

1. IMERGENT'S SEC FORM 10-Q FOR PERIOD ENDED SEPTEMBER 30, 2010

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FORM 10-Q

IMERGENT INC - IIG

Filed: November 03, 2010 (period: September 30, 2010)

Quarterly report which provides a continuing view of a company's financial position

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

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **September 30, 2010**

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the transition period from _____ to _____.

Commission file number **001-32277**



iMergent, Inc.

(Exact name of registrant as specified in its charter)

Delaware

*(State or other jurisdiction of
incorporation or organization)*

87-0591719

*(I.R.S. Employer
Identification No.)*

1615 South 52nd Street, Tempe, AZ
(Address of Principal Executive Offices)

85281
(Zip Code)

(623) 242-5959

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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 web site, 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (check one).

Large accelerated filer ☐
Non-accelerated filer ☐

Accelerated filer ☐
Smaller reporting company ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒.

The number of shares outstanding of the registrant's common stock as of November 1, 2010 was 11,402,341.

INDEX

PART I – FINANCIAL INFORMATION

Page

Item 1.	Financial Statements	3
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	16
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	28
Item 4.	Controls and Procedures	28

PART II – OTHER INFORMATION

Item 1.	Legal Proceedings	29
Item 1A.	Risk Factors	29
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	29
Item 3.	Defaults Upon Senior Securities	29
Item 4.	(Removed and Reserved)	29
Item 5.	Other Information	29
Item 6.	Exhibits	29
Signatures		30

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

iMERGENT, INC. AND SUBSIDIARIES Condensed Consolidated Balance Sheets (In thousands, except par value and share data) (unaudited)

	September 30, 2010	December 31, 2009
Assets		
Current Assets:		
Cash and cash equivalents	\$ 17,470	\$ 21,549
Restricted cash	1,088	1,088
Trade receivables, net of allowance for doubtful accounts of \$10,242 as of September 30, 2010 and \$11,827 as of December 31, 2009	10,182	14,162
Inventories	963	243
Income taxes receivable	906	387
Deferred income tax assets, net	168	1,009
Prepaid expenses and other	2,273	2,988
Total Current Assets	33,050	41,426
Certificate of deposit	500	500
Long-term trade receivables, net of allowance for doubtful accounts of \$6,150 as of September 30, 2010 and \$5,882 as of December 31, 2009	7,344	6,264
Property and equipment, net	3,185	1,446
Deferred income tax assets, net	6,848	5,298
Intangible assets, net	1,093	1,206
Goodwill	265	-
Other	251	302
Total Assets	\$ 52,536	\$ 56,442
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	\$ 2,901	\$ 3,154
Accrued expenses and other	3,396	4,588
Dividend payable	228	229
Income taxes payable	26	24
Deferred revenue, current portion	11,448	15,827
Total Current Liabilities	17,999	23,822
Deferred revenue, net of current portion	7,443	6,447
Other long-term liabilities	1,041	191
Total Liabilities	26,483	30,460
Commitments and contingencies (Note 8)		
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; 11,402,341 shares outstanding as of September 30, 2010 and 11,446,320 shares outstanding as of December 31, 2009	11	11
Additional paid-in capital	53,009	53,033
Accumulated deficit	(26,967)	(27,062)
Total Stockholders' Equity	26,053	25,982
Total Liabilities and Stockholders' Equity	\$ 52,536	\$ 56,442

See accompanying notes.

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

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Revenue	\$ 14,284	\$ 17,378	\$ 48,826	\$ 57,669
Operating expenses:				
Cost of revenue	4,707	5,583	15,032	16,917
Selling and marketing	7,232	7,904	25,019	25,692
General and administrative	3,295	3,601	10,395	11,363
Research and development	957	503	2,210	1,600
Total operating expenses	<u>16,191</u>	<u>17,591</u>	<u>52,656</u>	<u>55,572</u>
Income (Loss) from operations	<u>(1,907)</u>	<u>(213)</u>	<u>(3,830)</u>	<u>2,097</u>
Other income (expense):				
Interest income	1,137	1,343	3,571	4,461
Interest expense	(1)	(3)	(3)	(9)
Other income (expense), net	316	(27)	182	(12)
Total other income, net	<u>1,452</u>	<u>1,313</u>	<u>3,750</u>	<u>4,440</u>
Income (loss) before income tax benefit (provision)	<u>(455)</u>	<u>1,100</u>	<u>(80)</u>	<u>6,537</u>
Income tax benefit (provision)	<u>376</u>	<u>(382)</u>	<u>175</u>	<u>4,267</u>
Net income (loss)	<u>\$ (79)</u>	<u>\$ 718</u>	<u>\$ 95</u>	<u>\$ 10,804</u>
Net income (loss) per common share:				
Basic	\$ (0.01)	\$ 0.06	\$ 0.01	\$ 0.95
Diluted	\$ (0.01)	\$ 0.06	\$ 0.01	\$ 0.95
Dividends per common share:	\$ 0.02	\$ 0.02	\$ 0.06	\$ 0.06
Weighted average common shares outstanding:				
Basic	11,383,464	11,398,115	11,403,148	11,366,341
Diluted	11,383,464	11,525,148	11,422,471	11,384,107

See accompanying notes.

iMERGENT, INC. AND SUBSIDIARIES
Condensed Consolidated Statement of Stockholders' Equity
Nine Months Ended September 30, 2010
(In thousands, except share data)
(unaudited)

	Common Stock		Additional	Accumulated	Total
	Shares	Amount	Paid-in Capital	Deficit	Stockholders' Equity
Balance, January 1, 2010	11,446,320	\$ 11	\$ 53,033	\$ (27,062)	\$ 25,982
Expense for stock options granted to employees			855		855
Stock issued under stock award plans (net of forfeitures) and related income tax benefit of \$3	827		13		13
Stock issued for acquisition	20,000		117		117
Dividends declared			(686)		(686)
Repurchase of common stock	(64,806)		(323)		(323)
Net loss				95	95
Balance, September 30, 2010	11,402,341	\$ 11	\$ 53,009	\$ (26,967)	\$ 26,053

See accompanying notes.

IMERGENT, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(In thousands)
(unaudited)

Nine Months Ended September 30,
2010 2009

CASH FLOWS FROM OPERATING ACTIVITIES

Net income (loss)	\$ 95	\$ 10,804
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Depreciation and amortization	1,030	1,100
Expense for stock options issued to employees	855	1,163
Tax benefit upon issuance of common stock	(3)	-
Deferred income tax provision (benefit)	(709)	823
Changes in assets and liabilities net of effects from acquisition:		
Restricted cash	-	(576)
Trade receivables	2,900	9,813
Inventories	(720)	281
Income taxes receivable	(519)	649
Prepaid expenses and other	505	(2,339)
Other	51	65
Accounts payable, accrued expenses and other	(1,575)	(1,881)
Income taxes payable	5	160
Deferred revenue	(3,383)	(10,897)
Other long-term liabilities	842	(9,104)
Net cash provided by (used for) operating activities	<u>(626)</u>	<u>61</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Acquisition of property and equipment	(2,356)	(496)
Acquisition of company (Note 7)	(250)	-
Acquisition of property held for sale	-	(296)
Proceeds from sale of property held for sale (Note 12)	210	-
Proceeds from sale of available-for-sale securities	-	2,900
Net cash provided by (used for) investing activities	<u>(2,396)</u>	<u>2,108</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from exercise of stock options and related income tax benefit	13	371
Purchase of common stock	(323)	-
Payments made on contingent consideration	(61)	-
Principal payments on note payable	-	(80)
Dividend payments	(686)	(913)
Net cash used for financing activities	<u>(1,057)</u>	<u>(622)</u>

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,079)	1,547
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CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	21,549	18,762
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 17,470</u>	<u>\$ 20,309</u>

Supplemental disclosure of cash flow information:

Cash paid during the period:		
Interest	1	4
Income taxes	190	6,115

See accompanying notes.

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

	<u>Nine Months Ended September 30,</u>	
	<u>2010</u>	<u>2009</u>
Supplemental disclosure of non-cash investing and financing information:		
Dividends declared and not paid	\$ 228	\$ -
Purchase of property and equipment included in accounts payable	82	50
Acquisition of company with stock	117	-
Contingent consideration related to acquisition	128	-

In February 2010, iMergent, Inc. entered into an asset purchase agreement with CastleWave, LLC to purchase their assets for total consideration of \$495,000 (Note 7). The total consideration included a contingent consideration of approximately \$128,000 based upon estimated future revenue generated through CastleWave's sales channels, restricted stock of \$117,000, and cash of \$250,000. The purchase price was allocated to a non-compete agreement for \$60,000, technical know-how for \$60,000, customer list for \$98,000, other assets for \$12,000 and goodwill for \$265,000. See summary below (in thousands):

Fair value of assets acquired (including goodwill of \$265,000)	\$ 495
Cash paid	(250)
Stock issued	(117)
Estimated value of contingent consideration	(128)
Liabilities assumed	None

See accompanying notes.

(1) Description of Business, Basis of Presentation and Summary of Significant Accounting Policies

Description of Business - iMergent, Inc. is incorporated in the state of Delaware. When we refer in this Quarterly Report on Form 10-Q to "iMergent," the "Company," "we," "our," and "us," we mean iMergent, Inc., together with its wholly-owned subsidiaries. We are a managed business services company that provides eCommerce technology, training, services and a variety of cost-effective cloud-based technologies and resources to entrepreneurs and small, medium, and large enterprises. Our services are designed to help decrease the risks associated with managing an entity's online presence by providing low-cost, scalable solutions and providing support and information regarding industry developments.

Basis of Presentation - These unaudited condensed consolidated financial statements include the financial statements of iMergent, Inc. and its wholly owned subsidiaries. We have eliminated all intercompany balances and transactions in consolidation. In February 2010 we acquired the assets of CastleWave LLC ("CastleWave") for total consideration of approximately \$495,000. Accordingly, we have included the results of operations for CastleWave as of the date of acquisition (Note 7). We have included all adjustments, consisting only of normal recurring items, which we considered necessary for a fair presentation of our financial results for interim periods presented. These unaudited condensed consolidated financial statements and accompanying notes should be read together with the audited consolidated financial statements included in our Transition Report on Form 10-KT for the period ended December 31, 2009. Results of the nine months ended September 30, 2010 do not necessarily indicate the results we expect for the period ending December 31, 2010 or any other period. In view of our revenue recognition policies and the rapidly evolving nature of our business and the markets we serve, we believe period-to-period comparisons of our operating results, including operating expenses as a percentage of revenue and cash flows, are not necessarily meaningful and should not be relied upon as an indication of future performance.

Seasonality - Our StoresOnline revenue is 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 middle of January.

Significant Accounting Policies - We described our significant accounting policies in Note 1 to the financial statements in Item 8 of our Transition Report on Form 10-KT for the period ended December 31, 2009. In January 2010 we changed the contract associated with the sale of our Avail 24/7 subscription. Effective March 31, 2010 any customer that has not activated their Avail 24/7 subscription will be assessed an additional activation fee of \$34.95. Prior to this change in contract, this activation fee was included in a bundle of items sold at the workshop and there was no time limit on activation. All existing customers were notified of the change in contract in January and were given 60 days to activate Avail 24/7 without paying the additional activation fee. As a result of this change in contract, we recognized approximately \$1,000,000 in revenue upon expiration of the 60-day notice in March 2010 for Avail 24/7 activation fees described above as we no longer had an obligation to provide the activation. In addition to the change in the Avail 24/7 contract, this product will not be included in the bundle of items sold at the workshop. Avail 24/7 will continue to be sold as a standalone product and customers will pay the \$34.95 activation fee and these fees will be amortized over the customer life.

Recently Adopted Accounting Guidance - On January 1, 2010, we adopted new accounting guidance on Fair Value Measurements and Disclosures. This authoritative guidance requires us to disclose the amount of significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for these transfers, as well as the reasons for any transfers in or out of Level 3 of the fair value hierarchy. In addition, the guidance clarifies certain existing disclosure requirements. This new guidance did not have a material impact on our disclosures in our unaudited condensed consolidated financial statements at September 30, 2010.

On January 1, 2010, we adopted new accounting guidance on the consolidation of variable interest entities. This guidance requires revised evaluations of whether entities represent variable interest entities, ongoing assessments of control over such entities, and additional disclosures for variable interests. This new authoritative guidance had no impact on our financial condition and results of operations at September 30, 2010.

Recent Accounting Guidance Not Yet Adopted - In October 2009, the Financial Accounting Standards Board (the "FASB") issued authoritative guidance on revenue recognition that will become effective for us beginning January 1, 2011, 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.

Other Comprehensive Income – Our unaudited condensed consolidated financial statements for the three and nine months ended September 30, 2010 and 2009 did not reflect any components of other comprehensive income other than net income.

Significant Customers – No customer accounted for 10% or more of our total net revenue or total accounts receivable for the three and nine months ended September 30, 2010 or 2009.

(2) Dividends

During the three and nine months ended September 30, 2010 and 2009, our Board of Directors declared the following cash dividends:

Declaration Date	Per Share Dividend	Record Date	Total Amount	Payment Date
<i>(Fiscal year 2010)</i>				
September 28, 2010	\$ 0.02	October 7, 2010	\$ 228,000	October 14, 2010
June 22, 2010	\$ 0.02	June 29, 2010	\$ 229,000	July 7, 2010
March 29, 2010	\$ 0.02	April 5, 2010	\$ 229,000	April 12, 2010
<i>(Fiscal year 2009)</i>				
September 14, 2009	\$ 0.02	September 22, 2009	\$ 229,000	September 29, 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

(3) Computation of Net Income (Loss) Per Common Share

We compute basic net income or loss per share using the weighted average number of common shares outstanding during the period. We compute diluted net income per share using the weighted average number of common shares and dilutive potential common shares outstanding during the period. Dilutive common shares include shares issuable upon the exercise of stock options and restricted shares. Dilutive net loss per common share for the three months ended September 30, 2010 is the same as basic net loss per common share because the common share equivalents were anti-dilutive.

We include stock options and restricted shares with combined exercise prices, unrecognized compensation expense and tax benefits that are less than the average market price for our common stock in the calculation of diluted net income per share. We exclude stock options with combined exercise prices, unrecognized compensation expense and tax benefits that are greater than the average market price for our common stock from the calculation of diluted net income per share because their effect is anti-dilutive.

The following table presents the composition of shares used in the computation of basic and diluted net income per share for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net income (loss) (in thousands)	\$ (79)	\$ 718	\$ 95	\$ 10,804
Weighted-average share reconciliation:				
Weighted-average shares outstanding	11,402,341	11,439,166	11,429,702	11,424,285
Weighted-average restricted shares held in escrow	(18,877)	(41,051)	(26,554)	(57,944)
Weighted-average basic shares outstanding	11,383,464	11,398,115	11,403,148	11,366,341
Employee stock options	-	127,033	19,323	17,766
Diluted shares outstanding	11,383,464	11,525,148	11,422,471	11,384,107
Net income (loss) per common share:				
Basic	\$ (0.01)	\$ 0.06	\$ 0.01	\$ 0.95
Diluted	\$ (0.01)	\$ 0.06	\$ 0.01	\$ 0.95

Weighted-average anti-dilutive common share equivalents not included in the calculation of diluted net income per common share totaled 717,460 and 328,885 for the three months ended September 30, 2010 and 2009, respectively, and 1,160,533 and 472,865 for the nine months ended September 30, 2010 and 2009, respectively.

(4) Income Taxes

Our effective tax rate for the three months ended September 30, 2010 was 82.6% which resulted in a benefit for income taxes of \$376,000. Our effective tax rate for the nine months ended September 30, 2010 was 218.8% which resulted in a benefit for income taxes of \$175,000. Our tax rate for the three and nine months ended September 30, 2010 was favorable as a result of the reversal of an uncertain tax liability due to a favorable conclusion of an audit in a foreign jurisdiction. Our effective tax rate was 34.7% for the three months ended September 30, 2009. Our tax rate for the three months ended September 30, 2009 was favorable due to the reversal of an allowance on a disputed tax receivable. We had an income tax benefit for the nine months ended September 30, 2009 primarily as a result of the reversal of an uncertain tax liability due to a favorable conclusion to the IRS audit.

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 we believe our estimates are reasonable, there can be no assurance that the final tax outcome of these matters will not be different from that which we have reflected in our historical income tax provisions and accruals. Such difference could have a material impact on our income tax provision and operating results in the period in which we make such determination.

The aggregate changes in the balance of unrecognized tax benefits during the nine months ended September 30, 2010 is as follows (in thousands):

Balance as of December 31, 2009	\$ 140
Increases for tax positions related to the current period	—
Increases for tax positions related to the prior years	975
Decreases for tax positions related to prior years	—
Settlements	(96)
Reductions due to lapsed statute of limitations	—
Balance as of September 30, 2010	\$ 1,019

As of September 30, 2010, we have unrecognized tax benefits of \$1,019,000, which if recognized, would reduce our effective tax rate.

During the nine months ended September 30, 2010, we increased the liability for unrecognized tax benefits by \$975,000 for additional extraterritorial income credits on the sale of our StoresOnline software in foreign jurisdictions as a result of amended returns for the tax years ending June 30, 2005, 2006, and 2007. Additionally, during the nine months ended September 30, 2010, we reduced our liability for unrecognized tax benefits of \$96,000 due to a favorable outcome in the audit of our New Zealand income tax returns.

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 \$6,000 and \$28,000 as of September 30, 2010 and December 31, 2009, respectively.

(5) Fair Value Measurements

The fair value of our 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.

Assets (liabilities) measured at fair value on a recurring basis are summarized below as of September 30, 2010 (in thousands):

Description	As of September 30, 2010	Fair value measurement at reporting date		
		Level 1	Level 2	Level 3
Cash equivalents	\$ 5,562	\$ 5,562	—	—
Contingent consideration	\$ (128)	—	—	\$ (128)

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):

	Acquisition Contingent Consideration
Balances as of December 31, 2009	\$ —
Purchases, sales and settlements, net	128
Transfers in and/or (out) of Level 3	—
Balances as of September 30, 2010	\$ 128

During the nine months ended September 30, 2010, there were no transfers of financial assets or liabilities in or out of Level 1 or Level 2 of the fair value hierarchy.

The fair value of cash and cash equivalents and restricted cash approximates fair value because of the short maturity of those instruments. The fair values of the trade receivables and certificate of deposits were computed using a discounted cash flow model using estimated market rates as of September 30, 2010 and December 31, 2009 as follows (in thousands):

	September 30, 2010		December 31, 2009	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Cash and cash equivalents	\$ 17,470	\$ 17,470	\$ 21,549	\$ 21,549
Restricted cash	1,088	1,088	1,088	1,088
Trade receivables	17,526	17,295	20,426	20,071
Certificate of deposit	500	500	500	500

Our disclosure of the estimated fair value of our financial instruments is made in accordance with accounting guidance. The estimated fair value amounts have been determined by us 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 we 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 September 30, 2010 and December 31, 2009.

(6) Property and equipment

On June 3, 2010, we acquired a 22,000 square foot building for our corporate offices for total consideration of \$1,525,000. The fair value allocated to the land and building was \$877,000 and \$648,000, respectively. We intend to depreciate the building over its estimated remaining life of 20 years.

(7) Acquisition

On February 9, 2010 we acquired all of the assets of CastleWave for total consideration of \$495,000. For the quarter ended March 31, 2010, we disclosed the provisional total consideration was \$846,000. Subsequent to the acquisition, new information was obtained about facts and circumstances that existed as of the acquisition date that resulted in the Company retrospectively adjusting the provisional contingent consideration from \$479,000 to \$128,000 based upon estimated future revenue to be generated through CastleWave sales channels. This retrospective decrease in contingent consideration resulted in a \$351,000 decrease in goodwill. The total consideration included a contingent consideration based upon future revenue generated from CastleWave sales channels of approximately \$128,000, restricted stock of \$117,000, and cash of \$250,000. The contingent consideration is computed and paid out quarterly based upon a percentage of sales from CastleWave's sales channels for three years after the acquisition date. The provisional contingent consideration is valued on a recurring basis and any future change that are not measurement period adjustments will be recorded through the income statement. CastleWave is a provider of online marketing services with offices in both New York, New York and Provo, Utah. We acquired CastleWave in an effort to expand our online marketing services capabilities and to add a sales office in the New York metropolitan area.

Under the acquisition method of accounting we allocated the fair value of the total consideration transferred to the tangible and identifiable intangible assets acquired from CastleWave based on their estimated fair values on the date of acquisition. The fair values assigned to identifiable intangible assets acquired were based on estimates and assumptions determined by management. We recorded the excess of purchase price over the aggregate fair values as goodwill. Using information available at the time the acquisition closed, we preliminarily allocated approximately \$12,000 of the purchase price to tangible assets and approximately \$218,000 of the purchase price to identified intangible assets. We recorded the excess purchase price of approximately \$265,000 as goodwill, all of which is deductible for income tax purposes. The identified intangible assets are being amortized over a weighted average life of three years.

We have included CastleWave's results of operations in both our Crexendo Business Solution division and our consolidated results of operations from the date of acquisition. Pro forma disclosures of CastleWave's results of operations for periods prior to the date of acquisition are not presented herein as they were not material when compared with our consolidated results of operations.

(8) Commitments and Contingencies

Legal Proceedings

From time to time we receive inquiries from federal, 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. There can be no assurance that the ultimate resolution of these or other inquiries and investigations will not have a material adverse effect on our business or operations, or that a formal complaint will not be initiated. We also 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 risen to the level of litigation. 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. There have been no material changes to current legal events as outlined in our Transition Report on Form 10-KT for the period ended December 31, 2009.

We have recorded liabilities of approximately \$50,000 and \$1,079,000 as of September 30, 2010 and December 31, 2009, respectively, for estimated losses resulting from various legal proceedings in which we are engaged. Attorneys fees associated with the various legal proceedings are expensed as incurred. We are also subject to various claims and legal proceedings covering matters that arise in the ordinary course of business. We believe that the resolution of these other cases will not have a material adverse effect on our business, financial position, or results of operations.

(9) Restricted Cash

We classified \$1,088,000 as restricted cash as of September 30, 2010 and December 31, 2009, to reflect the compensating balance requirement for our purchasing card, ACH, and foreign currency agreements. Restricted cash consists of funds held in an account as collateral for the issuer of our corporate credit card, ACH and foreign currency. All changes in restricted cash presented in the cash flow statements is presented in the operating section as the restricted cash was received directly from customers and was immediately restricted from use in our operations.

(10) Stockholders' Equity

Stock Options

We granted 565,000 options to purchase shares of our common stock during the nine months ended September 30, 2010 to our employees and directors. The options generally have a four-year vesting period, during which the recipient must remain employed with iMergent or its subsidiaries.

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 nine months ended September 30, 2010 using the Black-Scholes option-pricing model were as follows:

	<u>Nine Months Ended September 30, 2010</u>
Weighted-average fair value of options granted	\$ 1.51
Expected volatility	66%
Expected life (in years)	4.07
Risk-free interest rate	1.73%
Expected dividend yield	2.37%

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.

During the nine months ended September 30, 2010, we granted 20,000 shares of restricted stock as part of a business combination (Note 7). The restricted stock vested immediately and is restricted for a period of one year.

(11) Segment Information

Our management has chosen to organize the Company around differences in products and 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 is expected to market data and telecommunication services. We intend for StoresOnline to continue to offer 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 for the periods indicated (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Revenue:				
StoresOnline	\$ 13,969	\$ 17,334	\$ 47,904	\$ 57,625
Crexendo Business Solutions	315	44	922	44
Crexendo Network Services	-	-	-	-
Consolidated revenue	<u>\$ 14,284</u>	<u>\$ 17,378</u>	<u>\$ 48,826</u>	<u>\$ 57,669</u>
Operating Income(Loss):				
StoresOnline	\$ 1,205	\$ 2,716	\$ 4,910	\$ 10,428
Crexendo Business Solutions	(435)	(248)	(1,263)	(502)
Crexendo Network Services	(435)	(115)	(982)	(314)
Total segment operating income	<u>\$ 335</u>	<u>\$ 2,353</u>	<u>\$ 2,665</u>	<u>\$ 9,612</u>
Other Income:				
StoresOnline	\$ 1,452	\$ 1,313	\$ 3,750	\$ 4,440
Total segment other income	<u>\$ 1,452</u>	<u>\$ 1,313</u>	<u>\$ 3,750</u>	<u>\$ 4,440</u>
Income (loss) before income tax benefit (provision):				
StoresOnline	\$ 2,657	\$ 4,029	\$ 8,660	\$ 14,868
Crexendo Business Solutions	(435)	(248)	(1,263)	(502)
Crexendo Network Services	(435)	(115)	(982)	(314)
Total segment income before income tax benefit (provision)	<u>\$ 1,787</u>	<u>\$ 3,666</u>	<u>\$ 6,415</u>	<u>\$ 14,052</u>
Unallocated corporate items:				
Share-based compensation expense	322	429	855	1,165
Other common expenses	1,920	2,137	5,640	6,350
Total unallocated corporate items	<u>2,242</u>	<u>2,566</u>	<u>6,495</u>	<u>7,515</u>
Total income before income tax benefit (provision)	<u>\$ (455)</u>	<u>\$ 1,100</u>	<u>\$ (80)</u>	<u>\$ 6,537</u>

Revenue generated from the StoresOnline division during the three months ended September 30, 2010 and 2009 in foreign countries was \$587,000 and \$1,190,000, respectively. Revenue generated for the StoresOnline division during the nine months ended September 30, 2010 and 2009 in foreign countries was \$3,308,000 and \$3,887,000, respectively. No revenue was generated in foreign countries for the Crexendo Business Solutions division.

Due to the integrated structure of our business, certain costs incurred by one segment may benefit other segments. The costs that are identifiable are allocated to the segments that benefit from those costs so that one segment is not solely burdened by the cost of a mutually beneficial activity. Each allocation is measured differently based on the specific facts and circumstances of the costs being allocated. These cost allocations were not material in any period presented. Certain other corporate-level activity is not allocated to our segments, including costs of: option expense; support services; human resources; legal; finance; information technology; corporate development and procurement activities; research and development that is not specifically identifiable to a business segment; and depreciation.

Crexendo Network Services is a development stage company. Since the inception of Crexendo Network Services in March 2009 through September 30, 2010, this segment has incurred approximately \$1,393,000 in expenses.

(12) Related Party

On April 7, 2010, Steven G. Mihaylo, our Chief Executive Officer, purchased property we held for sale for \$210,000, which represented management's best estimate of the fair market value of the property. There was no gain or loss recorded on the transaction.

(13) Subsequent Events

On November 2, 2010, the Board of Directors approved a Tender Offer to purchase up to \$4,750,000 in value of shares of its common stock, or a lower amount depending on the number of shares that are properly tendered. The price paid will not be greater than \$4.75 nor less than \$4.35, net to the seller in cash, without interest.

ITEM 2. 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 will vary, and may vary 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," in Part I, Item 1A of our Transition Report on Form 10-KT for the period ended December 31, 2009. When we refer in this Form 10-Q to "iMergent," the "Company," "we," "our," and "us," we mean iMergent, Inc., a Delaware corporation, together with its wholly-owned subsidiaries.

OVERVIEW

The following Management's Discussion and Analysis of Financial Condition and Results of Operation ("MD&A") is intended to help the reader understand our results of operations and financial condition with respect to the periods indicated. MD&A is provided as a supplement to, and should be read in conjunction with, our unaudited condensed consolidated statements and the accompanying notes to the financial statements set forth in this report (the "Notes").

Sources of Revenue

We generate revenue by developing, licensing, training and supporting eServices technology, and a variety of cost-effective cloud-based technologies and resources, including search engine optimization and search engine management services, for entrepreneurs and small, medium, and large enterprises. Our eServices offering leverages both industry and client best practices that are designed for Internet merchants. Our services are also designed to help decrease the risks associated with managing an entity's online presence by providing low-cost, scalable solutions with ongoing industry updates and support. Our strategic vision is to expand on our managed business services offerings focused on our target markets. We sell and market our products and services in the United States and international (English-speaking) markets, including Canada, 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 amounts collected on the sale of StoresOnline software licenses sold through extended payment term arrangements ("EPTAs"). In addition to sales of StoresOnline software licenses, our StoresOnline division also generates 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 licenses 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 deploy at any point in time, the quantity of events we hold, the average cash percentage of buyers at those events, the average number of buying units at those events, the average purchase price, and the 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.

During the quarter we were able to transition the majority of our StoresOnline sales to the SaaS model (Software-as-a-Service) from our traditional license model. During this transition we experienced a brief decline in the response rate to our direct mail advertising which adversely affected us this quarter as discussed below. We took steps to correct the decline and believe we have made the necessary corrections.

We have historically sold our software licenses through a seminar model which has subjected us to claims by some 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 those software licenses and other products. 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 our software licenses and other products at our seminars in an effort to increase the transparency of our operations. 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, while maintaining compliance with applicable laws and regulations, will impact our future growth opportunities.

Revenue from our Crexendo Business Solutions division is generated primarily through the sale of Search Engine Optimization ("SEO"), Search Engine Management ("SEM-PPC"), Conversion Rate Optimization ("CRO"), and website design and development services. We also generate recurring revenue monthly through additional services that support the above products.

Economic Factors

The unfavorable global economic environment continued to adversely affect our business during the nine months ended September 30, 2010, as consumers and businesses continued to be limited in their ability to obtain alternate sources of financing. Since we offer a product focused on providing a more efficient and effective use of marketing and infrastructure resources, we believe that we are well-positioned to weather the economic downturn. To the extent the domestic and global economy improves, we believe there will be new opportunities to increase our revenues. To further help weather the economic downturn during the transition period we made several adjustments to our cost structure and streamlined our internal business processes.

Opportunities

Technological and product innovation has been the foundation of our long-term growth, and we intend to maintain our commitment to invest 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 and small, medium, and large enterprises increase the effectiveness and visibility of their online presence, we 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.

We believe our long-term focus on investing in products and developing new and alternative sales channels 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 continues to be 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

In preparing our financial statements, we make estimates, assumptions and judgments that can have a significant impact on our net revenue, operating income or loss and net income or loss, as well as on the value of certain assets and liabilities on our balance sheet. We believe that the estimates, assumptions and judgments involved in our accounting policies described in Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of our Transition Report on Form 10-KT for the period ended December 31, 2009 have the greatest potential impact on our financial statements, so we consider them to be our critical accounting policies and estimates. Except for the changes to our critical accounting policies and estimates discussed below, we believe that there were no significant changes to those critical accounting policies during the nine months ended September 30, 2010. Our senior management has reviewed the development and selection of our critical accounting policies and estimates and their disclosure in this Quarterly Report on Form 10-Q with the Audit Committee of our Board of Directors.

Change in Avail Contract

In January 2010 we changed the contract that is associated with the sale of our Avail 24/7 subscription. Effective March 31, 2010 any customer that has not activated their Avail 24/7 subscription was assessed an activation fee of an additional \$34.95. Prior to this change in contract, this activation fee was included in a bundle of items sold at the workshop and there was no time limit on activation. All existing customers were notified of the change in contract in January and were given 60-days to activate Avail 24/7 without paying the additional activation fee. As a result of this change in contract, we recognized approximately \$1,000,000 in revenue upon expiration of the 60 day notice in March 2010 for the Avail 24/7 activation fees described above as we no longer had an obligation to provide the activation. In addition to the change in the Avail 24/7 contract, this product will not be included in the bundle of items sold at the workshop. Avail 24/7 will continue to be sold as a standalone product and customers will pay the \$34.95 activation fee and these fees will be amortized over the customer life.

RESULTS OF OPERATIONS

Three Months Ended September 30, 2010 Compared to Three Months Ended September 30, 2009

Financial Overview

	Three months ended September 30,		\$	%
	2010	2009	Change	Change
<i>In thousands except per share data</i>				
Total net revenue	\$ 14,284	\$ 17,378	\$ (3,094)	(18%)
Operating income (Loss)	(455)	1,100	(1,555)	(141%)
Net income (Loss)	(79)	718	(797)	(111%)
Diluted net income (loss) per share	\$ (0.01)	\$ 0.06	\$ (0.07)	(117%)

Current Fiscal Quarter

Total net revenue decreased 18% in the third quarter of 2010 compared with the same quarter of 2009, primarily due to a 20% decrease in principal collected on our accounts receivable balance, a 15% decrease in commissions payable to us by third parties as a result of fewer leads generated from our StoresOnline division, and a 24% decrease in the number of workshops held. Our Crexendo Business Solutions group generated revenue of \$315,000 during the current quarter compared with \$44,000 in the corresponding quarter in 2009.

Operating income (loss) decreased \$1.6 million, or 141%, in the third quarter of 2010 compared with the corresponding quarter of 2009. Revenue for the third quarter of 2010 decreased \$3.1 million, or 18% as compared to the third quarter of 2009. The increase in operating expenses as a percentage of revenue, from 101% in three months ended September 30, 2009 to 113% in the three months ended September 30, 2010, was primarily attributable to a decrease in response to our direct mail advertising, as discussed below under the heading "Business Segment Results – Selling and Marketing."

Net income (loss) decreased \$797,000, or 111%, in the third quarter of 2010 compared with the corresponding quarter of 2009. Our effective tax rate for the three months ended September 30, 2010 was 82.6%, which resulted in a benefit for income taxes of \$376,000. Our tax rate for the three months ended September 30, 2010 was favorable as a result of the reversal of an uncertain tax liability due to a favorable conclusion of an audit in a foreign jurisdiction. Our effective income tax rate was 34.7% for the three months ended September 30, 2009, which resulted in an income tax provision of \$382,000 due to the reversal of an allowance on a disputed tax receivable.

Business Segment Results

The information below is organized in accordance with our three reportable segments. Segment operating income or loss is equal to segment net revenue less segment cost of revenue, marketing, and operating expenses. Segment expenses do not include certain costs, such as corporate general and administrative expenses and share-based compensation expenses, which are not allocated to specific segments. These unallocated costs totaled \$2.2 million and \$2.6 million in the three months ended September 30, 2010 and 2009, respectively. Unallocated costs decreased in the third quarter of 2010 compared with the third quarter of 2009 due, in part, to a decrease in salaries and option expense from the prior year.

Revenue

StoresOnline

Revenue for the three months ended September 30, 2010 decreased 19% to \$13,969,000 from \$17,334,000 for the three months ended September 30, 2009.

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 amounts collected on the sale of StoresOnline software licenses sold through EPTAs. Fees for our SOS licenses sold under EPTAs are recognized as revenue as cash payments are received from the customer and not at the time of sale. Revenue related to cash collected under EPA agreements decreased to \$4,346,000 for the three months ended September 30, 2010, compared to \$5,448,000 for the three months ended September 30, 2009. The decrease in cash collected under EPA agreements was primarily due to a decrease in our accounts receivable balance. Our accounts receivable balance will increase or decrease depending upon the number of sale teams we have had in the prior two years, the number of customers financing the purchases of our products and services, and fluctuations in sales rates. In the past two years we have reduced the number of our sales teams and we have seen a decline in our sales rates, which has resulted in our lower accounts receivable balance. Commissions from third parties decreased 15% to \$2,228,000 for the three months ended September 30, 2010, from \$2,620,000 for the three months ended September 30, 2009. Cash sales of SOS licenses and other products at our events as well as hosting revenue decreased to \$7,395,000 in the three months ended September 30, 2010, compared to \$9,266,000 in the three months ended September 30, 2009. The decrease was primarily attributable to:

(1) The number of Internet Training Workshops we conducted during the three months ended September 30, 2010 decreased 24% to 117 (including two that were held outside the United States) compared to 154 (four were held outside the United States) during the three months ended September 30, 2009.

(2) The average number of buying units in attendance at our workshops during the three months ended September 30, 2010 decreased to 70 from 77 during the three months ended September 30, 2009. 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. As a result of the decrease in number of events and number of buying units per event, we had approximately 852 fewer workshop buyers in the three months ended September 30, 2010 as compared to the three months ended September 30, 2009. The decrease in the number of workshop buyers reduced revenue for the three months ended September 30, 2010 by approximately \$1,985,000, compared to the corresponding period of 2009.

(3) Cash purchases as a percentage of total workshop purchases decreased to 37% for the three months ended September 30, 2010 from 42% in September 30, 2009. The lower percentage of cash at the workshop further decreased revenue for the three months ended September 30, 2010 by approximately \$718,000, compared to the corresponding period of 2009.

(4) Offsetting the decrease in workshop buying units and the lower cash percentage was the fact that approximately 29% of buying units made a purchase at the workshops during the three months ended September 30, 2010, compared to 23% for the three months ended September 30, 2009, which resulted in 539 additional buyers and \$1,040,000 in additional workshop revenue.

(5) Further decreasing revenue was a \$88,000 decrease in hosting revenue for the three months ended September 30, 2010, compared to the corresponding period of 2009.

(6) Revenue decreased \$505,000 for the three months ended September 30, 2010 compared to the corresponding period of 2009 as a result of a change in the current product mix offered at our workshops and the timing of revenue recognition associated with those products. As a result of the change in our product mix, deferred revenue increased by \$505,000.

(7) Partially offsetting the overall decrease in revenue was a decrease in refunds when compared to the prior period. As a result of giving fewer refunds in the current period, revenue increased \$887,000 in the three months ended September 30, 2010 compared to the three months ended September 30, 2010.

Crexendo Business Solutions

Revenue for the three months ended September 30, 2010 was \$315,000, compared to \$44,000 in the three months ended September 30, 2009. Revenue from our Crexendo Business Solutions division is generated primarily through on page and off page search engine optimization services, search engine management services, conversion rate optimization services, and website design and development services.

Cost of Revenue

StoresOnline

Cost of revenue consists primarily of the cost to conduct Internet Training Workshops, credit card fees and the cost of products sold. Cost of revenue for the three months ended September 30, 2010 decreased 18% to \$4,461,000, from \$5,420,000 for the three months ended September 30, 2009. Cost of revenue as a percentage of revenue increased to 32% in the current year quarter compared to 31% in prior year quarter. The increase in cost of revenue as a percentage of revenue was primarily due to the implementation of certain tests in the month of September designed to increase the attendance at our workshops. The impact of these tests was an increase of 3% cost of revenue as a percentage of revenue. This increase was partially offset by the implementation of cost-saving measures designed to reduce travel and event costs, which reduces event costs to 7% of revenue in the current year period from 9% of revenue in the prior year period. Trends in cost of revenue will not always be consistent with the trends in revenue due to the fact that cost of revenue 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.

Crexendo Business Solutions

Cost of revenue consists primarily of salaries related to fulfillment of our web services. Cost of revenue for the three months ended September 30, 2010 was \$202,000 compared to \$121,000 for the three months ended September 30, 2009. The increase in salaries for the current period is related to an increase in headcount as we continue to increase our fulfillment capacity.

Selling and Marketing

StoresOnline

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 three months ended September 30, 2010 decreased 11% to \$6,912,000, from \$7,757,000 for the three months ended September 30, 2009. Selling and marketing expense as a percentage of revenue increased to 49% in the current quarter from 42% in prior year quarter, primarily due to a decrease in the response to our direct mail advertising. This decrease in response rate resulted in fewer attendees at our preview events compared to the prior year quarter. As a result of the decrease in response rate despite the same level of expense on our direct mail advertising, our revenue per advertising dollar decreased, which significantly impacted our selling and marketing expense as a percentage of revenue. The overall decrease in selling and marketing expense is due primarily to a 32% decrease in number of preview events to 753 in the current quarter compared to 1,108 in the prior year quarter, which decreased preview related event costs by approximately \$582,000. Trends in selling and marketing expenses will not always be consistent with the trends in revenue 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 revenue is often deferred in accordance with the application of generally accepted accounting principles.

Crexendo Business Solutions

Selling and marketing expenses consist primarily of salaries and benefits, as well as advertising expenses. Selling and marketing expense was \$301,000 and \$123,000 for the three months ended September 30, 2010 and 2009, respectively. The large increase was primarily attributable to an increase in sales teams and other sales activity. Since the end of second quarter we have hired six additional direct sales reps in major US cities, with the majority of those coming in September and October. In total, we now have 12 direct sales reps in major US cities, the majority of which have been with us less than five months.

General and Administrative

StoresOnline

General and administrative expenses consist of payroll and related expenses for executive, accounting and administrative personnel, legal, accounting and other professionals, finance company service fees, and other general corporate expenses. General and administrative expenses for the three months ended September 30, 2010 decreased to \$1,391,000 from \$1,441,000 for the three months ended September 30, 2009.

Crexendo Business Solutions

General and administrative expenses consist of payroll and related expenses for account managers, accounting and administrative personnel. General and administrative expenses were \$247,000 and \$48,000 for the three months ended September 30, 2010 and 2009, respectively. The large increase reflected the growth of our business between the two periods.

Crexendo Network Services

General and administrative expenses consist of payroll and related expenses for rent, professional fees and administrative personnel. General and administrative expenses were \$71,000 and \$18,000 for the three months ended September 30, 2010 and 2009, respectively. The large increase, which primarily related to legal and consulting fees, was primarily attributable to preparation of our hosted telecom phase 1 product launch.

Other Income

Other income is primarily derived from interest income from our StoresOnline segment and relates to EPTA contracts, which generally carry an 18% simple interest rate. For the three months ended September 30, 2010 and 2009, other income was \$1,452,000 and \$1,313,000 respectively. The increase was primarily due to a one time sale of receivables that had previously been written off the books for \$303,000 in the current quarter. This increase was partially offset by a decrease in interest income for the three months ended September 30, 2010, which decreased 15% to \$1,137,000 compared to \$1,343,000 for the three months ended September 30, 2009. The decrease in interest income was primarily attributable to the decrease in the collection of trade receivables.

Income Tax Provision

During the three months ended September 30, 2010, we recorded an income tax benefit of \$376,000. This compares to income tax provision of \$382,000 for the three months ended September 30, 2009. Income taxes are based on the estimated effective federal, state and foreign income tax rates. Our tax rate for the three months ended September 30, 2010 was favorable as a result of the reversal of an uncertain tax liability due to a favorable conclusion of an audit in a foreign jurisdiction.

Nine Months Ended September 30, 2010 Compared to Nine Months Ended September 30, 2009

Financial Overview

<i>In thousands except per share data</i>	Nine months ended September 30,		\$	%
	2010	2009	Change	Change
Total net revenue	\$ 48,826	\$ 57,669	\$ (8,843)	(15%)
Operating income (Loss)	(80)	6,537	(6,617)	(101%)
Net income	95	10,804	(10,709)	(99%)
Diluted net income per share	\$ 0.01	\$ 0.95	\$ (0.94)	(99%)

Current Nine Month Period

Total net revenue decreased 15% in the nine months ended September 30, 2010 compared with the corresponding period of 2009, due primarily to a 30% decrease in principal collected on our accounts receivable balance and a 14% decrease in commissions from third-parties as a result of fewer leads generated in the StoresOnline group. Our Crexendo Business Solutions group generated revenue of \$902,000 compared to \$44,000 revenue in the same period in 2009.

Operating income (loss) decreased \$6.6 million, or 101%, in the nine months ended September 30, 2010, compared with the corresponding period of 2009. Revenue decreased \$8.8 million, or 15%, while costs and expenses decreased \$2.9 million, or 5%, in the fiscal 2010 period. The increase in operating expenses as a percentage of revenue, from 96% in nine months ended September 30, 2009 to 108% in the nine months ended September 30, 2010, was primarily attributable to a \$5.8 million or 30% decrease in revenue related to principal collected on our accounts receivables. The collection of principal on our accounts receivable balance has approximately 10% in costs associated with this revenue. Additionally, a decrease in response to our direct mail advertising, as discussed below in the selling and marketing section, increased our costs as a percentage of revenue.

Net income decreased \$10.7 million, or 99%, in the nine months ended September 30, 2010, compared with the corresponding period of fiscal 2009. Our effective tax rate for the nine months ended September 30, 2010 was 218.8% which resulted in a benefit for income taxes of \$175,000. We had an income tax benefit of \$4,267,000 for the nine months ended September 30, 2009, primarily as a result of the reversal of an uncertain tax liability due to a favorable conclusion to the IRS audit.

Business Segment Results

The information below is organized in accordance with our three reportable segments. Segment operating income or loss is equal to segment net revenue less segment cost of revenue, marketing, and operating expenses. Segment expenses do not include certain costs, such as corporate general and administrative expenses and share-based compensation expenses, which are not allocated to specific segments. These unallocated costs totaled \$6.5 million and \$7.5 million in the nine months of 2010 and 2009, respectively. Unallocated costs decreased in the nine months of 2010 compared with the first nine months of 2009 due, in part, to a decrease in salaries and option expense from the prior year.

Revenue

StoresOnline

Revenue for the nine months ended September 30, 2010 decreased 17% to \$47,904,000 from \$57,625,000 for the nine months ended September 30, 2009.

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 EPTAs. Fees for our SOS licenses sold under EPTAs are recognized as revenue as cash payments are received from the customer and not at the time of sale. Revenue related to cash collected under EPA agreements decreased to \$13,880,000 for the nine months ended September 30, 2010 compared to \$19,759,000 for the nine months ended September 30, 2009. The decrease in cash collected under EPA agreements was primarily due to a decrease in our accounts receivable balance. Our accounts receivable balance will increase or decrease depending upon the number of sales teams the Company has had in the prior two years, the number of customers financing the purchases of our products and services, and fluctuations in sales rates. In the past two years we have reduced the number of our sales teams and we have seen a decline in our sales rates, which has resulted in our lower accounts receivable balance. Commissions derived from third parties decreased 14% to \$8,370,000 for the nine months ended September 30, 2010 compared to \$9,749,000 for the nine months ended September 30, 2009. 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 our product and service sales. Cash sales at the workshop, preview, and follow-up events, along with hosting revenue, decreased to \$25,654,000 in the nine months ended September 30, 2010 compared to \$28,117,000 in the nine months ended September 30, 2009. The decrease was primarily attributable to:

(1) The number of Internet Training Workshops conducted during the nine months ended September 30, 2010 decreased 14% to 418 (including 28 that were held outside the United States) compared to 485 (four were held outside the United States) during the nine months ended September 30, 2009.

(2) The average number of buying units in attendance at our workshops during the nine months ended September 30, 2010 decreased to 75 from 80 during the nine months ended September 30, 2009. As a result of the decrease in number of events and number of buying units per event, we had approximately 1,840 fewer workshop buyers in the nine months ended September 30, 2010 as compared to the nine months ended September 30, 2009. The result of the decrease in number of workshop buyers reduced revenue by approximately \$5,407,000.

(3) Offsetting this decrease was the fact that the workshop buy rate increased from 25% in nine months ended September 30, 2009 to 27.5% in nine months ended September 30, 2010, which resulted in 783 additional workshop buyers and \$1,360,000 in additional workshop revenue in the current year period.

(4) Cash purchases as a percentage of total workshop purchases decreased to 38.9% for the nine months ended September 30, 2010 from 40.1% in the nine months ended September 30, 2009. The lower percentage of cash at the workshops further decreased revenue for the three months ended September 30, 2010 by approximately \$782,000, compared to the corresponding period of 2009.

(5) Further decreasing revenue was a \$61,000 decrease in hosting revenue for the nine months ended September 30, 2010, compared to the corresponding period of 2009.

(6) Revenue decreased \$505,000 for the nine months ended September 30, 2010 compared to the corresponding period of 2009 as a result of a change in the current product mix offered at our workshops and the timing of revenue recognition associated with those products. As a result of the change in our product mix, deferred revenue increased by \$505,000.

(7) Partially offsetting the overall decrease in revenue was a decrease in refunds when compared to the prior period. As a result of giving fewer refunds in the current period, revenue increased \$572,000 in the nine months ended September 30, 2010 compared to the nine months ended September 30, 2010.

(8) The overall decrease in revenue was further off-set by an increase of \$1,000,000 as a result of the change in the Avail 24/7 contract.

(9) Revenue decreased \$1,280,000 during the nine months ended September 30, 2009 as a result of various legal matters, in which agreements were reached, or expected to be reached, allowing for customer refunds.

Crexendo Business Solutions

Revenue for the nine months ended September 30, 2010 was \$922,000, compared to \$44,000 in the nine months ended September 30, 2009. Revenue from our Crexendo Business Solutions division is generated primarily through on-page and off-page search engine optimization services, search engine management services, conversion rate optimization services, and website design and development services.

Cost of Revenue

StoresOnline

Cost of revenue consists primarily of the cost to conduct Internet Training Workshops, credit card fees and the cost of products sold. Cost of revenue for the nine months ended September 30, 2010 decreased 14% to \$14,374,000, from \$16,618,000 for the nine months ended September 30, 2009. Cost of revenue as a percentage of revenue increased to 30% in the current year period compared to 29% in prior year period. The increase in cost of revenue as a percentage of revenue is primarily due to the implementation of certain tests in the month of September designed to increase the attendance at our workshops. The impact of these tests was an increase of one percent cost of revenue as a percentage of revenue. Trends in cost of revenue will not always be consistent with the trends in revenue due to the fact that cost of revenue 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.

Crexendo Business Solutions

Cost of revenue consists primarily of salaries related to fulfillment of our web services. Cost of revenue for the nine months ended September 30, 2010 was \$517,000, compared to \$191,000 in the nine months ended September 30, 2009. The increase in salaries for the current period is related to an increase in headcount to fulfill additional sales.

Selling and Marketing

StoresOnline

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 nine months ended September 30, 2010 decreased 5% to \$24,026,000, from \$25,345,000 for the nine months ended September 30, 2009. Selling and marketing expense as a percentage of revenue increased to 50% in the current period from 44% in prior year period primarily due to a decrease in the response to our direct mail advertising. This decrease in response rate resulted in fewer attendees at our preview events compared to the prior year quarter. As a result of the decrease in response rate despite a \$400,000 increase in our direct mail advertising spent, our revenue per advertising dollar decreased, which significantly impacted our selling and marketing expense as a percentage of revenue. The overall decrease in selling and marketing expense was due primarily to a 14% decrease in the number of Internet Training Workshops conducted during nine months ended September 30, 2010 compared to nine months ended September 30, 2009. Trends in selling and marketing expenses will not always be consistent with the trends in revenue 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 revenue is often deferred in accordance with accounting guidance.

Crexendo Business Solutions

Selling and marketing expenses consists primarily of salaries and benefits as well as advertising expenses. Selling and marketing expense was \$926,000 and \$257,000 for the nine months ended September 30, 2010 and 2009, respectively. The large increase was related to an increase in sales teams and other sales activity.

General and Administrative

StoresOnline

General and administrative expenses consist of payroll and related expenses for executive, accounting and administrative personnel, legal, accounting and other professionals, finance company service fees, and other general corporate expenses. General and administrative expenses for the nine months ended September 30, 2010 decreased 12% to \$4,594,000 from \$5,234,000 for the nine months ended September 30, 2009. The decrease was primarily due to a decrease in finance servicing company payments of \$778,000 as a result of a reduction in principal collected on our receivables portfolio.

Crexendo Business Solutions

General and administrative expenses consist of payroll and related expenses for account managers, accounting and administrative personnel. General and administrative expenses were \$742,000 and \$98,000 for the nine months ended September 30, 2010 and 2009, respectively. The large increase was primarily attributable to the growth of our business since the prior year.

Crexendo Network Services

General and administrative expenses consist of payroll and related expenses for rent, professional fees and administrative personnel. General and administrative expenses were \$363,000 and \$48,000 for the nine months ended September 30, 2010 and 2009, respectively. The large increase, which mostly included legal and consulting fees, was primarily attributable to preparation of our hosted telecom phase 1 product launch.

Other Income

Other income is primarily derived from interest income from our StoresOnline segment and relates to EPTA contracts, which generally carry an 18% simple interest rate. For nine months ended September 30, 2010 and 2009, other income was \$3,750,000 and \$4,440,000 respectively. The decrease was primarily attributable to interest income decreasing 22% to \$3,571,000 for the nine months ended September 30, 2010 compared to \$4,461,000 for nine months ended September 30, 2009. The decrease was primarily attributable to the decrease in the collection of trade receivables. This decrease was partially offset by a one time sale of receivables that had previously been written off the books for \$303,000 in the current quarter.

Income Tax Provision

During the nine months ended September 30, 2010, we recorded an income tax benefit of \$175,000. This compares to an income tax benefit of \$4,267,000 for the nine months ended September 30, 2009. Income taxes are based on the estimated effective federal, state and foreign income tax rates. Our tax rate for the nine months ended September 30, 2010 was favorable as a result of the recognition of additional research and development credits related to prior years and the reversal of an uncertain tax liability due to a favorable conclusion of an audit in a foreign jurisdiction. Our tax rate for the nine months ended September 30, 2009 was favorable due to the reversal of an uncertain tax liability due to a favorable conclusion to an IRS audit.

Liquidity and Capital Resources

Working Capital

As of September 30, 2010, we had working capital of \$15,051,000, compared to \$17,604,000 as of December 31, 2009. As of September 30, 2010, we had working capital, excluding deferred revenue, of \$26,499,000 compared to \$33,431,000 as of December 31, 2009. Deferred revenue balances represent historical contract sales for which we cannot immediately recognize revenue. The costs and expenses we incur as these deferred revenue amounts are recognized as revenue are expected to be insignificant. Consequently, we do not consider deferred revenue to be a factor that impacts our liquidity or future cash requirements. The decrease in working capital and working capital excluding deferred revenue is primarily attributable to the purchase of a building, repurchase of shares of common stock, dividends paid, and a decrease in prepaid expenses as a result of direct response advertising costs that related to future workshops. We believe we have sufficient liquidity and capital resources to meet our needs for at least the next twelve months.

Cash and Cash Equivalents

As of September 30, 2010, we had \$17,470,000 of cash and cash equivalents held primarily in operating accounts, compared to \$21,549,000 as of December 31, 2009. During the nine months ended September 30, 2010, we used \$626,000 in cash from operating activities. During the nine months ended September 30, 2010, we used cash flows from investing activities of \$2,396,000. During the nine months ended September 30, 2010 we used cash of \$1,057,000 in financing activities, primarily for the payment of dividends to stockholders and the repurchase of shares of common stock.

Trade Receivables

Current trade receivables, net of allowance for doubtful accounts, totaled \$10,182,000 as of September 30, 2010 compared to \$14,162,000 as of December 31, 2009. Long-term trade receivables, net of allowance for doubtful accounts, were \$7,344,000 as of September 30, 2010 compared to \$6,264,000 as of December 31, 2009. 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.

Accounts Payable

Accounts payable as of September 30, 2010 totaled \$2,901,000, compared to \$3,154,000 as of December 31, 2009. Our accounts payable as of September 30, 2010 were generally within our vendors' terms of payment.

Capital

As of September 30, 2010, total stockholders' equity was \$26,053,000, up from \$25,982,000 at December 31, 2009. In addition to a net income of \$95,000, other significant changes in stockholders' equity during the first nine months of fiscal year 2010 included \$855,000 in expense for options granted, \$686,000 in common stock dividends, \$117,000 in restricted stock issued, and \$323,000 in shares of our common stock that were re-purchased. The remaining change related to stock options exercised by employees, net of the related income tax benefit.

During the nine months ended September 30, 2010 we declared and paid three cash dividends of \$0.02 per common share on March 29, 2010, June 22, 2010, and September 28, 2010 respectively. The dividend declared on March 29, 2010 was paid to stockholders of record as of April 5, 2010 and was paid on April 12, 2010. The dividend declared on June 22, 2010 was paid to stockholders of record as of June 29, 2010 and was paid on July 7, 2010. The dividend declared on September 28, 2010 was paid to stockholders of record as of October 7, 2010 and was paid on October 14, 2010. As we experienced a net loss for the nine months ended September 30, 2010, the dividend payout ratio, representing dividends per share divided by basic and diluted income per share, is not a meaningful measure.

Common Stock Repurchases

In September 2006, our board of directors authorized the repurchase of up to \$20,000,000 of our common stock. In September 2007, our board of directors authorized the repurchase of an additional \$50,000,000 of our common stock. During the nine months ended September 30, 2010, we paid \$323,000 to purchase 64,806 shares of our common stock. The common stock we repurchased has been retired.

Acquisition of CastleWave

On February 9, 2010 we acquired all of the assets of CastleWave for total consideration of \$495,000. The total consideration included a contingent consideration based upon future revenue generated from CastleWave sales channels of approximately \$128,000, restricted stock of \$117,000, and cash of \$250,000. The contingent consideration is paid out quarterly based upon a percentage of sales from CastleWave's sale channels. CastleWave is a provider of online marketing services and became part of our Crexendo Business Solutions segment.

Off Balance Sheet Arrangements

We have no off-balance sheet arrangements other than operating leases. We believe that these operating leases are immaterial to our current or future financial position, results of operations, revenues or expenses, liquidity, capital expenditures or capital resources.

Impact of Recent Accounting Pronouncements

Recently Adopted Accounting Guidance – On January 1, 2010, we adopted new accounting guidance on Fair Value Measurements and Disclosures. This guidance requires us to disclose the amount of significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for these transfers, as well as reasons for any transfers in or out of Level 3 of the fair value hierarchy. In addition, the guidance clarifies certain existing disclosure requirements. This new authoritative guidance did not have a material impact on our disclosures in our condensed consolidated financial statements at September 30, 2010.

On January 1, 2010, we adopted new accounting guidance on the consolidation of variable interest entities. This guidance requires revised evaluations of whether entities represent variable interest entities, ongoing assessments of control over such entities, and additional disclosures for variable interests. This new authoritative guidance had no impact on our financial condition and results of operations at September 30, 2010.

Recent Accounting Guidance Not Yet Adopted - In October 2009, the FASB issued authoritative guidance on revenue recognition that will become effective for us beginning January 1, 2011, 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.

Forward-Looking Statements and Factors That May Affect Future Results and Financial Condition

With the exception of historical facts, the statements contained in the foregoing MD&A 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. 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 solution 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 the development of our business 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 business 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 and other jurisdictions 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 that 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 belief that we took steps to correct the decline and believe we have made the necessary corrections;
- 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; and

- our expectation that the costs and expenses we incur will be insignificant as deferred revenue amounts are recognized as revenue 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 II, Item 1A of this report. 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 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

As of September 30, 2010, we had approximately \$17,470,000 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 nine months ended September 30, 2010, our interest income would have decreased by an immaterial amount assuming consistent levels of interest-bearing instruments.

As of September 30, 2010, we had approximately \$987,000 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 one percent as of September 30, 2010, our net trade receivable balance would have decreased by approximately \$10,000.

As of September 30, 2010, we had approximately \$442,000 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 one percent as of September 30, 2010, our cash and cash equivalents would have decreased by approximately \$4,000.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) under the Exchange Act) as of the end of the period covered by this report, have concluded that, based on the evaluation of these controls and procedures, our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

No changes in our internal control over financial reporting occurred during the nine months ended September 30, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Information on certain legal proceedings that we believe may be material to our business is set forth in "Part I – Item 3. Legal Proceedings" to our Transition Report on Form 10-KT for the period ended December 31, 2009. Other than the information regarding the legal proceedings set forth under "Legal Proceedings" in Note 8 of Notes to Condensed Consolidated Financial Statements, included in Part I, Item 1 of this report, there were no material changes from the legal proceedings previously disclosed in our Transition Report on Form 10-KT for the period ended December 31, 2009. The information regarding legal proceedings as set forth under "Legal Proceedings" in Note 8 of Notes to Condensed Consolidated Financial Statements, included in Part I, Item 1 of this Report, is incorporated herein by reference.

ITEM 1A. RISK FACTORS

There are many risk factors that may affect our business and the results of our operations, many of which are beyond our control. Information on certain risks that we believe are material to our business is set forth in "Part I – Item 1A. Risk Factors" to our Annual Report on Form 10-KT for the period ended December 31, 2009. There were no material changes from the risk factors previously disclosed in our Annual Report on Form 10-KT for the period ended December 31, 2009.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. (REMOVED AND RESERVED)

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

Exhibits

31.1	Certification of Chief Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities and Exchange Act of 1934, as amended
31.2	Certification of Chief Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities and Exchange Act of 1934, as amended
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

iMergent, Inc.

November 3, 2010

By: s/ STEVEN G. MIHAYLO

Steven G. Mihaylo
Chief Executive Officer

November 3, 2010

By: s/ JONATHAN R. ERICKSON

Jonathan R. Erickson
Chief Financial Officer

**Certification Pursuant to
Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Amended**

I, Steven G. Mihaylo, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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: November 3, 2010

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

**Certification Pursuant to
Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Amended**

I, Jonathan R. Erickson, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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: November 3, 2010

By:

/s/ JONATHAN R. ERICKSON
Jonathan R. Erickson
Chief Financial Officer

**CERTIFICATIONS PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)**

In connection with the Quarterly Report of iMergent, Inc., a Delaware corporation (the "Company"), on Form 10-Q for the quarter ended September 30, 2010, as filed with the Securities and Exchange Commission (the "Report"), Steven G. Mihaylo, Chief Executive Officer of the Company, does hereby certify, pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350), that to his knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

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

Date: November 3, 2010

[A signed original of this written statement required by Section 906 has been provided to iMergent, Inc. and will be retained by iMergent, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.]

**CERTIFICATIONS PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)**

In connection with the Quarterly Report of iMergent, Inc., a Delaware corporation (the "Company"), on Form 10-Q for the quarter ended September 30, 2010, as filed with the Securities and Exchange Commission (the "Report"), Jonathan R. Erickson, Chief Financial Officer of the Company, does hereby certify, pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350), that to his knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

By: /s/ JONATHAN R. ERICKSON

Jonathan R. Erickson
Chief Financial Officer

Date: November 3, 2010

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Crexendo Business Solutions, Inc.
1615 South 52nd Street
Tempe, Arizona 85281

VIA FEDERAL EXPRESS

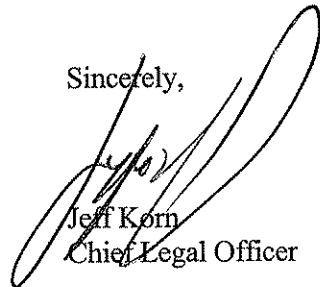
Utah Public Service Commission
160 East 300 South
Salt Lake City, UT 84145
Attn: Ms. Julie Orchard
Commission Secretary

Re: Petition of Crexendo Business Solutions, Inc. for Authority to Compete as a
Telecommunications Corporation and to Offer Public Local Exchange and
Interexchange Telecommunications Services

Dear Ms. Orchard:

Jeff Korn, Chief Legal Officer of Crexendo Business Solutions, Inc. attests to the accuracy, integrity and objectivity that the statements were prepared in accordance with generally accepted accounting principles and the applicable rules of the Commission.

Sincerely,



Jeff Korn
Chief Legal Officer

Enclosures

cc: Lance J.M. Steinhart, P.C.

UT CLEC Petition

2. STATEMENT REGARDING FACILITIES

Upon initiation of service in Utah, the company proposes to offer resold interexchange and local exchange services, and local services utilizing unbundled network elements. Such services will be provided by utilizing the facilities of incumbent local exchange carriers ("LECs") and facilities-based interexchange carriers. The company has no current plans to install facilities in the State of Utah. If the company installs facilities in Utah, it will probably use the following or a similar configuration of equipment: Applicant will provide voice and high speed data services through a combination of the latest technology switching and transport media. The switching system will consist of a central processing and control complex capable of interconnection as a peer to the incumbent as well as competitive local exchange companies. The hub portion of the switch will interconnect with the public switched network on Signaling System 7 ("SS7") or Feature Group D ("FGD") facilities. The system's remote module capability will allow properties to be served in a manner that provides the exchange of appropriate signaling, control and calling/caller information to the network in accordance with network standards and specifications. Additionally, these services will be delivered over a combination of delivery mechanisms through incumbent local carriers' unbundled loop network, both copper and fiber and transport networks, as well as via Applicant constructed facilities. All of Applicant's equipment will be capable of providing local number portability, and will be compliant and compatible with existing 911 systems. At the time of the filing of this application, none of this equipment has been installed in the State of Utah.

3. MANAGEMENT PROFILES

See Attached

Steven G. Mihaylo, Chief Executive Officer and Director



Steve was appointed as Chief Executive Officer in 2008. He is the retired chairman and chief executive officer of Inter-Tel, Incorporated, which he founded in 1969. Steve led the Inter-Tel evolution from providing business telephone systems to offering complete managed services and software that help businesses facilitate communication and increase customer service and productivity. Before selling Inter-Tel to Mitel for \$720 million in 2007, Steve grew the business to nearly \$500 million in annual sales.

Steve earned an honorary PhD from California State University - Fullerton and received a Bachelor of Arts in Business Administration in Accounting & Finance from the university in 1969. He has served on boards of numerous community organizations including the Arizona Heart Foundation, Junior Achievement of Arizona, Arizona Museum of Science and Technology and the Arizona State University College of Business Dean's Council of 100. Committed to education, Steve is involved with the Karl Eller College of Management at the University of Arizona and has served on the advisory board of Junior Achievement of Central Arizona for over 25 years, as a member of the board of directors of the Big Bear High School Education Foundation and on the Dean's Advisory Board of CSU-Fullerton.

Clint Sanderson, Senior Vice President



Mr. Sanderson joined StoresOnline in 2002 and has served as SVP and President of our StoresOnline and Crexendo divisions since February 2009. Since joining iMergent, Sanderson has held positions of increasing responsibility, including Senior Vice President of Sales of our StoresOnline Division, Sales Manager and vice president of operations. Prior to joining StoresOnline, Mr. Sanderson served as director of sales for two enterprise software companies. Mr. Sanderson also serves on the Board of Directors of the American Lung Association of Utah. Mr. Sanderson received a Bachelor of Science Degree from Brigham Young University.

David Krietzberg, Chief Administrative Officer



Mr. Krietzberg has served as the Chief Administrative Officer since 2009. Prior to joining iMergent, Inc., Krietzberg held positions with Mitel Networks, Inc, Inter-Tel Technologies, Inc and Executone Information Systems, Inc., including Chief Financial Officer, Vice President of Finance and Treasurer. Krietzberg has extensive experience in operations management, strategic planning, financial management, building organizations and developing high performance teams. Mr. Krietzberg has both an MBA in finance and a BBA in accounting from Pace University.

Jonathan R. Erickson, Chief Financial Officer



Mr. Erickson has served as iMergent's Chief Financial Officer since February 2009. Prior to his that he served as a controller since 2006. Prior to joining iMergent Mr. Erickson held various positions of increasing responsibility at Deloitte & Touche LLP, which he joined in May 2003, culminating with the position of Audit Senior specializing primarily in international manufacturing operations. Mr. Erickson received a Bachelor of Science degree in Accounting from Brigham Young University in 2002 and a Master of Accountancy from Brigham Young University in 2003. Mr. Erickson is also a certified public accountant.

David L. Rosenvall, Chief Technology Officer



Mr. Rosenvall was appointed as our Chief Technology Officer in February 2001. Prior thereto, he served as our Chief Architect from September 1999. He initially joined us in November 1998 in connection with our acquisition of StoresOnline.com. From September 1997 to December 1998, Mr. Rosenvall was president of Spartan Multimedia in Calgary, Alberta, Canada, and from January 1995 to August 1997, he was Vice-President for Research and Development at Xentel, another Calgary company. Mr. Rosenvall holds a Bachelor of Science degree in Mechanical Engineering from the University of Calgary and an M.B.A. from Brigham Young University.

Jeffrey Korn, Chief Legal Officer



Mr. Korn has served as Chief Legal Officer since February 2009. Prior to that he served as the General Counsel of iMergent since 2002. Prior to joining iMergent, Mr. Korn had a private consulting practice; before that, he had served as general counsel of ProsoftTraining (previously a NASDAQ company), and prior to that, Mr. Korn was a partner in a Jacksonville, Florida, law firm with his practice, specializing in corporate matters and litigation. Mr. Korn has been an advisor to private venture firms, as well as a lecturer and a college instructor. Mr. Korn currently serves on the board of directors of Flanders Corporation and on several charitable and education boards. Mr. Korn has a BA from the State University of New York at New Paltz and a JD from Stetson University College.

4. CERTIFICATION IN OTHER JURISDICTIONS

Applicant is currently authorized in Alabama, California, District of Columbia, Florida, Georgia, Idaho, Indiana, Iowa, Illinois, Kansas, Kentucky, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Montana, Nebraska, New Hampshire, New Jersey, New Mexico, New York, North Dakota, Oregon, Pennsylvania, Rhode Island, Texas, Vermont, Washington, West Virginia, Wisconsin and Wyoming to provide local exchange and long distance services. Applicant is in the process of applying for authorization to provide competitive local exchange and interexchange services nationwide. Applicant has not been denied authority for any of the services for which it seeks authority in this Application.

5. PROOF OF AUTHORITY TO CONDUCT BUSINESS IN UTAH

See Attached



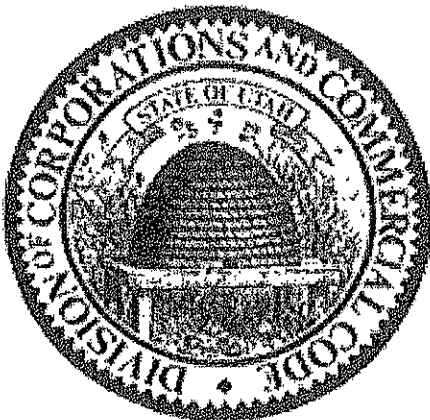
Utah Department of Commerce
Division of Corporations & Commercial Code
160 East 300 South, 2nd Floor, PO Box 146705
Salt Lake City, UT 84114-6705
Service Center: (801) 530-4849
Toll Free: (877) 526-3994 Utah Residents
Fax: (801) 530-6438
Web Site: <http://www.commerce.utah.gov>

04/27/2010
7397002-014304272010-836463

CERTIFICATE OF EXISTENCE

Registration Number: 7397002-0143
Business Name: CREXENDO BUSINESS SOLUTIONS, INC
Registered Date: June 29, 2009
Entity Type: Corporation - Foreign - Profit
Current Status: Good Standing

The Division of Corporations and Commercial Code of the State of Utah, custodian of the records of business registrations, certifies that the business entity on this certificate is authorized to transact business and was duly registered under the laws of the State of Utah. The Division also certifies that this entity has paid all fees and penalties owed to this state; its most recent annual report has been filed by the Division (unless Delinquent); and, that Articles of Dissolution have not been filed.



Kathy Berg

Kathy Berg
Director
Division of Corporations and Commercial Code

6. 5 YEAR PROJECTION OF EXPECTED OPERATIONS

See Attached.

Utah 5 year projections

		2010		2011		2012		2013		2014
Local Lines Served		0		100		150		225		350
Ann Local Rev/Line(no Tax)	\$	360.00	\$	360.00	\$	360.00	\$	360.00	\$	360.00
Revenue	\$	-	\$	36,000	\$	54,000	\$	81,000	\$	126,000
Cost of Goods Sold	\$	-	\$	25,200	\$	37,800	\$	56,700	\$	88,200
Net Sales (Gross Profit)	\$	-	\$	10,800	\$	16,200	\$	24,300	\$	37,800
Operating Expense	\$	10,000	\$	10,000	\$	25,000	\$	25,000	\$	25,000
Depreciation	\$	5,000	\$	5,000	\$	5,000	\$	5,000	\$	5,000
Earnings Before Int. Exp	\$	(15,000)	\$	(4,200)	\$	(13,800)	\$	(5,700)	\$	7,800
Other (Income)/Expense	\$	-	\$	-	\$	-	\$	-	\$	-
Taxes -	\$	-	\$	-	\$	-	\$	-	\$	-
Net Income	\$	(15,000)	\$	(4,200)	\$	(13,800)	\$	(5,700)	\$	7,800

7. STATEMENT REGARDING COMPLAINTS

Crexendo Business Solutions, Inc., has had no formal complaints filed with the FCC or any state regulatory authority, nor have any sanctions been imposed against the company.

8. STATEMENT REGARDING WRITTEN POLICIES REGARDING
SOLICITATION OF NEW CUSTOMERS AND DESCRIPTION OF
EFFORTS MADE TO PREVENT UNAUTHORIZED SWITCHING
OF UTAH LOCAL SERVICE

The company intends to and is willing to abide by and comply with Commission Rule 746-349-3.

The company intends to and is willing to abide by and comply with Commission Rule 746-349-3.

The company's Policy on Slamming is as follows:

Verification of orders

Crexendo will not submit a change order for local exchange or intrastate toll service until the change order is confirmed in accordance with one of the following procedure:

- (a) Crexendo has obtained the customer's written authorization to submit the order which includes the following information from the customer:
- (1) The customer billing name, billing telephone number and billing address and each telephone number to be covered by the change order;
 - (2) The decision to change; and
 - (3) The customer's understanding of the change fee, if any.

Implementing order changes

(a) Telemarketing orders. Within three business days of any telemarketing order for a change, Crexendo will send each new customer an information package by first class mail containing at least the following information concerning the requested change:

- (1) The information is being sent to confirm a telemarketing order placed by the customer.
- (2) The name of the customer's current telecommunications company.
- (3) A description of any terms, conditions or charges that will be incurred.
- (4) The name of the newly requested telecommunications company.
- (5) The name of the person ordering the change.
- (6) The name, address and telephone number of both the customer and Crexendo.
- (7) A postpaid postcard that the customer can use to deny, cancel or confirm a service order.
- (8) A clear statement that if the customer does not return the postcard, the customer's service will be switched fourteen days after the date the information package was mailed. If customers have cancelled their orders during the waiting period, Crexendo cannot submit the customer's order.
- (9) The name, address and telephone number of a contact point for consumer complaints.

(b) The documentation of the order shall be retained by Crexendo, at a minimum, for twelve months to serve as verification of the customer's authorization to change its telecommunications company. The documentation will be made available to the customer upon request.

(c) Customer initiated orders. Crexendo when receiving the customer initiated request for a change of local exchange and/or intrastate toll shall keep an internal memorandum or record generated at the time of the request. Such internal record shall be maintained by Crexendo for a minimum of twelve months to serve as verification of the customer's authorization to change telecommunications companies. The internal record will be made available to the customer upon request. Within three business days of the order, Crexendo will send each new customer an information package by first class mail containing at least the following information concerning the request to change.

9. CHART OF ACCOUNTS

See Attached

Account	Description	
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	tes Receivable	Asset
1110	Loans Receivable	Asset
1200	Deposits	Asset
1201	Prepays ST	Asset
1202	Prepays 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	te 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
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 Techlogy - Cost	Asset
1615	Acc. Amor. Goodwill	Asset
1616	Acquired Techlogy - 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	Liability
2010	Other Payables	Liability
2055	Accrued Inventory	Liability
2060	Inventory Clearing Account	Liability
2065	Project Costing Retention	Liability
2070	Excess Contract Billings	Liability
2075	Inventory Clearing Account	Liability
2080	Line of Credit	Liability
2100	Accrued Expense	Liability
2104	Customer Depsoits	Liability
2105	Customer Returns Liability	Liability
2110	Accrued Salaries & Wages	Liability
2120	Accrued EPS Bonus	Liability
2125	Accrued Engineer Bonus	Expense
2130	Accrued Executive Bonus	Liability
2140	Accrued Vacation Expense	Liability
2150	Accrued Medical Trust	Liability
2160	Payroll Clearing Account	Liability
2161	Cafeteria 125 Plan Account	Liability
2162	Federal Payroll Tax Payable	Liability
2163	Soc Sec/Medicare Tax Payable	Liability
2164	State Withholding Tax Payable	Liability
2165	FUTA Tax Payable	Liability
2166	SUTA Tax Payable	Liability
2167	401(k) Payable	Liability
2168	Health Savings Account	Expense
2169	Past Due Payroll Taxes	Liability
2170	Garnishments	Liability
2177	Accrued Medical Benefits	Liability
2185	Accrued Interest	Liability
2190	Dividend Payable	Liability
2195	Accrued Property Tax	Expense
2200	te Payable, ST	Liability

2210	tes Payable - Officer	Liability
2215	tes Payable - Other	Liability
2220	Capital Leases	Liability
2230	American Express Clearing	Liability
2235	Contract Loss Reserve	Liability
2240	Federal Income Tax Payable	Liability
2250	Cap Lease Accrual	Liability
2251	Rent Accrual	Liability
2255	Accrued Contingencies	Liability
2260	Bank Overdraft	Liability
2270	Sales Tax Payable	Liability
2280	Deferred Revenue - Current	Liability
2281	Defer Revenue - Customer Suppo	Liability
2300	Advances from Galaxy Mall	Liability
2301	Advances from Galaxy Enterpris	Liability
2302	Loans from Investors	Liability
2303	Advances from Galaxy Enterpris	Liability
2309	Convertible Debentures	Liability
2310	Advances from Netgateway	Liability
2315	Advances from EMS	Liability
2319	Advances to StoresOnline	Liability
2320	PMI Reserve Account	Liability
2321	Bridge Financing	Liability
2325	CMG Reserve	Liability
2327	EMS Reserve	Liability
2330	tes Payable - Related Party	Liability
2331	Success Team Reserve Account	Liability
2335	Funded Contract Reserves	Liability
2340	Capital Leases - Long Term	Liability
2341	Stock Clearing Liability	Liability
2342	Capital Leases - Long Term	Liability
2343	FIN 48 Income Taxes Payable -	Liability
2350	Deferred Taxes - Long Term	Liability
2351	Current Maturities of Debt	Liability
2360	Deferred Revenue - Long Term	Liability
2370	Notes Payable - Long Term	Liability
2400	FIN 48 Income Taxes-L	Liability
2999	Total Liabilities	Liability
3100	Common Stock	Owners' equity
3200	Additional Paid in Capital	Owners' equity
3210	Deferred Compensation	Owners' equity
3300	Holding Company Interest	Owners' equity
3400	Deferred Compensation	Owners' equity
3700	Translation Adjustment	Owners' equity
3800	Stock Subscribed	Owners' equity
3900	Retained Earnings	Owners' equity
3905	Dividends Payable	Liability
3999	Total Equity	Owners' equity
4010	Workshop Sales	Revenue

4011	Direct Sales	Revenue
4012	VAR Sales	Revenue
4015	Educational Sales	Revenue
4020	Preview Sales	Revenue
4030	Contract Telemarketing Revenue	Revenue
4040	In House Telemarketing Revenue	Revenue
4050	Customer Service Sales	Revenue
4060	Hosting Sales	Revenue
4070	Other Sales	Revenue
4080	Follow Up Sales	Revenue
4091	Web Design Revenue	Revenue
4092	SEO Revenue	Revenue
4093	Training Revenue	Revenue
4094	Paid Search Revenue	Revenue
4095	Site Building Mechanics Revenue	Revenue
4096	Link Building Revenue	Revenue
4999	Total Revenue	Revenue
5005	Salaries & Wages-Regular	Expense
5010	Salaries & Wages-Bonus	Expense
5120	Utilities	Expense
5145	Utilities	Expense
5250	Printing & Reproduction	Expense
5300	Credit Card Fees	Expense
5305	Credit Card Chargeback Expense	Expense
5310	Dues & Subscriptions	Expense
5335	Taxes - Other	Expense
5360	Fines & Penalties	Expense
5375	Other Supplies	Expense
5380	Office Supplies	Expense
5385	Computer Supplies	Expense
5400	Employer Taxes	Expense
5420	Telephone	Expense
5425	Avail toll free charges	Expense
5430	Employee Insurance Benefits	Expense
5440	Repairs & Maintenance	Expense
5450	Postage	Expense
5455	Freight	Expense
5500	Travel - Airfare Out of Town	Expense
5510	Travel - Lodging Out of Town	Expense
5520	Travel - Rental Car	Expense
5535	Travel - Perdiem	Expense
5540	Travel - Misc Out of Town	Expense
5545	Travel - Local	Expense
5550	Entertainment & Meals	Expense
5555	Depreciation	Expense
5600	Meeting Room	Expense
5610	Food Services	Expense
5615	Hotel Cancellation Fees	Expense
5620	Speaker Fees	Expense

5625	Workshop Gift Expense	Expense
5630	Workshop Customer Spiffs Givea	Expense
5631	Workshop Spiffs Bonus Savings	Expense
5635	Workshop Employee Spiffs	Expense
5640	Event Materials	Expense
5645	SSL Certificate Cost	Expense
5650	Independent Contractor	Expense
5660	Workshop Prod. - Related Party	Expense
5665	Telemarketing Prod - Rel Party	Expense
5670	Credit Card Processor Product	Expense
5675	Links for Trade	Expense
5680	Banner Impression Purchases	Expense
5690	Contest Prizes	Expense
5700	Misc Product Cost	Expense
5705	Product Cost-COGS	Expense
5800	Prepaid Legal Fees	Expense
5805	Prepaid Legal Materials	Expense
5890	VAR Commissions	Expense
5900	Questionable Order Commissions	Expense
5910	3-Day Right Saves - Commission	Expense
5999	Total COGS	Expense
6005	Salaries & Wages-Regular	Expense
6010	Salaries & Wages-Bonus & Commi	Expense
6100	Payroll Burden Allocation	Expense
6150	Job Cost Alloc	Expense
6200	Contract Labor	Expense
6215	Temporary Help	Expense
6300	Commissions	Expense
6400	Employer Payroll Taxes	Expense
6401	Payroll Taxes - FICA	Expense
6402	Payroll Taxes - FUTA	Expense
6403	Payroll Taxes - SUI	Expense
6410	Worker's Compensation	Expense
6420	Vacation	Expense
6430	Employee Benefits	Expense
6450	401k Match	Expense
6500	Recruiting	Expense
6510	Training	Expense
6520	Parking	Expense
6530	Other Cost of Staff	Expense
6999	Total Employee Costs	Expense
7100	Rent - Building	Expense
7110	Rent - Other	Expense
7120	Utilities	Expense
7200	System Maintenance	Expense
7210	Call Center Equipment Fees	Expense
7300	Credit Card Transaction Fees:	Expense
7400	Training Licenses	Expense
7500	Depreciation Expense	Expense

7505	Intangible Asset Amortization	Expense
7510	Amortization of Goodwill	Expense
7520	Equipment Leasing	Expense
7530	Equipment Rental	Expense
7540	Automobile Leasing	Expense
7600	Research & Development Expense	Expense
8100	Legal Fees	Expense
8101	Option Expense 123r	Expense
8105	Legal Expense - Merger	Expense
8110	Audit Fees	Expense
8115	Accounting Fees	Expense
8117	Bad Debt Expense	Expense
8118	Cust Serv Returns Reserve	Expense
8119	Finance Company Services	Expense
8120	Finance Company Discounts	Expense
8121	Shareholder/Investor Relations	Expense
8122	Investor relations corp	Expense
8124	Sporting Event Advertising	Expense
8125	Public Relations	Expense
8126	ACH Transaction Fees	Expense
8130	Foreign Exchange Gain/Loss	Expense
8131	Currency Rounding	Expense
8132	Corporate Communications	Expense
8133	FX Gain/Loss on AR Applied Cas	Expense
8135	Finders Fee	Expense
8139	Financial Consulting	Expense
8140	Credit Reference Seviles	Expense
8145	Outside Services	Expense
8150	Consulting Fees	Expense
8160	Stock Transfer Agent Fees	Expense
8170	Royalties	Expense
8175	Revenue Splits	Expense
8180	Contract Telemarketing	Expense
8181	Web promo & EMS weekly	Expense
8190	Merchant Retreat Expenses	Expense
8200	Advertising	Expense
8210	Advertising - Radio	Expense
8215	Advertising - Kemo - Bloosky	Expense
8220	Advertising - Intangible Amort	Expense
8225	Advertising - Get Motivated	Expense
8230	Telemarketing	Expense
8240	Trade Shows	Expense
8250	Printing & Reproduction	Expense
8255	Financial Printing	Expense
8260	Mailing List Expense	Expense
8265	Direct Mail Fulfillment	Expense
8270	Postage - Direct Mail	Expense
8275	Marketing & Research	Expense
8280	Other Cost of Marketing	Expense

8300	Computer Accessories	Expense
8310	Dues & Subscriptions	Expense
8315	Donations	Expense
8320	Education & Training	Expense
8325	Filing Fees	Expense
8330	License Fees & Permits	Expense
8335	Taxes - Other	Expense
8340	Payroll Service Fees	Expense
8350	Insurance - General	Expense
8355	Insurance - Officer's Life	Expense
8360	Fines & Penalties	Expense
8365	Product Testing	Expense
8370	Office Equipment	Expense
8375	Other Supplies	Expense
8380	Office Supplies	Expense
8385	Computer Supplies	Expense
8400	Bandwidth	Expense
8410	Communications - Cellular	Expense
8420	Telephone	Expense
8430	Communications - Other	Expense
8440	Repairs & Maintenance	Expense
8450	Postage	Expense
8455	Freight	Expense
8460	Bank Service Charges	Expense
8463	Credit Card Fees	Expense
8465	Currency Conversion Fee	Expense
8470	NSF Checks	Expense
8500	Travel - Airfare Out of Town	Expense
8510	Travel - Lodging Out of Town	Expense
8520	Travel - Rental Car	Expense
8530	Travel - Meals	Expense
8535	Per Diem	Expense
8540	Travel - Misc Out of Town	Expense
8545	Travel - Local	Expense
8550	Entertainment & Meals	Expense
8600	Meeting Room	Expense
8610	Food Services	Expense
8615	Hotel Cancellation Fees	Expense
8620	Speaker Fees	Expense
8625	Telemarketing Spiffs	Expense
8630	Customer Spiffs	Expense
8635	Employee Spiffs	Expense
8636	Employee Awards Programs	Expense
8640	Event Materials	Expense
8643	Inventory Scrap Write Off	Expense
8645	SSL Certificate Cost	Expense
8650	Preview ISP Fees	Expense
8660	Materials - Telemarketing	Expense
8670	Seminar Expense Unallocated	Expense

8700	Miscellaneous	Expense
8715	Financial Services Leads	Expense
8750	Property Taxes	Expense
8770	Sales Tax Expense	Expense
8800	Debt Issue Expense	Expense
8805	Debt Discount Expense	Expense
8850	Registration & Filing Fees	Expense
8905	Freight Account	Expense
8915	Variance Account	Expense
8920	Realized Gain / Loss	Expense
8930	Discount Account	Expense
8940	Financing Bad Debt	Expense
8945	Late Charge Account	Expense
8950	AP Adjustments	Expense
8955	Rent - Income	Revenue
8999	Total G&A Expenses	Expense
9100	Interest	Expense

10. ORGANIZATIONAL CHART

Board of Directors

CEO
Steven Mihaylo

Chief Financial
Officer
Jonathan Erickson

SVP/
President
Clint Sanderson

Chief Administrative
Officer
David Krietzberg

Chief Legal
Officer
Jeffrey Korn

Chief Technology
Officer
David Rosenvall