounting Policies

Description of Business - iMergent, Inc. is incorporated in the state of Delaware. As used hereafter in the notes to consolidated financial statements, the "Company" refers to iMergent, Inc. and its wholly owned subsidiaries. The Company is an eServices company that provides eCommerce technology, training and a variety of web-based technologies and resources to entrepreneurs and small, medium, and large enterprises. The Company's services are designed to help decrease the risks associated with eCommerce implementation by providing low-cost, scalable solutions and providing support and information regarding industry developments.

The consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP") and pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). These consolidated financial statements reflect the results of operations, financial position, changes in stockholders' equity, and cash flows of the Company.

Change in Fiscal Year – In November 2009, the Board of Directors approved a change of the Company's fiscal year from a June 30 fiscal year end to a December 31 fiscal year end. This Form 10-KT is a transition report for the six month transition period ended December 31, 2009.

Principles of Consolidation - The consolidated financial statements include the accounts and operations of iMergent, Inc. and its wholly owned subsidiaries, which include Avail 24/7 Inc., Crexendo Business Solutions, Inc., Galaxy Mall, Inc., StoresOnline Inc., StoresOnline International Canada ULC, StoresOnline International, Inc., StoresOnline International Ltd., and Internet Training Group, Inc. All intercompany account balances and transactions have been eliminated in consolidation.

Cash and Cash Equivalents - The Company considers all highly liquid, short-term investments with maturities of three months or less at the time of purchase to be cash equivalents. As of December 31, 2009, the Company has cash and cash equivalents in financial institutions in excess of federally insured limits in the amount of $21,098,000.

Restricted Cash – The Company classified $1,088,000 and $1,802,000 as restricted cash as of December 31, 2009 and June 30, 2009, respectively, to reflect the compensating balance requirement of its merchant account and purchasing card agreements.

Trade Receivables - The Company offers to its customers the option to finance, typically through 24-month extended payment term arrangements ("EPTAs"), purchases made at its Internet Training Workshops. EPTAs are reflected as short-term and long-term trade receivables, as applicable, if the Company has the intent and ability to hold the receivables for the foreseeable future, until maturity or payoff.

Allowance for Doubtful Accounts - The Company records an allowance for doubtful accounts at the time the EPTA contract is perfected. The allowance represents estimated losses resulting from customers' failure to make required payments. The allowance for doubtful accounts for EPTAs is netted against the current and long-term trade receivables balances. The allowance estimate is based on historical collection experience, specific identification of probable bad debts based on collection efforts, aging of trade receivables, customer payment history, and other known factors, including current economic conditions. The Company believes that the allowance for doubtful accounts is adequate based on the Company's assessment to date, however, actual collection results may differ materially from the Company's expectations. Because revenue generated from customers financing through EPTAs is deferred and not recognized prior to the collection of cash, adjustments to the allowance for doubtful accounts increase or decrease deferred revenue. Trade receivables are written off against the allowance when the related customers are no longer making required payments and the trade receivables are determined to be uncollectible, typically 90 days past their original due date.

Interest Income - Interest income is primarily earned from EPTA contracts. EPTA contract terms generally contain an 18% simple interest rate. Interest income is recognized on these accounts only to the extent cash is received as the receivables are primarily 24 months in length and collection of the full amount of the receivable is not probable. For the six months ended December 31, 2009 and 2008 and for the twelve months ended June 30, 2009 and 2008 the Company recognized $2,596,000, $3,681,000 (unaudited), $6,799,000, and $8,858,000 in interest income, respectively.

Inventories - Inventories consist of products provided in conjunction with the Internet Training Workshops and are stated at the lower of cost (first-in, first-out method) or market and the related interest is classified as interest income in the statement of operations.

Certificate of Deposit - The Company holds a $500,000 certificate of deposit as collateral for merchant accounts, which automatically renews every 16 months. The certificate of deposit is classified as long-term in the consolidated balance sheets.

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Available-for-Sale Securities - Available-for-sale securities, consisting of equity and debt securities, are carried at fair value. Accordingly, unrealized gains and losses, net of income taxes, are computed on the basis of specific identification and included in other accumulated comprehensive income (loss) in stockholders' equity until realized. The Company periodically evaluates whether any declines in the fair values of its available-for-sale securities are other than temporary. This evaluation consists of a review of qualitative and quantitative factors, including available quoted market prices; recent financial results and operating trends of the company that issued the securities; other publicly available information; implied values from any recent financings by the company that issued the securities; or other conditions that indicate the value of the investments. Available-for-sale securities at fair value, which approximates amortized cost, consisted of the following (in thousands):

	December 31, 2009	June 30, 2009	June 30, 2008
Federal, state and municipal debt securities	$ —	$ —	$ 2,800
Corporate debt securities	—	—	1,000
Total	$ —	$ —	$ 3,800

There were no unrealized gains or losses for the twelve months ended June 30, 2008.

Property and Equipment - Property and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization expense is computed using the straight-line method in amounts sufficient to allocate the cost of depreciable assets, including assets held under capital leases, over their estimated useful lives ranging from two to five years. The cost of leasehold improvements is amortized using the straight-line method over the shorter of the estimated useful life of the asset or the term of the related lease. Depreciation and amortization expense is included in general and administrative expenses and totaled $510,000, $506,000 (unaudited), $1,037,000, and $918,000 for the six months ended December 31, 2009 and 2008 and for the twelve months ended June 30, 2009 and 2008, respectively. Depreciable lives by asset group are as follows:

Computer and office equipment	2 to 5 years
Computer software	3 years
Furniture and fixtures	4 years
Leasehold improvements	2 to 5 years

Maintenance and repairs are charged to costs and expenses as incurred. The cost and accumulated depreciation of property and equipment sold or otherwise retired are removed from the accounts and any related gain or loss on disposition is reflected in net income or loss for the year.

Intangible Assets - The Company's intangible assets consist of purchased advertising lists. The fair value of identifiable intangible assets is based upon the lower of discounted future cash flow projections or the amount paid in an arm's length transaction. These advertising lists are amortized over six years on an accelerated basis. Amortization expense is included in sales and marketing expense and totaled $194,000, $216,000 (unaudited), $432,000, and $278,000 for the six months ended December 31, 2009 and 2008 and the twelve months ended June 30, 2009 and 2008, respectively. The average remaining useful life of the intangible assets was 47 months as of December 31, 2009.

The Company periodically reviews the estimated useful lives of its intangible assets and reviews these assets for impairment whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. The determination of impairment is based on estimates of future undiscounted cash flows. If an intangible asset is considered to be impaired, the amount of the impairment will be equal to the excess of the carrying value over the fair value of the asset.

Impairment of Long-Lived Tangible Assets - The Company reviews long-lived tangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted cash flows projected to be generated by the asset. If these assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less disposal costs.

Use of Estimates - In preparing the consolidated financial statements, management makes assumptions, estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of net sales and expenses during the reported periods. Specific estimates and judgments include the valuation of available-for-sale securities, inventory, intangible assets, allowances for doubtful accounts, sales returns and allowances, uncertainties related to certain income tax benefits, valuation of deferred income tax assets, valuation of share-based payments and recoverability of long-lived assets. Management's estimates are based on historical experience and on the Company's expectations that are believed to be reasonable. The combination of these factors forms the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from our current estimates and those differences may be material.

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Revenue Recognition

Product and Other Revenue

Cash sales of SOS licenses are recognized as revenue when the cash is received, net of expected customer refunds, upon expiration of the customers' rescission period, which typically occurs three days after the licenses and products are delivered or when the Internet training workshop takes place, whichever occurs later.

SOS licenses sold under extended payment term arrangements (EPTAs) are recognized as revenue upon receipt of cash from customers and not at the time of sale. Although the Company is able to reasonably estimate the collectability of its receivables based upon its long history of offering EPTAs, accounting standards require revenue to be deferred until customer payments are received if collection of the original principal balance is not probable. Additionally, if the Company subsequently sells the receivables on a non-recourse basis, accounting standards require that the related revenue be deferred until the customer makes cash payments to the third-party purchaser of the receivables. There are no receivable balances outstanding that are subject to recourse by the Company.

Fees collected for services, including customer support, follow-up training and programming, are recognized as revenue, net of expected customer refunds, over the period during which the services are expected to be performed, based upon the vendor specific objective evidence (VSOE), if applicable, of fair value for such services. Fees related to EPTA contracts are deferred and recognized as revenue during the service period or when cash is collected, whichever occurs later.

In April 2007, the Company began marketing and selling Avail 24/7, an all-in-one communications service which assists small businesses and entrepreneurs to manage phone menus, voicemail, email, and fax in one online application. Customers purchasing the Avail product are charged a non-refundable activation fee along with a monthly service fee. The non-refundable activation fee is deferred and recognized ratably over the estimated customer life, which is currently estimated to be four and one-half years. The monthly service fee is recognized ratably over the service period.

The Company has changed the contract that is associated with the sale of Avail 24/7. Effective March 31, 2010 any customers that have not activated their Avail 24/7 subscription will be assessed an activation fee of $34.95. For customers that activate before March 31, 2010, this activation fee will be waived. All customers have been notified of the change in contract. If no additional customers activated before March 31, 2010, the Company would recognize up to $1,000,000 in additional revenue in the first fiscal quarter of 2010. Concurrent with this change, all new customers will have 60 days to activate their Avail 24/7 subscription without paying the $34.95 fee. Any customer activating after the 60 day period will be required to pay the $34.95 activation fee.

Fees collected for services related to Crexendo Business Solutions which provide Search Engine Optimization services, Search Engine Management services, and link building are recognized as revenue, net of expected customer refunds, when the project is completed.

Fees collected related to sales tax and other government assessed taxes are recognized on a net basis.

Commission and Other Revenue

The Company has contracts with third-party entities with respect to telemarketing product sales to the Company's customers following the sale of the initial software licenses. These products and services are intended to assist the customers with their Internet businesses. These products are sold and delivered completely by third parties. The Company receives commissions from these third parties, and recognizes the commissions as revenue as the commissions are received, net of expected customer refunds.

Fees collected for website hosting, are recognized as revenue, net of expected customer refunds, over the period during which the services are expected to be performed.

Cost of Product and Other Revenues – Cost of product and other revenues consists primarily of the cost to conduct Internet Training Workshops, credit card fees and the cost of products sold.

Advertising Costs - The Company expenses costs of advertising and promotions as incurred, with the exception of direct-response advertising costs. Direct-response advertising costs that meet specified criteria are deferred and amortized over the estimated benefit period. Because the Company has evidence that customers have responded specifically to the advertising, and that the advertising results in probable future benefits, such amounts are deferred and amortized. The Company is able to document the responses of each customer to the advertising that elicited the response. Advertising expenses included in selling and marketing expenses for the six months ended December 31, 2009 and 2008 and twelve months ended June 30, 2009 and 2008 were approximately $7,284,000, $15,900,000 (unaudited), $22,808,000, and $33,556,000, respectively. As of December 31, 2009, June 30, 2009 and June 30, 2008, the Company recorded approximately $1,267,000, $551,000 and $2,610,000, respectively, of direct-response advertising related to future workshops as prepaid expenses. Amounts recorded as prepaid advertising expenses are amortized over the estimated benefit period, typically three months.

Research and Development - Research and development costs are expensed as incurred. Costs related to internally developed software are expensed as research and development expense until technological feasibility has been achieved, after which the costs are capitalized.

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Financial Instruments - The carrying values of cash and cash equivalents, restricted cash, certificates of deposit, available-for-sale securities, merchant account deposits, accounts payable, and notes payable approximated their fair values due to either the short maturity of the instruments or the recent date of the initial transaction.

Foreign Currency Translation – We consider the United States dollar as the functional currency for our foreign operations. Assets and liabilities are translated at period-end exchange rates and all statements of income amounts are translated using average monthly rates. All transaction adjustments are recorded in accounts receivable and deferred revenue until cash is received and then the gain (loss) is recorded in the consolidated statements of operations.

Income Taxes - The Company recognizes a liability or asset for the deferred tax consequences of all temporary differences between the tax basis of assets and liabilities and their reported amounts in the consolidated financial statements that will result in taxable or deductible amounts in future years when the reported amounts of the assets and liabilities are recovered or settled. Accruals for uncertain tax positions are provided for in accordance with accounting guidance. Accordingly, the Company may recognize the tax benefits from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. Accounting guidance is also provided on derecognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, and income tax disclosures. Judgment is required in assessing the future tax consequences of events that have been recognized in the financial statements or tax returns. Variations in the actual outcome of these future tax consequences could materially impact the Company's financial position, results of operations, and cash flows.

Interest and penalties associated with income taxes are classified as income tax expense in the consolidated statements of operations.

The Company does not intend to permanently reinvest the undistributed earnings of its United Kingdom subsidiary in those businesses outside of the United States and, therefore, has provided for U.S. deferred income taxes on such undistributed foreign earnings.

Stock-Based Compensation - For equity-classified awards, compensation expense is recognized over the requisite service period based on the computed fair value on the grant date of the award. Equity classified awards include the issuance of stock options and restricted stock. The restricted stock includes all dividend rights and is a participating security, however, the restricted stock does not change earnings per share under the two-class method.

Comprehensive Income (Loss) – There were no other components of comprehensive income (loss) other than net income (loss).

Business Segments and Related Information - Accounting guidance establishes standards for the way public business enterprises are to report information about operating segments in annual financial statements and requires enterprises to report selected information about operating segments in interim financial reports issued to stockholders. Accounting guidance also establishes standards for related disclosure about products and services, geographic areas and major customers. The Company generates over 90% of its total revenue from StoresOnline customers within North America (United States and Canada) and less than 10% of its total revenues from customers in other parts of the world.

Recently Adopted Accounting Pronouncements - On July 1, 2009, the Company adopted authoritative guidance issued by the Financial Accounting Standards Board ("FASB") on business combinations. The guidance retains the fundamental requirements that the acquisition method of accounting (previously referred to as the purchase method of accounting) be used for all business combinations, but requires a number of changes, including changes in the way assets and liabilities are recognized and measured as a result of business combinations. It also requires the capitalization of in-process research and development at fair value and requires the expensing of acquisition-related costs as incurred. Adoption of the new guidance did not have a material impact on our financial statements.

On July 1, 2009, the Company adopted the authoritative guidance issued by the FASB that changes the accounting and reporting for non-controlling interests. Non-controlling interests are to be reported as a component of equity separate from the parent's equity, and purchases or sales of equity interests that do not result in a change in control are to be accounted for as equity transactions. In addition, net income attributable to a non-controlling interest is to be included in net income and, upon a loss of control, the interest sold, as well as any interest retained, is to be recorded at fair value with any gain or loss recognized in net income. Adoption of the new guidance did not have a material impact on our financial statements.

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On July 1, 2009, the Company adopted the authoritative guidance on fair value measurement for nonfinancial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Adoption of the new guidance did not have a material impact on our financial statements.

Recent Accounting Pronouncements Not Yet Adopted - In January 2010, the FASB issued guidance to amend the disclosure requirements related to recurring and nonrecurring fair value measurements. The guidance requires new disclosures on the transfers of assets and liabilities between Level 1 (quoted prices in an active market for identical assets or liabilities) and Level 2 (significant other observable inputs) of the fair value measurement hierarchy, including the reasons and the timing of the transfers. Additionally, the guidance requires a roll forward of activities on purchases, sales, issuance, and settlements of the assets and liabilities measured using significant unobservable inputs (Level 3 fair value measurements). The guidance will become effective for us with the reporting period beginning January 1, 2010, except for the disclosure on the roll forward activities for Level 3 fair value measurements, which will become effective for us with the reporting period beginning July 1, 2011. Other than requiring additional disclosures, adoption of this new guidance will not have a material impact on our financial statements

In October 2009, the FASB issued authoritative guidance on revenue recognition that will become effective for us beginning January 1, 2010, with earlier adoption permitted. Under the new guidance on arrangements that include software elements, tangible products that have software components that are essential to the functionality of the tangible product will no longer be within the scope of the software revenue recognition guidance, and software-enabled products will now be subject to other relevant revenue recognition guidance. Additionally, the FASB issued authoritative guidance on revenue arrangements with multiple deliverables that are outside the scope of the software revenue recognition guidance. Under the new guidance, when vendor specific objective evidence or third party evidence for deliverables in an arrangement cannot be determined, a best estimate of the selling price is required to separate deliverables and allocate arrangement consideration using the relative selling price method. The new guidance includes new disclosure requirements on how the application of the relative selling price method affects the timing and amount of revenue recognition. The Company believes adoption of this new guidance will not have a material impact on our financial statements.

In June 2009, the FASB issued authoritative guidance on the consolidation of variable interest entities, which is effective for us beginning January 1, 2010. The new guidance requires revised evaluations of whether entities represent variable interest entities, ongoing assessments of control over such entities, and additional disclosures for variable interests. The Company believes adoption of this new guidance will not have a material impact on our financial statements.

2. Net Income (Loss) Per Common Share

Basic net income (loss) per common share is computed by dividing the net income (loss) for the period by the weighted-average number of common shares outstanding during the period. Diluted net income (loss) per common share is computed giving effect to all dilutive common stock equivalents, consisting of common stock options. Diluted net loss per common share for the six months ended December 31, 2008 and the twelve months ended June 30, 2009 is the same as basic net loss per common share because the common share equivalents were anti-dilutive. The following table sets forth the computation of basic and diluted net income (loss) per common share:

	Six Months Ended December 31,		Twelve Months Ended June 30,	
	(audited)	(unaudited)		(audited)
	2009	2008	2009	2008
Net income (loss) (in thousands)	$ 1,331	$ (17,628)	$ (7,542)	$ 3,142
Weighted-average share reconciliation:				
Weighted-average shares outstanding	11,442,763	11,351,094	11,371,303	11,676,188
Weighted-average restricted shares held in escrow	(40,321)	—	—	—
Weighted-average basic shares outsanding	11,402,442	11,351,094	11,371,303	11,676,188
Dilutive employee stock options	71,896	N/A	N/A	181,620
Dilutive restricted shares held in escrow	10,346	N/A	N/A	—
Diluted shares outstanding	11,484,684	11,351,094	11,371,303	11,857,808

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Weighted average anti-dilutive common share equivalents not included in the calculation of diluted net loss per common share for the six months ended December 31, 2009 and 2008 and for the twelve months ended June 30, 2009 and 2008 totaled 568,604, 695,748 (unaudited), 675,336, and 497,071, respectively.

3. Property and Equipment

Property and equipment consisted of the following (in thousands):

	December 31,	June 30,	
	2009	2009	2008
Software	$ 3,066	$ 2,617	$ 2,446
Computers and office equipment	2,741	2,566	2,136
Leasehold improvements	101	101	101
Furniture and fixtures	162	152	77
Less accumulated depreciation and amortization	(4,624)	(4,114)	(3,088)
	$ 1,446	$ 1,322	$ 1,672

As of December 31, 2009, the Company had capitalized $252,000 related to internally developed software which is included in the software above.

4. Fair Value Measurements

The fair value of the Company's financial assets and liabilities was determined based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

Level 1 — Unadjusted quoted prices that are available in active markets for the identical assets or liabilities at the measurement date.

Level 2 — Other observable inputs available at the measurement date, other than quoted prices included in Level 1, either directly or indirectly, including:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets in non-active markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3 — Unobservable inputs that cannot be corroborated by observable market data and reflect the use of significant management judgment. These values are generally determined using pricing models for which the assumptions utilize management's estimates of market participant assumptions.

The Company classifies its federal, state, municipal, and corporate debt as Level 3. This is because no observable market data existed at June 30, 2008.

Assets measured at fair value on a recurring basis are summarized below as of June 30, 2008 (in thousands):

		Fair value measurement at reporting date using		
Description	As of June 30, 2008	Level 1	Level 2	Level 3
Federal, state, and municipal debt security	$ 2,800	—	—	$ 2,800
Corporate debt	1,000	—	—	1,000
Total	$ 3,800	—	—	$ 3,800

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The following table provides a reconciliation between the beginning and ending balances of items measured at fair value on a recurring basis that used significant unobservable inputs (Level 3) (in thousands):

	Debt Securities- Auction-Rate Securities Only		
	Corporate Debt Securities	Federal, State and Municipal Debt Securities	Total
Balances as of June 30, 2008	$ 1,000	$ 2,800	$ 3,800
Realized gain (loss) included in earnings	—	—	—
Unrealized gain (loss) included in other comprehensive income	—	—	—
Purchases, sales and settlements, net	(1,000)	(2,800)	(3,800)
Interest accrued (received), net	—	—	—
Transfers in and/or (out) of Level 3	—	—	—
Balances as of June 30, 2009	$ —	$ —	$ —

The fair values of the trade receivables, notes payables, and certificate of deposit were computed using a discounted cash flow model using estimated market rates as of December 31, 2009, June 30, 2009 and 2008.

	December 31, 2009		June 30, 2009		June 30, 2008	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Cash Equivalents	$ 18,989	$ 18,989	$ 19,354	$ 19,354	$ 15,426	$ 15,426
Trade Receivables	20,426	20,071	30,756	30,211	38,568	38,077
Certificate of Deposit	500	500	500	500	500	500
Notes Payable	-	-	115	115	179	179

The Company's disclosure of the estimated fair value of its financial instruments is made in accordance with accounting guidance. The estimated fair value amounts have been determined by using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret market data in order to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and estimation methodologies may have a material effect on the estimated fair value amounts. The fair value estimates presented herein are based on pertinent information available to management as of December 31, 2009, June 30, 2009, and June 30, 2008.

5. Stock-Based Compensation

The Company has various incentive stock-based compensation plans that provide for the grant of up to 2,000,000 shares to eligible employees, consultants and directors of stock options, restricted stock, and other share-based awards. As of December 31, 2009, the Company had 801,415 shares remaining in the plans for grant.

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The following table summarizes the statement of operations effect of stock-based compensation for the six months ended December 31, 2009 and 2008 and the twelve months ended June 30, 2009 and 2008 (in thousands):

	Six Months Ended December 31,		Twelve Months Ended June 30,	
	(audited)	(unaudited)	(audited)	
	2009	2008	2009	2008
Stock option compensation expense recognized:				
Cost of product and other revenues	$ 91	$ 57	$ 124	$ 176
Research and development	113	134	279	302
Selling and marketing	47	81	146	231
General and administrative	458	538	995	1,193
Total stock option compensation expense recognized	709	810	1,544	1,902
Related deferred income tax benefit	(228)	(324)	(767)	(936)
Decrease in net income or increase in net loss	$ 481	$ 486	$ 777	$ 966

Stock Options

The weighted-average fair value of stock options on the date of grant and the assumptions used to estimate the fair value of stock options granted during the six months ended December 31, 2009 and the twelve months ended June 30, 2009 and 2008 using the Black-Scholes option-pricing model were as follows (no options were granted during the six months ended December 31, 2008):

	Six Months Ended December 31,	Twelve Months Ended June 30,	
	2009	2009	2008
Weighted-average fair value of options granted	$ 3.51	$ 2.70	$ 11.17
Expected volatility	70%	71%	67%
Expected life (in years)	3.37	3.61	3.29
Risk-free interest rate	2.02%	1.92%	4.83%
Expected dividend yield	1.06%	1.63%	1.64%

The expected volatility of the option is determined using historical volatilities based on historical stock prices. The expected life of the options granted is based on the Company's historical share option exercise experience. The risk-free interest rate is determined using the yield available for zero-coupon U.S. government issues with a remaining term equal to the expected life of the option. Expected dividend yield is based on the Company’s announced dividends each period during the term of the option.

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The following table summarizes the stock option activity for all plans for the six months ended December 31, 2009 and 2008 (unaudited):

	2009				2008	
	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)	Number of Options	Weighted Average Exercise Price
Outstanding at beginning of period	675,336	$ 11.99	6.8 years	$ 690	804,417	$ 14.68
Granted	175,000	7.52			-	-
Exercised	-	-			(36,970)	9.10
Cancelled/forfeited	(102,295)	20.82			(71,699)	9.90
Outstanding at end of period	748,041	9.75	7.9 years	481	695,748	15.46
Ending vested and expected to vest	739,076	9.68	7.9 years	453		
Exercisable as of December 31, 2009	322,890	12.45	6.3 years	176		
Exercisable as of December 31, 2008	529,835	13.87	3.0 years	$ 296		

The following table summarizes the stock option activity for all plans for the twelve months ended June 30, 2009 and 2008:

	2009				2008	
	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)	Number of Options	Weighted Average Exercise Price
Outstanding at beginning of period	804,417	$ 14.68	3.4 years	$ 1,947	805,806	$ 10.06
Granted	368,000	5.56			231,000	24.43
Exercised	(154,651)	3.86			(146,000)	4.58
Cancelled/forfeited	(342,430)	15.06			(86,389)	14.79
Outstanding at end of period	675,336	11.99	6.8 years	690	804,417	14.66
Exercisable as of June 30, 2009	299,127	16.85	3.8 years	144		
Exercisable as of June 30, 2008	565,685	12.65	2.8 years	1,844		

The total intrinsic value of options exercised during the six months ended December 31, 2008 and the twelve months ended June 30, 2009 and 2008 was $59,000 (unaudited), $279,000, and $1,050,000, respectively.

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The following table summarizes non-vested stock activity for all stock option plans during the six months ended December 31, 2009:

	Shares	Weighted Average Grant-Date Fair Value
Nonvested balance, beginning of period	376,209	$ 4.00
Granted	175,000	3.51
Vested	(126,058)	3.89
Forfeited	—	—
Nonvested balance, end of period	425,151	3.83

As of December 31, 2009, the total future compensation expense related to nonvested options not yet recognized in the consolidated statements of operations was approximately $1,806,000 and the weighted-average period over which these awards are expected to be recognized is approximately 17 months.

Restricted Stock

During the six months ended December 31, 2009 and the twelve months ended June 30, 2009, the Company granted 21,000 and 108,000 shares of restricted stock to the Company's employees and directors under the 2003 Equity Incentive Plan, respectively. The restricted stock has one, two, or three-year vesting periods during which the recipient must remain employed with the Company or its subsidiaries. The weighted average fair value of the restricted stock on the dates of grant made during the six months ended December 31, 2009 and the twelve months ended June 30, 2009 was $6.89 and $12.15 per share, respectively. The following table summarizes the restricted stock activity for the six months ended December 31, 2009 and for the twelve months ended June 30, 2009:

	Number of Shares	Weighted-Average Grant-Date Fair Value
Restricted stock outstanding as of June 30, 2008	—	$ —
Granted	108,000	12.15
Vested	(49,849)	12.15
Forfeited	(33,099)	12.15
Restricted stock outstanding as of June 30, 2009	25,052	12.15
Granted	21,000	6.89
Vested	(16,749)	12.15
Forfeited	—	—
Restricted stock outstanding as of December 31, 2009	29,303	9.15

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6. Income Taxes

The provision (benefit) for income taxes consisted of the following:

	Six Months Ended December 31,		Twelve Months Ended June 30,	
	(audited)	(unaudited)	(audited)	
	2009	2008	2009	2008
Current income tax provision (benefit):				
Federal	$ (123)	$ 9,564	$ 4,451	$ 367
State and local	96	14	100	206
Foreign	(175)	—	—	6
Current income tax provision (benefit)	(202)	9,578	4,551	579
Deferred income tax provision (benefit):				
Federal	1,015	639	992	1,643
State and local	59	113	138	817
Foreign	(235)	—	—	—
Deferred income tax provision	839	752	1,130	2,460
Total income tax provision	$ 637	$ 10,330	$ 5,681	$ 3,039

The income tax provision attributable to income (loss) before income tax provision for the six months ended December 31, 2009 and 2008 and for the twelve months ended June 30, 2009 and 2008 differed from the amounts computed by applying the U.S. federal statutory tax rate of 35% as a result of the following (in thousands):

	Six Months Ended December 31,		Twelve Months Ended June 30,	
	(audited)	(unaudited)	(audited)	
	2009	2008	2009	2008
Computed "expected" income tax provision (benefit)	$ 688	$ (2,554)	$ (651)	$ 2,163
Increase (decrease) in income tax provision (benefit) resulting from:				
State and local income tax provision (benefit), net of federal effect	103	(312)	154	327
Changes in state NOL apportionments	—	—	—	339
Change in the valuation allowance for deferred income tax assets	81	3,036	5,124	—
Settlements	(235)	—	795	—
Uncertain tax positions	15	9,098	—	—
Other, net	(15)	1,062	259	210
Income tax provision	$ 637	$ 10,330	$ 5,681	$ 3,039

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As of December 31, 2009, June 30, 2009 and June 30, 2008, significant components of net deferred income tax assets and liabilities were as follows (in thousands):

	As of December 31, 2009		As of June 30, 2009		As of June 30, 2008	
	Current	Non-current	Current	Non-current	Current	Non-current
Deferred income tax assets:						
Accrued expenses	$ 808	$ —	$ 1,584	$ —	$ 982	$ —
Deferred revenue	1,412	—	1,312	—	1,609	—
Net operating loss carryforwards	—	3,073	—	7,852	3,036	520
Foreign tax credits	—	1,064	—	1,407	—	2,298
AMT credit	—	—	—	—	—	605
Stock-based compensation	—	1,744	—	1,555	—	1,233
Other	—	212	—	230	—	117
Subtotal	2,220	6,093	2,896	11,044	5,627	4,773
Valuation allowance	—	(546)	—	(5,670)	—	—
Total deferred income tax assets	2,220	5,547	2,896	5,374	5,627	4,773
Deferred income tax liabilities:						
Property and equipment	—	(121)	—	(71)	—	(37)
Prepaid expenses and other	(1,211)	(128)	(725)	(328)	(1,736)	(351)
Total deferred income tax liabilities	(1,211)	(249)	(725)	(399)	(1,736)	(388)
Net deferred income tax assets	$ 1,009	$ 5,298	$ 2,171	$ 4,975	$ 3,891	$ 4,385

During the fiscal year ended June 30, 2002, the Company experienced a change in ownership, as defined by the Internal Revenue Code ("IRC") under Section 382 (for a more detailed discussion regarding the change in ownership, refer to the discussion below regarding the settlement with the IRS). A change of ownership occurs when ownership of a company increases by more than 50 percentage points over a three-year testing period of certain stockholders. As a result of this ownership change, and in reaching a settlement with the IRS regarding this ownership change, the Company has determined that its annual limitation on the utilization of its NOL carryforwards is approximately $461,000 per year. As of June 30, 2009, for federal tax purposes, the Company will only be able to utilize $5,761,000 of its NOL carryforwards and will forgo utilizing $14,871,000 of its NOL carryforwards. As a result of the determination that the Company will not be able to utilize certain of its NOL carryforwards the Company will no longer account for these NOL carryovers in its deferred tax assets and will only account for the NOL carryforwards that will not expire unutilized as a result of the restrictions of IRC section 382.

As of December 31, 2009, the Company has NOL, research and development, and foreign tax credit carryforwards for U.S. federal income tax reporting purposes of approximately $6,044,000, $49,000, and $1,064,000, respectively. The NOLs will begin to expire in 2020 through 2022, the research and development credits will begin to expire in 2030 through 2033, and the foreign tax credits will begin to expire in 2017 through 2019, if not utilized.

The Company also has state NOL and research and development credit carryforwards of approximately $8,750,000 and $19,000, which expire on specified dates as set forth in the rules of the various states to which the carryforwards relate.

The Company also has foreign NOL carryforwards of approximately $242,000, which begin to expire in 2019.

Accounting guidance requires that a valuation allowance be established when it is more likely than not that all or a portion of net deferred income tax assets will not be realized. A valuation allowance was recorded in fiscal 2009 as a result of the settlement with the IRS on the utilization of the Company's pre-ownership change NOL carryforwards. A valuation allowance has also been recorded on certain of the Company's state NOL carryovers for the six months ended December 31, 2009 that the Company believes it will not be able to utilize before the carryforwards expire.

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The net change in the Company's valuation allowance was a decrease of $5,124,000 for the six months ended December 31, 2009 and an increase of $5,670,000 for the twelve months ended June 30, 2009.

Accounting guidance clarifies the accounting for uncertain tax positions and requires companies to recognize the impact of a tax position in their financial statements, if that position is more likely than not of being sustained on audit, based on the technical merits of the position.

Although the Company believes its estimates are reasonable, there can be no assurance that the final tax outcome of these matters will not be different from that which the Company has reflected in its historical income tax provisions and accruals. Such difference could have a material impact on the Company's income tax provision and operating results in the period in which it makes such determination.

The aggregate changes in the balance of unrecognized tax benefits during the six months ended December 31, 2009 and the twelve months ended June 30, 2009 were as follows (in thousands):

Balance as of June 30, 2008	$ 161
Increases for tax positions related to the current year	43
Increases for tax positions related to the prior years	8,700
Decreases for tax positions related to prior years	—
Settlements	(8,700)
Reductions due to lapsed statute of limitations	(75)
Balance as of June 30, 2009	$ 129
Increases for tax positions related to the current period	11
Increases for tax positions related to the prior years	—
Decreases for tax positions related to prior years	—
Settlements	—
Reductions due to lapsed statute of limitations	—
Balance as of December 31, 2009	$ 140

As of December 31, 2009, the Company has unrecognized tax benefits of $140,000, which if recognized, would reduce the Company's effective tax rate.

Estimated interest and penalties related to the underpayment or late payment of income taxes are classified as a component of income tax provision (benefit) in the consolidated statements of operations. Accrued interest and penalties were approximately $28,000, $22,000 and $29,000 as of December 31, 2009, June 30, 2009 and 2008, respectively.

The Company's U.S. federal income tax returns for fiscal 2006 through 2009 are open tax years. The IRS recently completed its audit of fiscal years 2005 through 2007. The Company also files in various state and foreign jurisdictions. With few exceptions, the Company is no longer subject to state and non-U.S. income tax examinations by tax authorities for years prior to fiscal 2006.

A settlement with the IRS in 2009 related to the following items:

- the deductibility, under the provisions of Internal Revenue Code Section 274 ("Section 274"), of 50% of the cost of meals provided to attendees at the Company's preview and workshop training sessions. The settlement reached with the IRS appeals office allows the Company to deduct 100% of all meals provided to attendees at both the preview and workshop training sessions. Therefore, no liabilities are recognized in the consolidated financial statements related to this issue.

- limitations imposed by Internal Revenue Code Section 382 ("Section 382"). Section 382 imposes limitations on a corporation's ability to utilize its NOLs if it experiences an "ownership change." In general terms, an ownership change results from transactions increasing the ownership of certain stockholders in the stock of a corporation by more than 50 percentage points over a three-year period. From the time of the Company's formation through fiscal 2002, it issued a significant number of shares, resulting in two changes of control, as defined by Section 382. As a result of the most recent ownership change, utilization of the Company's pre-ownership change NOL carryovers are subject to an annual limitation under Section 382. The annual limitation is determined by multiplying the value of the Company's stock at the time of the ownership change by the applicable federal long-term tax-exempt rate. Any unused annual limitation may be carried over to later years (until those NOLs expire), and the amount of the limitation may, under certain circumstances, be increased by the "recognized built-in gains" that occur during the five-year period after the ownership change (the "recognition period"). The Company had previously determined it had sufficient built-in gains to offset future income without limitation. As a result of the settlement reached with the IRS, the Company conceded that the fiscal 2002 ownership change resulted in a Section 382 limitation of $461,000 per year and that there were not sufficient built-in gains to offset future income. Based on this settlement, the Company has determined that it is more likely than not that approximately $14,871,000 of its federal NOL carry forwards will expire unutilized.

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- the IRS argued to re-open the Company's income tax returns for the fiscal years ended June 30, 2004 and 2003, both of which are closed from examination. The IRS argued that under Section 481(a) there was a change in "method of accounting" with respect to the Company's recognized built-in-gains described above. As part of the settlement, the IRS appeals office found no merit to the assertion that Section 481(a) can be applied to the fiscal 2004 and 2003 tax returns. Therefore, no liabilities are recognized in the consolidated financial statements related to this issue.

7. Note Payable

As of June 30, 2009, the Company had a collateralized note payable of $115,000. The note was collateralized by certain computer equipment. In November 2009, the Company paid the debt in full.

8. Accrued Expenses

Accrued expenses consisted of the following (in thousands):

	December 31, 2009	June 30, 2009	June 30, 2008
Customer service returns allowance	$ 1,387	$ 1,181	$ 488
Other	3,201	5,076	5,126
Total	$ 4,588	$ 6,257	$ 5,614

9. Intangible Assets

On June 29, 2007, the Company purchased certain advertising lists for $1,276,000. On June 30, 2008, the Company purchased an additional $833,000 in advertising lists. The Company has historically rented these lists for use in the Company's direct advertising campaigns. The Company has the right to lease these lists to other third parties. The Company amortizes the advertising lists over six years on an accelerated basis. The net carrying amount of intangible assets and future estimated amortization expense is as follows (in thousands):

	December 31, 2009	June 30, 2009	June 30, 2008
Advertising list	$ 2,109	$ 2,109	$ 2,109
Less accumulated amortization	(903)	(709)	(278)
Total	$ 1,206	$ 1,400	$ 1,831

Year ending December 31,	Amounts
2010	$ 369
2011	328
2012	283
2013	178
2014	48
Total	$ 1,206

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10. Commitments and Contingencies

Operating Leases

The Company leases certain of its equipment and corporate offices under noncancelable operating lease agreements expiring at various dates through 2014. The operating leases for the Company's corporate offices and training center facility contain customary escalation clauses. Future aggregate minimum lease obligations under operating leases as of December 31, 2009, exclusive of taxes and insurance, are as follows (in thousands):

Year ending December 31,	Amounts
2010	$ 1,569
2011	1,603
2012	1,643
2013	1,318
2014	-
Total	$ 6,133

Rental expense for the six months ended December 31, 2009 and 2008 and the twelve months ended June 30, 2009 and 2008 was approximately $667,000, $953,000 (unaudited), $1,881,000, and $952,000, respectively.

Consulting and Advertising Agreements

The Company has entered into certain consulting and advertising agreements expiring at various dates through 2011. Future aggregate minimum obligations under consulting and advertising agreements as of December 31, 2009 as follows (in thousands):

Year ending December 31,	Amounts
2010	$ 365
2011	90
Total	$ 455

Legal Proceedings

On October 9, 2007, the Federal Court of Australia New South Wales District Registry (the Court) set a hearing on a request for an injunction by the Australian Competition and Consumer Commission (ACCC). The ACCC sought a temporary injunction barring the Company from conducting business in Australia until such time as a permanent injunction is entered which would require certain actions on the part of the Company. The ACCC has alleged that the Company failed to comply with the terms of a previous agreement by: (i) failing to have notified the ACCC of seminars which were being held in Australia; (ii) failing to provide copies of tapes of seminars to the ACCC which were requested; (iii) failing to notify purchasers of the three-day cooling-off period (right to rescind); and (iv) failing to provide certain disclosures relating to the software, which were enumerated in the previous agreement. The ACCC also alleged that the prior sales offer used by the Company in its Workshops, whereby the Company compared the price of the software package sold at the Workshop to a list price available to attendees for 90 days (the "90 day offer") was deceptive. The Company admitted that it did not notify the ACCC, in a timely manner, of seminars which were previously held due to the failure of a former employee of the Company. Additionally, the Company also admitted that it was not able to provide one of several tapes requested by the ACCC. The Company disputed that it had failed to notify customers of the cooling-off period or to provide the specified disclosures. The Company also disputed that the 90 day offer was deceptive. The Court found that the Company did breach some of the terms of the previous agreement regarding the notification and the tapes. The Court also was not certain if all disclosures regarding the software were made in the terms required by the previous agreement. The Court declined to enter an injunction which barred the Company from conducting business in Australia. Consequently, the Company was not required to cancel any scheduled workshops, and has continued to transact sales in Australia. The Court did require certain disclosures on the part of the Company and required compliance with the previous agreement. The Court indicated failure to follow the Court's requirements could be deemed contempt. On December 1, 2009, the parties agreed to a settlement which made permanent the temporary Orders. The Company agreed to reimburse purchasers for any claims they may make with the ACCC and pay costs and fees to the ACCC up to December 1, 2009. The Company has agreed to a total payment of $823,000 which has been paid to accomplish the refunds and reimbursement of costs and fees. The Court has taken the matter of the 90 day offer under advisement. Regardless of the judgment by the Court, the Company is not liable for any further customer refunds in this action. There may be an award of fees for actions undertaken by the ACCC after December 1, 2009, but that amount (if any) should be minimal as the Court indicated it would make its ruling based on the written record.

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On August 4, 2008, the Company and the State of North Carolina agreed to a Consent Judgment ("North Carolina Judgment"). The North Carolina Judgment was a consequence of a preliminary injunction order (the "Order") entered in the State of North Carolina. The Order required that the Company not market or sell in the State of North Carolina. In the North Carolina Judgment, the Company agreed to pay fees totaling $90,000. The Company also agreed that it would refund any customers in the State of North Carolina who filed claims within 60 days of entry of the North Carolina Judgment. The claim had to include a declaration issued under penalty of perjury that the customer had been unable to activate a website and get it fully operational. The State of North Carolina also notified certain customers of the right to the refund. As a result of the North Carolina Judgment, the injunction issued under the Order was lifted and the Company was permitted to immediately schedule seminars in the State of North Carolina. There was no finding that the Company is a seller of a "Business Opportunity." The Company also agreed to certain actions intended to clarify the business practices of the Company. The North Carolina Judgment does not otherwise limit the Company's ability to conduct business in the State of North Carolina. The Company received a substantial number of claims which included an untrue (according to the records of the Company) declaration under penalty of perjury that the customer attempted to activate a website and also attempted to contact customer service. The Company notified the State of North Carolina that it did not believe it was obligated to pay claims made under penalty of perjury which were not factually accurate. On August 10, 2009, the North Carolina Court entered an Order requiring the Company to pay all claims filed, the North Carolina Court ruling that the filing of the declaration was determinative not the truth of the statement made under penalty of perjury. The Company has filed a notice of appeal of the August 10, 2009 order. The Company also may file actions against those who filed false declarations. The Company has reserved the amounts paid by customers who filed the false claims. On January 29, 2010, the Company and the North Carolina Attorney General agreed to resolve the issue of the disputed claims. The Company has agreed to allow reimbursements of the disputed claims of approximately $900,000. The Attorney General is waiving any right to fees and costs as well as interest they claim owed to the people who filed claims. The parties are awaiting the Court dismissing the action based on the settlement.

On October 24, 2005, the Company announced it had been notified by the Securities and Exchange Commission (SEC) that it had issued a formal order of investigation related to the Company. Prior to the order, the Company had announced a change of the independent registered public accounting firm for the Company. The Company also issued a Form 8-K with notification of Non-Reliance on Previously Issued Financial Statements or a Related Audit Report or Completed Interim Review. The Company has fully cooperated with the SEC in this matter and has had no communication with the SEC related to this matter since 2006.

On January 13, 2010, the Court of Shelby County, Tennessee For The 30th Judicial District at Memphis entered a final Order approving settlement in a consumer class action lawsuit. The settlement stems from a 2008 arbitration action known as Lyle Hill, on behalf of himself and all others similarly situated, v. iMergent, et.al. which claimed the Company through its StoresOnline division engaged in deceptive sales practices and sold defective software. The approved settlement is on a "claims made" basis and requires supporting documentation with the claim. The settlement resolves all claims of purchasers who do not choose to opt out of the class action settlement, which includes purchasers prior to January 1, 2009.

Under the terms of the settlement purchasers who can establish they activated their software, spent a minimum of 23 hours working with the software including working with customer service but could not develop a web site may be entitled to a refund of up to $1,254. All other customers will be entitled to compensation which includes either the development of a website(s) or discounts on the development of websites. The settlement has been funded in part from the Company's E&O policy and in part from reserves made in previous quarters.

In addition to the foregoing proceedings, from time to time the Company receives inquiries from federal, state, city and local government officials in the various jurisdictions in which the Company operates. These inquiries and investigations generally concern compliance with various city, county, state and/or federal regulations involving sales, representations made, customer service, refund policies, and marketing practices. The Company responds to these inquiries and has generally been successful in addressing the concerns of these persons and entities, without a formal complaint or charge being made, although there is often no formal closing of the inquiry or investigation. There can be no assurance that the ultimate resolution of these or other inquiries and investigations will not have a material adverse effect on the Company's business or operations, or that a formal complaint will not be initiated. The Company also receives complaints and inquiries in the ordinary course of its business from both customers and governmental and non-governmental bodies on behalf of customers, and in some cases these customer complaints have risen to the level of litigation. There can be no assurance that the ultimate resolution of these matters will not have a material adverse affect on the Company's business or results of operations.

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The Company has recorded a liability of approximately $1,079,000, $2,182,000 and $1,460,000 as of December 31, 2009, June 30, 2009 and June 30, 2008, respectively, for estimated losses resulting from various legal proceedings against the Company. Attorney fees associated with the various legal proceedings are expensed as incurred. The Company also is subject to various claims and legal proceedings covering matters that arise in the ordinary course of business. The Company believes that the resolution of these other cases will not have a material adverse effect on its business, financial position, or results of operations.

11. Stockholders' Equity

On September 4, 2007, the Company's Board of Directors authorized the repurchase of up to an additional $50,000,000 of the Company's common stock, bringing the total amount authorized for repurchase to $70,000,000 through September 2012. The Company's share purchase program was originally announced on September 5, 2006. The Company expects to repurchase the common stock over 5 years but may suspend or discontinue repurchasing the common stock at any time. During the six months ended December 31, 2008 and the twelve months ended June 30, 2009 and 2008, the Company repurchased 109,100 (unaudited), 109,100, and 948,297 shares of common stock for $734,000 (unaudited), $734,000, and $12,580,000, respectively. As of December 31, 2009, $42,940,000 remained of the $70,000,000 approved repurchase amount.

12. Employee Benefit Plan

The Company has established a retirement savings plan for eligible employees. The plan allows employees to contribute a portion of their pre-tax compensation in accordance with specified guidelines. The Company may make discretionary profit-sharing contributions. The Company began making contributions to the plan in July 2006. For the six months ended December 31, 2009 and 2008 and for the twelve months ended June 30, 2009 and 2008, the Company contributed approximately $155,000, $172,000 (unaudited), $339,000, and $336,000 to the retirement savings plan, respectively.

13. Segments

Management has chosen to organize the Company around differences in products and services. In the twelve months ended June 30, 2009, iMergent introduced two new segments into the market named Crexendo Business Solutions and Crexendo Network Services. Crexendo Business Solutions generates revenue from managing eCommerce or lead generation offerings, web sites, search engine optimization/management and online promotional needs for small, medium, and large businesses. Crexendo Network Services is currently in the development stage and will market to the data and telecommunications industry. StoresOnline will continue to generate revenue by offering businesses a continuum of services and technology providing tools and training to establish a successful website on the Internet for entrepreneurs and small office/home office (SOHO) customers.

Segment revenue and operating income (loss) was as follows (in thousands):

	Six Months Ended December 31,		Twelve Months Ended June 30,	
	(audited)	(unaudited)	(audited)	
	2009	2008	2009	2008
Revenue:				
StoresOnline	$ 35,589	$ 54,120	$ 94,411	$ 128,048
Crexendo Business Solutions	127	—	—	—
Crexendo Network Services	—	—	—	—
Consolidated	$ 35,716	$ 54,120	$ 94,411	$ 128,048

	Six Months Ended December 31,		Twelve Months Ended June 30,	
	(audited)	(unaudited)	(audited)	
	2009	2008	2009	2008
Operating Income (Loss):				
StoresOnline	$ 591	$ (10,189)	$ (7,427)	$ (3,253)
Crexendo Business Solutions	(904)	—	(253)	—
Crexendo Network Services	(210)	—	(199)	—
Consolidated	$ (523)	$ (10,189)	$ (7,879)	$ (3,253)

Crexendo Network Services is a development stage company. Since the inception of Crexendo Network Services in March 2009 through December 31, 2009, this segment has incurred $409,000 in expenses.

14. Subsequent Events

In February 2010, the Company completed the purchase of the assets of CastleWave, LLC for $250,000 in cash, 20,000 shares of stock, and future payments under a three year earn out of revenue from the existing customer base and existing sales channel.

15. Quarterly Financial Information (unaudited)

	Six months ended December 31, 2009

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	For the three months ended	
	September 30, 2009	December 31, 2009
	(In thousands, except per share data)	
Revenues	$ 17,378	$ 18,338
Cost of product and other revenues	5,583	6,025
Selling and marketing	7,904	8,487
General and administrative	3,601	3,595
Research and development	503	541
Loss from operations	(213)	(310)
Total other income	1,313	1,178
Income before income taxes	1,100	868
Income tax provision	(382)	(255)
Net income	$ 718	$ 613
Basic net income per common share	$ 0.06	$ 0.06
Diluted net income per common share	$ 0.06	$ 0.06

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	Twelve months ended June 30, 2009			
	For the three months ended			
	September 30, 2008	December 31, 2008	March 31, 2009	June 30, 2009
	(In thousands, except per share data)			
Revenues	$ 27,266	$ 26,854	$ 20,921	$ 19,370
Cost of product and other revenues	8,367	9,436	5,802	5,533
Selling and marketing	17,066	17,580	9,336	8,452
General and administrative	4,512	6,267	4,051	3,711
Research and development	583	497	515	582
Income (loss) from operations	(3,262)	(6,926)	1,217	1,092
Total other income	1,644	1,246	1,561	1,567
Income (loss) before income taxes	(1,618)	(5,680)	2,778	2,659
Income tax benefit (provision)	(5,881)	(4,450)	(1,226)	5,876
Net income (loss)	$ (7,499)	$ (10,130)	$ 1,552	$ 8,535
Basic net income (loss) per common share	$ (0.66)	$ (0.89)	$ 0.14	$ 0.75
Diluted net income (loss) per common share	$ (0.66)	$ (0.89)	$ 0.14	$ 0.74

	Twelve Months ended June 30, 2008			
	For the three months ended			
	September 30, 2007	December 31, 2007	March 31, 2008	June 30, 2008
	(In thousands, except per share data)			
Revenues	$ 32,462	$ 38,916	$ 27,557	$ 29,113
Cost of product and other revenues	11,704	12,281	6,737	7,433
Selling and marketing	18,210	20,985	14,482	16,110
General and administrative	5,479	5,280	5,014	5,474
Research and development	479	513	587	534
Income (loss) from operations	(3,410)	(143)	737	(438)
Total other income	2,372	2,634	2,258	2,171
Income (loss) before income taxes	(1,038)	2,491	2,995	1,733
Income tax benefit (provision)	238	(844)	(1,253)	(1,179)
Net income (loss)	$ (800)	$ 1,647	$ 1,742	$ 554
Basic net income (loss) per common share	$ (0.07)	$ 0.14	$ 0.15	$ 0.05
Diluted net income (loss) per common share	$ (0.07)	$ 0.14	$ 0.15	$ 0.05

Net income (loss) per common share is computed independently for each of the quarters presented. Therefore, the sums of quarterly net income (loss) per common share amounts do not necessarily equal the total for the six month and twelve month periods presented due to rounding.

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iMERGENT, INC. AND SUBSIDIARIES
Schedule II- Valuation and Qualifying Accounts
Six Months Ended December 31, 2009 and
Twelve Months Ended June 30, 2009 and 2008

	Balance at Beginning of Period	Additions	Deductions	Balance at End of Period
Six Months ended December 31, 2009		(in thousands)		
Allowance for doubtful accounts receivable	$ 14,107	$ 17,616	$ (14,014)	$ 17,709
Deferred income tax asset valuation allowance	5,670	—	(5,124)	546
Tweleve Months ended June 30, 2009				
Allowance for doubtful accounts receivable	18,583	24,448	(28,924)	14,107
Deferred income tax asset valuation allowance	—	5,670	—	5,670
Twelve Months ended June 30, 2008				
Allowance for doubtful accounts receivable	17,514	24,144	(23,075)	18,583
Deferred income tax asset valuation allowance	—	—	—	—

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, we recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and we are required to apply our judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by Exchange Act Rule 13a-15(b), we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the fiscal quarter covered by this report. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

There has been no change in our internal controls over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

Management's Report on Internal Control over Financial Reporting

Internal control over financial reporting refers to the process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer, and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, and includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, the risk. Management is responsible for establishing and maintaining adequate internal control over our financial reporting.

Management has used the framework set forth in the report entitled "Internal Control-Integrated Framework" published by the Committee of Sponsoring Organizations ("COSO") of the Treadway Commission to evaluate the effectiveness of its internal control over financial reporting. Management has concluded that its internal control over financial reporting was effective as of the end of the most recent fiscal year.

This Form 10-KT does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit us to provide only management's report in this annual report.

The foregoing has been approved by our management, including our Chief Executive Officer and Chief Financial Officer, who have been involved with the assessment and analysis of our internal controls over financial reporting.

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ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information with respect to this item will be set forth in the definitive proxy statement to be delivered to stockholders in connection with the 2009 Annual Meeting of Stockholders (the "Proxy Statement"). Such information is incorporated herein by reference.

We have adopted a code of ethics that applies to all employees, including employees of our subsidiaries, as well as each member of our Board of Directors. The code of ethics is available at our website at www.imergentinc.com.

We intend to satisfy any disclosure requirement under Item 5.05 of Form 8-K regarding an amendment to, or waiver from, a provision of this code of ethics by posting such information on our website, at the address specified above.

ITEM 11. EXECUTIVE COMPENSATION

Information with respect to this item will be set forth in the Proxy Statement under the heading "Executive Compensation and Other Matters," and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDERS MATTERS

Information with respect to this item will be set forth in the Proxy Statement under the heading "Beneficial Ownership of Shares," and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information with respect to this item will be set forth in the Proxy Statement under the heading "Corporate Governance" and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information with respect to this item will be set forth in the Proxy Statement under the headings "Fees of Independent Registered Public Accounting Firm" and "Pre-Approval Policies and Procedures," and is incorporated herein by reference.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

Documents filed as part of this Report:

1. Financial Statements – consolidated financial statements of iMergent, Inc. and subsidiaries as set forth under Item 8 of this Report.

2. The Financial Statement Schedule on page 59 of this Report.

3. Exhibit Index as seen below.

EXHIBIT INDEX

Exhibit No.	Exhibit Description	Incorporated By Reference			Filed Herewith
		Form	Date	Number	
2.1	Agreement and Plan of Merger dated March 10, 2000 by and among Netgateway, Inc., Galaxy Acquisition Corp. and Galaxy Enterprises, Inc.	8-K	3/21/00	10.1	
3.1	Certificate of Incorporation	S-1	6/1/99	3.1	
3.2	Certificate of Amendment to Certificate of Incorporation	S-1	9/7/00	3.1	
3.3	Certificate of Amendment to Certificate of Incorporation	10-K	10/15/02	3.3	
3.4	Amended and Restated Bylaws	10-Q	11/20/01	3.2	
3.5	Certificate of Ownership and Merger (4)	S-1/A	11/12/99	3.3	
3.6	Articles of Merger	S-1/A	11/12/99	3.4	
4.1	Form of Common Stock Certificate	10-K	10/15/02	4.1	
4.2*	Form of Representatives' Warrant	S-1	6/1/99	4.1	
10.1*	1998 Stock Compensation Program	S-1	6/1/99	10.6	
10.2*	Amended and Restated 1998 Stock Option Plan for Senior Executives	10-K	9/29/03	10.2	
10.3*	Amended and Restated 1999 Stock Option Plan for Non-Executives	10-K	9/29/03	10.3	
10.5*	2003 Equity Incentive Plan	10-K	9/10/04	10.11	
10.6	Lease Agreement dated as of March 18, 2008 by and between iMergent, Inc. and Canyon Park Management Company	10-Q	5/6/08	10.1	
21.1	Subsidiaries of iMergent, Inc.				X
23.1	Consent of Independent Registered Public Accounting Firm				X
23.2	Consent of Independent Registered Public Accounting Firm				X
31.1	Certification Pursuant to Rules 13a-14(a) under the Securities Exchange Act of 1934 as amended				X
31.2	Certification Pursuant to Rules 13a-14(a) under the Securities Exchange Act of 1934 as amended				X
32.1	Certification Pursuant to 18 U.S.C. Section 1350				X
32.2	Certification Pursuant to 18 U.S.C. Section 1350				X

* Indicates a management contract or compensatory plan or arrangement.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

IMERGENT, INC.

Date: March 2, 2010

By: /s/ STEVEN G. MIHAYLO
Steven G. Mihaylo
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: March 2, 2010

By: /s/ STEVEN G. MIHAYLO
Steven G. Mihaylo
Chief Executive Officer, Director

Date: March 2, 2010

By: /s/ JONATHAN R. ERICKSON
Jonathan R. Erickson
Chief Financial Officer and Principal Accounting Officer

Date: March 2, 2010

By: /s/ TODD GOERGEN
Todd Goergen
Chairman of the Board of Directors

Date: March 2, 2010

By: /s/ CRAIG RAUCHLE
Craig Rauchle
Director

Date: March 2, 2010

By: /s/ ROBERT KAMM
Robert Kamm
Director

Date: March 2, 2010

By: /s/ DAVID WILLIAMS
David Williams
Director

Date: March 2, 2010

By: /s/ ANIL PURI
Anil Puri
Director

Source: IMERGENT INC, 10-KT, March 02, 2010 Powered by Morningstar® Document Research℠

EXHIBIT 21.1

SUBSIDIARIES OF THE REGISTRANT

Name of subsidiary	State of their jurisdiction of incorporation or organization	Other names under which subsidiary does business
StoresOnline, Inc.	Delaware	None
StoresOnline International, Inc.	Delaware	None
StoresOnline International, Ltd.	United Kingdom	None
StoresOnline International Canada, ULC	Alberta, Canada	None
Galaxy Mall, Inc.	Wyoming	None
Avail 24/7, Inc.	Delaware	None
Internet Training Group, Inc.	Delaware	None
Crexendo Business Solutions, Inc.	Arizona	None

Source: IMERGENT INC, 10-KT, March 02, 2010 Powered by Morningstar® Document Research℠

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements No. 333-95205, No. 333-120432, and No. 333-120433 on Form S-8 of our report dated March 2, 2010, relating to the consolidated financial statements and financial statement schedule of iMergent, Inc and subsidiaries appearing in this Transition Report on Form 10-KT of iMergent, Inc. and subsidiaries for the six months ended December 31, 2009.

As discussed in Note 1 to the consolidated financial statements, the Company changed its fiscal year end from June 30 to December 31.

/s/ Deloitte & Touche LLP

Salt Lake City, Utah
March 2, 2010

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EXHIBIT 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

iMergent, Inc.

We consent to the incorporation by reference in Registration Statements No. 333-95205, No. 333-120432, and No. 333-120433 on Form S-8 of iMergent, Inc. of our report dated September 1, 2009 with respect to the consolidated financial statements and financial statement schedule of iMergent, Inc. contained in iMergent, Inc.'s Transition Report on Form 10-KT for the period ended December 31, 2009.

/s/ Tanner LC

Salt Lake City, Utah
March 2, 2010

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EXHIBIT 31.1

I, Steven G. Mihaylo, certify that:

1. I have reviewed this transition report on Form 10-KT of iMergent, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 2, 2010

By: /s/ STEVEN G. MIHAYLO
Steven G. Mihaylo
Chief Executive Officer

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EXHIBIT 31.2

I, Jonathan R. Erickson, certify that:

1. I have reviewed this transition report on Form 10-KT of iMergent, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 2, 2010

By: /s/JONATHAN R. E RICKSON
Jonathan R. Erickson
Chief Financial Officer

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EXHIBIT 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350

In connection with the iMergent, Inc. (the Company) Transition Report on Form 10-KT for the six months ended December 31, 2009 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Steven G. Mihaylo, Chief Executive Officer of the Company, do hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities and Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 2, 2010

By: /s/ STEVEN G. MIHAYLO
Steven G. Mihaylo
Chief Executive Officer

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EXHIBIT 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350

In connection with the iMergent, Inc. (the Company) Transition Report on Form 10-KT for the six months ended December 31, 2009 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Jonathan R. Erickson, Chief Financial Officer of the Company, do hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities and Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 2, 2010

By: /s/JONATHAN R. E RICKSON
Jonathan R. Erickson
Chief Financial Officer

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Attachment F – Chart of Accounts

See Attached Chart of Accounts for iMergent, Inc.

	iMergent				
Account	**Description**	**Account Type**			
1000	Suspense	Asset			
1001	Zions Bank	Asset			
1002	Wells Fargo Bank	Asset			
1003	Chase Bank	Asset			
1004	First Regional Bank	Asset			
1005	Petty Cash	Asset			
1006	Investment Accounts	Asset			
1007	Far West Bank	Asset			
1008	Commonwealth Bank	Asset			
1009	HSBC Bank	Asset			
1010	Closed Bank Accounts	Asset			
1021	Other Reserves	Asset			
1030	Investments ST	Asset			
1031	Investments LT	Asset			
1050	Merchant Accounts	Asset			
1051	Closed Merchant Accounts	Asset			
1052	Merchant Account Reserves	Asset			
1053	Closed Merchant Reserves	Asset			
1100	Accounts Receivable	Asset			
1101	Allowance for Doubtful Account	Asset			
1102	Other Receivables	Asset			
1105	Notes Receivable	Asset			
1110	Loans Receivable	Asset			
1200	Deposits	Asset			
1201	Prepaids ST	Asset			
1202	Prepaids LT	Asset			
1300	Credit Card Clearing	Asset			
1301	Credit Card Chargeback Allowan	Asset			
1305	Advances - Purchasing Card	Asset			
1310	Hotel Advances	Asset			
1311	Airline Advance Prepaid	Asset			
1320	Hotel Advances	Asset			
1330	Advances to vendors	Asset			
1335	Advance - Seminar Expense	Asset			
1341	Credit Card Allowance	Asset			
1360	Intercompany	Asset			
1365	Long Term Employee Advances	Asset			
1370	Advances	Asset			
1375	Note Receivable - Officers	Asset			
1380	Intercompany Payable / Receiva	Asset			
1400	Prepaid Expenses	Asset			
1430	Debt Issue Costs	Asset			
1435	Retainer-Professional Services	Asset			
1440	Inventory	Asset			
1450	Deposits	Asset			
1460	Deferred Acquisition Costs	Asset			
1470	Debt Financing Costs	Asset			

	iMergent				
Account	**Description**	**Account Type**			
1480	Prepaid Taxes	Asset			
1481	Deferred Tax Asset - ST	Asset			
1482	Deferred Tax Asset - LT	Asset			
1500	Fixed Assets	Asset			
1600	Goodwill - Coop Companies	Asset			
1610	Goodwill - Profit Education	Asset			
1611	Acquired Technology - Cost	Asset			
1615	Acc. Amor. Goodwill	Asset			
1616	Acquired Technology - Accum De	Asset			
1620	Goodwill	Asset			
1625	Goodwill - Accum Amort	Asset			
1630	Other Intangible Assets	Asset			
1635	Other Intangible Assets - Accu	Asset			
1700	Investment In Subsidiary	Asset			
1800	Other Long Term Assets	Asset			
1900	Other Assets	Asset			
1999	Total Assets	Asset			
2000	Accounts Payable	Liabi			
2010	Other Payables	Liabi			
2055	Accrued Inventory	Liabi			
2060	Inventory Clearing Account	Liabi			
2065	Project Costing Retention	Liabi			
2070	Excess Contract Billings	Liabi			
2075	Inventory Clearing Account	Liabi			
2080	Line of Credit	Liabi			
2100	Accrued Expense	Liabi			
2104	Customer Depsoits	Liabi			
2105	Customer Returns Liability	Liabi			
2110	Accrued Salaries & Wages	Liabi			
2120	Accrued Bonus	Liabi			
2130	Accrued Bonuses - Officer	Liabi			
2140	Accrued Vacation Expense	Liabi			
2150	Accrued Medical Trust	Liabi			
2160	Payroll Clearing Account	Liabi			
2161	Cafeteria 125 Plan Account	Liabi			
2162	Federal Payroll Tax Payable	Liabi			
2163	Soc Sec/Medicare Tax Payable	Liabi			
2164	State Withholding Tax Payable	Liabi			
2165	FUTA Tax Payable	Liabi			
2166	SUTA Tax Payable	Liabi			
2167	401(k) Payable	Liabi			
2168	Health Savings Account	Expen			
2169	Past Due Payroll Taxes	Liabi			
2170	Garnishments	Liabi			
2177	Accrued Medical Benefits	Liabi			
2185	Accrued Interest	Liabi			
2190	Dividend Payable	Liabi			

	iMergent				
Account	Description	Account Type			
2200	Note Payable, ST	Liabi			
2210	Notes Payable - Officer	Liabi			
2215	Notes Payable - Other	Liabi			
2220	Capital Leases	Liabi			
2230	American Express Clearing	Liabi			
2235	Contract Loss Reserve	Liabi			
2240	Federal Income Tax Payable	Liabi			
2250	Cap Lease Accrual	Liabi			
2251	Rent Accrual	Liabi			
2255	Accrued Contingencies	Liabi			
2260	Bank Overdraft	Liabi			
2270	Sales Tax Payable	Liabi			
2280	Deferred Revenue - Current	Liabi			
2281	Defer Revenue - Customer Suppo	Liabi			
2300	Advances from Galaxy Mall	Liabi			
2301	Advances from Galaxy Enterpris	Liabi			
2302	Loans from Investors	Liabi			
2303	Advances from Galaxy Enterpris	Liabi			
2309	Convertible Debentures	Liabi			
2310	Advances from Netgateway	Liabi			
2315	Advances from EMS	Liabi			
2319	Advances to StoresOnline	Liabi			
2320	PMI Reserve Account	Liabi			
2321	Bridge Financing	Liabi			
2325	CMG Reserve	Liabi			
2327	EMS Reserve	Liabi			
2330	Notes Payable - Related Party	Liabi			
2331	Success Team Reserve Account	Liabi			
2335	Funded Contract Reserves	Liabi			
2340	Capital Leases - Long Term	Liabi			
2341	Stock Clearing Liability	Liabi			
2342	Capital Leases - Long Term	Liabi			
2343	FIN 48 Income Taxes Payable -	Liabi			
2350	Deferred Taxes - Long Term	Liabi			
2351	Current Maturities of Debt	Liabi			
2360	Deferred Revenue - Long Term	Liabi			
2370	Notes Payable - Long Term	Liabi			
2400	Minority Interest	Liabi			
2999	Total Liabilities	Liabi			
3100	Common Stock	Owner			
3200	Additional Paid in Capital	Owner			
3210	Deferred Compensation	Owner			
3300	Holding Company Interest	Owner			
3400	Deferred Compensation	Owner			
3700	Translation Adjustment	Owner			
3800	Stock Subscribed	Owner			
3900	Retained Earnings	Owner			

	iMergent				
Account	**Description**	**Account Type**			
3905	Dividends Payable	Liabi			
3999	Total Equity	Owner			
4010	Workshop Sales	Reven			
4011	Direct Sales	Reven			
4012	VAR Sales	Reven			
4015	Educational Sales	Reven			
4020	Preview Sales	Reven			
4030	Contract Telemarketing	Reven			
4040	In House Telemarketing	Reven			
4050	Customer Service Sales	Reven			
4060	Hosting Sales	Reven			
4070	Other Sales	Reven			
4080	Follow Up Sales	Reven			
4999	Total Revenue	Reven			
5005	Salaries & Wages-Regular	Expen			
5010	Salaries & Wages-Bonus	Expen			
5120	Utilities	Expen			
5145	Utilities	Expen			
5250	Printing & Reproduction	Expen			
5300	Credit Card Fees	Expen			
5305	Credit Card Chargeback Expense	Expen			
5310	Dues & Subscriptions	Expen			
5335	Taxes - Other	Expen			
5360	Fines & Penalties	Expen			
5375	Other Supplies	Expen			
5380	Office Supplies	Expen			
5385	Computer Supplies	Expen			
5400	Employer Taxes	Expen			
5420	Telephone	Expen			
5425	Avail toll free charges	Expen			
5430	Employee Insurance Benefits	Expen			
5440	Repairs & Maintenance	Expen			
5450	Postage	Expen			
5455	Freight	Expen			
5500	Travel - Airfare Out of Town	Expen			
5510	Travel - Lodging Out of Town	Expen			
5520	Travel - Rental Car	Expen			
5535	Travel - Perdiem	Expen			
5540	Travel - Misc Out of Town	Expen			
5545	Travel - Local	Expen			
5550	Entertainment & Meals	Expen			
5555	Depreciation	Expen			
5600	Meeting Room	Expen			
5610	Food Services	Expen			
5615	Hotel Cancellation Fees	Expen			
5620	Speaker Fees	Expen			
5625	Workshop Gift Expense	Expen			

	iMergent				
Account	**Description**	**Account Type**			
5630	Workshop Customer Spiffs Givea	Expen			
5631	Workshop Spiffs Bonus Savings	Expen			
5635	Workshop Employee Spiffs	Expen			
5640	Event Materials	Expen			
5645	SSL Certificate Cost	Expen			
5650	Independent Contractor	Expen			
5660	Workshop Prod. - Related Party	Expen			
5665	Telemarketing Prod - Rel Party	Expen			
5670	Credit Card Processor Product	Expen			
5675	Links for Trade	Expen			
5680	Banner Impression Purchases	Expen			
5690	Contest Prizes	Expen			
5700	Misc Product Cost	Expen			
5705	Product COGS	Expen			
5800	Prepaid Legal Fees	Expen			
5805	Prepaid Legal Materials	Expen			
5900	Questionable Order Commissions	Expen			
5910	3-Day Right Saves - Commission	Expen			
5999	Total COGS	Expen			
6005	Salaries & Wages-Regular	Expen			
6010	Salaries & Wages-Bonus	Expen			
6100	Payroll Burden Allocation	Expen			
6150	Job Cost Alloc	Expen			
6200	Contract Labor	Expen			
6215	Temporary Help	Expen			
6300	Commissions	Expen			
6400	Employer Payroll Taxes	Expen			
6401	Payroll Taxes - FICA	Expen			
6402	Payroll Taxes - FUTA	Expen			
6403	Payroll Taxes - SUI	Expen			
6410	Worker's Compensation	Expen			
6420	Vacation	Expen			
6430	Employee Benefits	Expen			
6450	401k Match	Expen			
6500	Recruiting	Expen			
6510	Training	Expen			
6520	Parking	Expen			
6530	Other Cost of Staff	Expen			
6999	Total Employee Costs	Expen			
7100	Rent - Building	Expen			
7110	Rent - Other	Expen			
7120	Utilities	Expen			
7200	System Maintenance	Expen			
7210	Call Center Equipment Fees	Expen			
7300	Credit Card Transaction Fees:	Expen			
7400	Training Licenses	Expen			
7500	Depreciation Expense	Expen			

	iMergent				
Account	**Description**	**Account Type**			
7510	Amortization of Goodwill	Expen			
7520	Equipment Leasing	Expen			
7530	Equipment Rental	Expen			
7540	Automobile Leasing	Expen			
7600	Research & Development Expense	Expen			
8100	Legal Fees	Expen			
8101	Option Expense 123r	Expen			
8105	Legal Expense - Merger	Expen			
8110	Audit Fees	Expen			
8115	Accounting Fees	Expen			
8117	Bad Debt Expense	Expen			
8118	Cust Serv Returns Reserve	Expen			
8119	Finance Company Services	Expen			
8120	Finance Company Discounts	Expen			
8121	Shareholder/Investor Relations	Expen			
8122	Investor relations corp	Expen			
8124	Sporting Event Advertising	Expen			
8125	Public Relations	Expen			
8126	ACH Transaction Fees	Expen			
8130	Foreign Exchange Gain/Loss	Expen			
8131	Currency Rounding	Expen			
8132	Corporate Communications	Expen			
8133	FX Gain/Loss on AR Applied Cas	Expen			
8135	Finders Fee	Expen			
8139	Financial Consulting	Expen			
8140	Credit Reference Sevices	Expen			
8145	Outside Services	Expen			
8150	Consulting Fees	Expen			
8160	Stock Transfer Agent Fees	Expen			
8170	Royalties	Expen			
8175	Revenue Splits	Expen			
8180	Contract Telemarketing	Expen			
8181	Web promo & EMS weekly	Expen			
8190	Merchant Retreat Expenses	Expen			
8200	Advertising	Expen			
8210	Advertising - Radio	Expen			
8215	Advertising - Kemo - Bloosky	Expen			
8220	Advertising - Intangible Amort	Expen			
8225	Advertising - Get Motivated	Expen			
8230	Telemarketing	Expen			
8240	Trade Shows	Expen			
8250	Printing & Reproduction	Expen			
8255	Financial Printing	Expen			
8260	Mailing List Expense	Expen			
8265	Direct Mail Fulfillment	Expen			
8270	Postage - Direct Mail	Expen			
8275	Marketing & Research	Expen			

	iMergent				
Account	**Description**	**Account Type**			
8280	Other Cost of Marketing	Expen			
8300	Computer Accessories	Expen			
8310	Dues & Subscriptions	Expen			
8315	Donations	Expen			
8320	Education & Training	Expen			
8325	Filing Fees	Expen			
8330	License Fees & Permits	Expen			
8335	Taxes - Other	Expen			
8340	Payroll Service Fees	Expen			
8350	Insurance - General	Expen			
8355	Insurance - Officer's Life	Expen			
8360	Fines & Penalties	Expen			
8370	Office Equipment	Expen			
8375	Other Supplies	Expen			
8380	Office Supplies	Expen			
8385	Computer Supplies	Expen			
8400	Bandwidth	Expen			
8410	Communications - Cellular	Expen			
8420	Telephone	Expen			
8430	Communications - Other	Expen			
8440	Repairs & Maintenance	Expen			
8450	Postage	Expen			
8455	Freight	Expen			
8460	Bank Service Charges	Expen			
8463	Credit Card Fees	Expen			
8465	Currency Conversion Fee	Expen			
8470	NSF Checks	Expen			
8500	Travel - Airfare Out of Town	Expen			
8510	Travel - Lodging Out of Town	Expen			
8520	Travel - Rental Car	Expen			
8530	Travel - Meals	Expen			
8535	Per Diem	Expen			
8540	Travel - Misc Out of Town	Expen			
8545	Travel - Local	Expen			
8550	Entertainment & Meals	Expen			
8600	Meeting Room	Expen			
8610	Food Services	Expen			
8615	Hotel Cancellation Fees	Expen			
8620	Speaker Fees	Expen			
8625	Telemarketing Spiffs	Expen			
8630	Customer Spiffs	Expen			
8635	Employee Spiffs	Expen			
8636	Employee Awards Programs	Expen			
8640	Event Materials	Expen			
8643	Inventory Scrap Write-off	Expen			
8645	SSL Certificate Cost	Expen			
8650	Preview ISP Fees	Expen			

	iMergent				
Account	**Description**	**Account Type**			
8660	Materials - Telemarketing	Expen			
8670	Seminar Expense Unallocated	Expen			
8700	Miscellaneous	Expen			
8715	Financial Services Leads	Expen			
8750	Property Taxes	Expen			
8770	Sales Tax Expense	Expen			
8800	Debt Issue Expense	Expen			
8805	Debt Discount Expense	Expen			
8850	Registration & Filing Fees	Expen			
8905	Freight Account	Expen			
8915	Variance Account	Expen			
8920	Realized Gain / Loss	Expen			
8930	Discount Account	Expen			
8940	Financing Bad Debt	Expen			
8945	Late Charge Account	Expen			
8950	AP Adjustments	Expen			
8955	Rent - Income	Reven			
8999	Total G&A Expenses	Expen			
9100	Interest	Expen			
9200	Non Operating Gain or Loss	Expen			
9300	Income Tax	Expen			
9900	Market Statistics & Errors	Expen			
9999	Non Operating Activity	Expen			

Attachment G – Prefiled Testimony

See Attached

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Crexendo Business Solutions, Inc.	:
Application for a certificate of	:
local and interexchange authority	:
to operate as a resale and facilities	:
based carrier of telecommunications	:
services throughout the	:
State of Illinois.	

PREFILED DIRECT TESTIMONY
OF
JEFF KORN

1. Q. Please state your name and business address.

   A. Jeff Korn, 10201 South 51st Street, Phoenix, Arizona 85044.

2. Q. By whom are you employed, and what is your position?

   A. I am the Chief Legal Officer of Crexendo Business Solutions, Inc.

3. Q. Please describe your management experience.

   A. My management experience, as well as the other key members of Crexendo Business Solutions, Inc.'s management team is set forth on Attachment C to our application.

4. Q. What is the purpose of your testimony?

A. The purpose of my testimony is to describe Crexendo Business Solutions, Inc.'s business and to demonstrate Crexendo Business Solutions, Inc.'s financial, technical and managerial ability to provide high quality, competitively priced, telecommunications services, and to describe how the company will provide its services to customers within the State of Illinois.

5. Q. Please describe Crexendo Business Solutions, Inc.'s business.

A. Crexendo Business Solutions, Inc. is a reseller of interexchange telecommunications services, and is a reseller of local exchange service, and also provides local exchange services utilizing unbundled network elements, or the equivalents thereof, through commercial and/or interconnection agreements. Crexendo Business Solutions, Inc. intends to provide interexchange services, such as outbound 1+ dialing, toll-free service, postpaid calling cards, data services, and directory assistance. Applicant intends to provide local exchange services such as: (1) Basic Exchange Services (local exchange flat rate, measured service, operator access, etc.; (2) Custom and Class Features (call waiting, caller ID, call forwarding, etc.; (3) Adjunct Provided Features (voice messaging, etc.; (4) Ancillary Services (E-911, directory listing, directory assistance); (5) Non-Switched Service (private lines, etc.); (6) Centrex and Centrex like services; (7) High Capacity Services (Digital Subscriber Line, ISDN, etc.); and (8) Carrier Access Services providing trunk side access to the switched network to allow other carriers to originate and terminate calls to Applicant's end user access lines. Applicant's services will be available on a full-time, twenty-four hour a day, seven day a week basis.

6. Q. In what state is Crexendo Business Solutions, Inc. organized?

A. Arizona. A copy of Crexendo Business Solutions, Inc.'s Articles of Incorporation is provided in Attachment B to our application.

7. Q. Is Crexendo Business Solutions, Inc. certified to do business in Illinois?

A. Yes. A copy of Crexendo Business Solutions, Inc.'s qualification documents from the Secretary of State is provided in Attachment B to our application.

8. Q. Describe Crexendo Business Solutions, Inc.'s financial ability to provide the proposed services.

A. Crexendo is a wholly owned subsidiary of iMergent, Inc. ("iMergent"), a publicly traded company. A copy of iMergent's SEC Form 10-KT for period ended December 31, 2009 is provided as Attachment E to our application. The company intends to provide service by utilizing cash flow from operations to operate in the State of Illinois.

9. Q. Who are the officers of Crexendo Business Solutions, Inc.?

A. The current officers of Crexendo Business Solutions, Inc. are as follows:

Steven G. Mihaylo, Chief Executive Officer

Jeff Korn, Chief Legal Officer

10. Q. Describe Crexendo Business Solutions, Inc.'s management team.

A. Crexendo Business Solutions, Inc.'s management team is described on Attachment C to our application. As shown, our management team has many years' experience in the telecommunications industry.

11. Q. In your opinion, does Crexendo Business Solutions, Inc. have the financial and managerial resources necessary to provide the proposed telecommunications services in the State of Illinois?

A. Yes. In my opinion, Crexendo Business Solutions, Inc. has the necessary financial and managerial resources to provide the proposed telecommunications services in the State of Illinois.

12. Q. Does Crexendo Business Solutions, Inc. intend to file a tariff in Illinois?

A. Yes. Crexendo Business Solutions, Inc. will file a tariff upon a grant of certification by the Illinois Commerce Commission.

13. Q. Would you describe the configuration of Crexendo Business Solutions, Inc.'s system and equipment.

A. Crexendo Business Solutions, Inc. will be a reseller utilizing facilities and equipment furnished by facilities based carriers. The Applicant will also utilize unbundled network elements, or the equivalent thereof, to provide local exchange services. The Applicant has no plans to install facilities in the State of Illinois.

14. Q. How is the end user billed?

A. The end users will be billed directly by the company on a monthly basis. The Applicant will utilize "real-time" completed call detail information from its underlying carriers.

15. Q. In your opinion, does Crexendo Business Solutions, Inc. have the technical ability and resources necessary to provide the proposed telecommunications services to customers in the State of Illinois?

A. Yes. In my opinion, Crexendo Business Solutions, Inc. has the necessary technical ability and resources to provide telecommunications service to customers within the State of Illinois. In addition to its own management team, Applicant will rely on the technical capabilities and support of its facilities-based underlying carriers.

16. Q. Are you familiar with the term slamming, and if so, what will your company do to prevent slamming?

A. Yes, I am familiar with the term and the meaning of slamming. Our company will take all necessary measures in order to prevent slamming, including attempting to get a signed letter of agency from all customers prior to commencing service, and all marketing will be done in accordance with all applicable state and federal regulations. Applicant has procedures in place to ensure that customers have affirmatively selected Applicant as their service provider.

17. Q. Are there any pending complaints against Crexendo Business Solutions, Inc. in any states where it is providing telecommunications services?

A. No.

18. Q. Is the company currently authorized to provide service in any other states.

A. Yes, the company is currently-authorized to provide service in Arkansas, Florida, Idaho, Indiana, Kentucky, Michigan, Minnesota, Montana, New Jersey, New York, North Dakota, Pennsylvania, Wisconsin and Wyoming. No such applications have been denied.

19. Q. Does the company intend to provide operator services in the State of Illinois?

A. We do not intend to provide operator services. Operator services will be provided by our underlying carriers.

20. Q. Will Crexendo Business Solutions, Inc. have any employees located in Illinois?

A. No.

21. Q. Does the company wish to keep its books and records at its principal place of business in Arizona?

A. Yes.

22. Q. Please describe the authority that Applicant seeks by this Application.

A. Applicant seeks authority to provide resold and facilities-based local and interexchange services in the State of Illinois.

23. Q. Please describe the public interest benefits associated with Applicant's proposed service offerings in the State of Illinois.

A. Applicant's entry into the Illinois telecommunications market will serve the public interest by creating greater competition in the telecommunications marketplace and will permit customers access to more efficient services and cost savings. Applicant's proposed services will enhance the services available to consumers, and increase consumer choice through innovative, diversified and reliable service offerings. Consumers will benefit both directly, as a result of competitively priced service options available from Applicant, and also indirectly, as Applicant's presence in the market will increase the incentives for other providers to operate more efficiently, reduce prices, and offer more innovative services.

24 Q. Does this conclude your testimony?

A. Yes.