

IMERGENT INC  
Form 10-Q  
May 06, 2008

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

**FORM 10-Q**

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

For the quarterly period ended: **March 31, 2008**

or

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

For the transition period from: \_\_\_\_\_ to \_\_\_\_\_

**iMergent, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or Other Jurisdiction  
of Incorporation)

**001-32277**  
(Commission  
File Number)

**87-0591719**  
(I.R.S. Employer  
Identification No.)

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**754 E. Technology Avenue, Orem, Utah 84097**

(Address of Principal Executive Office) (Zip Code)

**(801) 227-0004**

(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 is a large accelerated filer, an accelerated filer, a non-accelerated filer., or a smaller reporting company.

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 Act).  Yes  No

The number of shares outstanding of the registrant's common stock as of April 30, 2008 was 11,310,175.

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**PART I - FINANCIAL INFORMATION****ITEM 1.****FINANCIAL STATEMENTS.****iMERGENT, INC. AND SUBSIDIARIES****Condensed Consolidated Balance Sheets****(Dollars in thousands, except per share data)****(unaudited)**

	<b>March 31,</b>	<b>June 30,</b>
	<b>2008</b>	<b>2007</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 25,160	\$ 36,859
Trade receivables, net of allowance for doubtful accounts of \$12,123 as of March 31, 2008 and \$11,904 as of June 30, 2007	29,708	26,814
Note receivable	822	1,000
Income taxes receivable	-	295
Inventories	556	427
Deferred income tax assets	4,547	6,349
Prepaid expenses and other	8,088	4,156
Total current assets	68,881	75,900
Certificate of deposit	500	500
Available-for-sale securities	4,154	-
Long-term trade receivables, net of allowance for doubtful accounts of \$3,991 as of March 31, 2008 and \$5,610 as of June 30, 2007	9,636	12,096
Property and equipment, net	1,836	1,786
Deferred income tax assets	5,654	4,387
Intangible assets, net	1,067	1,276

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Merchant account deposits and other		637		765
Total assets	\$	92,365	\$	96,710
<b>Liabilities and Stockholders' Equity</b>				
Current liabilities:				
Accounts payable	\$	4,575	\$	3,174
Accrued expenses and other		8,879		4,749
Income taxes payable		626		1,924
Deferred revenue, current portion		33,867		30,298
Total current liabilities		47,947		40,145
Deferred revenue, net of current portion		10,056		12,157
Other		307		-
Total liabilities		58,310		52,302
Commitments and contingencies (Note 6)				
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; 11,391,022 shares outstanding as of March 31, 2008 and 12,106,707 shares outstanding as of June 30, 2007		11		12
Additional paid-in capital		55,449		68,190
Accumulated deficit		(21,405)		(23,794)
Total stockholders' equity		34,055		44,408
Total liabilities and stockholders' equity	\$	92,365	\$	96,710

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

**iMERGENT, INC. AND SUBSIDIARIES****Condensed Consolidated Income Statements****(Dollars in thousands, except per share data)****(unaudited)**

	<b>Three Months Ended March 31,</b>		<b>Nine Months Ended March 31,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>Revenues:</b>				
Product and other	\$ 19,125	\$ 35,593	\$ 74,650	\$ 90,728
Commission and other	8,432	7,043	24,286	16,592
Total revenues	27,557	42,636	98,936	107,320
<b>Operating expenses:</b>				
Cost of product and other revenues	6,737	12,850	30,722	33,534
Selling and marketing	14,482	19,408	53,678	47,658
General and administrative	5,014	4,102	15,772	11,976
Research and development	587	371	1,580	858
Total operating expenses	26,820	36,731	101,752	94,026
Income (loss) from operations	737	5,905	(2,816)	13,294
<b>Other income (expense):</b>				
Interest income	2,168	1,836	6,868	4,831
Interest expense	(1)	-	(1)	(3)
Other income, net	91	(91)	397	(70)
Total other income, net	2,258	1,745	7,264	4,758
Income before income tax benefit (provision)	2,995	7,650	4,448	18,052
Income tax benefit (provision)	(1,253)	(2,953)	(1,860)	676
Net income	\$ 1,742	\$ 4,697	\$ 2,588	\$ 18,728
<b>Net income per common share:</b>				
Basic	\$ 0.15	\$ 0.38	\$ 0.22	\$ 1.51
Diluted	\$ 0.15	\$ 0.36	\$ 0.22	\$ 1.45
<b>Dividends per common share:</b>				
Basic	\$ 0.11	\$ 0.10	\$ 0.33	\$ 0.10
Diluted	\$ 0.11	\$ 0.10	\$ 0.33	\$ 0.10
<b>Weighted average common shares outstanding:</b>				

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Basic	11,484,336	12,389,854	11,802,766	12,373,728
Diluted	11,672,142	12,952,954	12,001,375	12,911,557

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



**iMERGENT, INC. AND SUBSIDIARIES****Condensed Consolidated Statement of Stockholders' Equity****Nine Months Ended March 31, 2008****(Dollars in thousands)****(unaudited)**

	<b>Common Stock</b>		<b>Additional</b>	<b>Accumulated</b>	<b>Total</b>
	<b>Shares</b>	<b>Amount</b>	<b>Paid-in</b>	<b>Deficit</b>	<b>Stockholders'</b>
			<b>Capital</b>		<b>Equity</b>
Balance, July 1, 2007	12,106,707	\$ 12	\$ 68,190	\$ (23,794)	\$ 44,408
Cumulative effect adjustment (FIN 48)	-	-	-	(199)	(199)
Expense for options granted to employees	-	-	1,551	-	1,551
Common stock issued upon exercise of options and related income tax benefit	103,775	-	599	-	599
Repurchase of common stock	(819,460)	(1)	(11,020)	-	(11,021)
Cash dividends paid	-	-	(3,871)	-	(3,871)
Net income	-	-	-	2,588	2,588
Balance, March 31, 2008	11,391,022	\$ 11	\$ 55,449	\$ (21,405)	\$ 34,055

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

**iMERGENT, INC. AND SUBSIDIARIES****Condensed Consolidated Statements of Cash Flows***(Dollars in thousands)*

(unaudited)

	<b>Nine Months Ended March 31,</b>	
	<b>2008</b>	<b>2007</b>
Increase (decrease) in cash and cash equivalents		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 2,588	\$ 18,728
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	876	440
Expense for stock options issued to employees	1,551	1,710
Expense for stock options issued to consultants	-	34
Changes in assets and liabilities:		
Trade receivables	(434)	(14,594)
Inventories	(129)	(56)
Income taxes receivable	295	-
Prepaid expenses and other	(3,932)	(4,511)
Merchant account deposits and other	128	420
Deferred income tax assets	535	(1,115)
Other long-term liabilities	(23)	-
Accounts payable, accrued expenses and other liabilities	5,384	677
Deferred revenue	1,468	11,795
Income taxes payable	(1,298)	495
Net cash provided by operating activities	7,009	14,023
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of property and equipment	(517)	(1,522)
Collections on note receivable	178	-
Purchase of available-for-sale securities	(4,154)	-
Net cash used in investing activities	(4,493)	(1,522)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repurchase of common stock	(10,938)	(4,965)
Proceeds from exercise of stock options and related tax benefit	599	1,471

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Principal payments on note payable	(5)	(49)
Dividend payments	(3,871)	-
Net cash used in financing activities	(14,215)	(3,543)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(11,699)	8,958
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	36,859	30,023
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	\$ 25,160	\$ 38,981
Supplemental disclosures of non-cash transactions:		
Repurchase of common stock not yet settled	\$ 83	\$ -
Purchase of property and equipment with note payable	200	-
Cash paid during the period for:		
Interest	1	3
Income taxes	2,501	190

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

**iMERGENT, INC. AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements**

**(unaudited)**

**(1)**

**Description of Business**

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

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) on a basis consistent with the Company's annual consolidated financial statements, and, in the opinion of management, reflect all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial information set forth therein. Certain information and note disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (US GAAP) have been condensed or omitted pursuant to SEC rules and regulations, although the Company believes that the following disclosures, when read in conjunction with the annual consolidated financial statements and the notes thereto included in the Company's most recent annual report on Form 10-K, are adequate to make the information presented not misleading. Operating results for the three and nine months ended March 31, 2008 are not necessarily indicative of the results which may be expected for the fiscal year ending June 30, 2008, or future periods. In view of the Company's revenue recognition policies and the rapidly evolving nature of its business and the market it serves, the Company believes period-to-period comparisons of its operating results, including operating expenses as a percentage of revenues and cash flows are not necessarily meaningful and should not be relied upon as an indication of future performance.

The Company has a June 30 fiscal year end and experiences seasonality in its business. Historically, revenues from its core business during its fiscal first quarter tend to be lower than revenues in its fiscal second, third and fourth quarters. The Company believes this to be attributable to summer vacations which occur during its fiscal first quarter.

**(2)**

**Summary of Significant Accounting Policies**

**(a)**

**Principles of Consolidation**

The condensed consolidated financial statements include the accounts and operations of iMergent, Inc. and its wholly owned subsidiaries, which include Galaxy Enterprises, Inc., Galaxy Mall, Inc., StoresOnline Inc., StoresOnline International, Inc., Internet Training Group, Inc. and Avail, Inc. All significant intercompany account balances and

transactions have been eliminated in consolidation.

(b)

Trade Receivables

Since 1999, the Company has offered to its customers the option to finance, through extended payment term arrangements (EPTAs), purchases made at its Internet training workshops. From time to time, a portion of these EPTAs has been sold, on a discounted basis, to third-party financial institutions for cash. The remainder of the EPTAs (those not sold to third parties) is reflected as short-term and long-term trade receivables, as applicable, until maturity or payoff.

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

Interest income is primarily earned from EPTA contracts. EPTA contract terms generally contain an 18% simple interest rate. Interest income is recognized on these accounts only to the extent cash is received. For the three months ended March 31, 2008 and 2007, the Company recognized \$2,168,000 and \$1,836,000, respectively, in interest income. For the nine months ended March 31, 2008 and 2007, the Company recognized \$6,868,000 and \$4,831,000, respectively, in interest income.

(c)

#### Available-for-Sale Securities

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

(d)

#### Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market. Inventories primarily consist of products provided in conjunction with the Internet training workshops.

(e)

#### Intangible Assets

The Company's intangible assets consist of advertising lists. The identifiable intangible assets are recorded at the lower of their discounted future cash flow projections or the amount that was paid for them in an arm's length transaction. These advertising lists are being amortized over six years on an accelerated basis. The weighted-average useful life of the intangible assets was 63 months as of March 31, 2008.

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

(f)

#### Use of Estimates

In the preparation of financial statements in conformity with US GAAP, estimates and assumptions must be made that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities, at the balance sheet reporting dates, and reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. The Company has recorded within accrued liabilities approximately \$532,000 and \$752,000 as of March 31, 2008 and June 30, 2007, respectively, for estimated credit card charge-backs and customer returns. The Company has recorded liabilities of approximately \$793,000 and \$388,000 as of March 31, 2008 and June 30, 2007, respectively, for estimated losses resulting from various legal proceedings against the Company. In the event the Company is unable to successfully defend the various legal proceedings against the Company, the potential loss could be significantly higher than the liabilities recorded. Attorney fees associated with the various legal proceedings are expensed as incurred. Other key estimates are discussed elsewhere in these notes to the condensed consolidated financial statements.

(g)

#### Revenue Recognition

The Company sells licenses to customers to use the Company's StoresOnline Software (SOS). The SOS is a web-based software product that enables customers to develop Internet websites for commerce without requiring additional assistance from the Company, if the customers desire. When customers purchase an SOS license at one of the Company's Internet preview seminars or workshops, they receive a license, site key, password, and instructions which allow immediate access to the Company's website and servers where all of the necessary software programs and tools are located to be downloaded or to complete the construction of their websites on the Company's servers.

Additionally, the Company provides website setup services and customer support for incremental fees. When customers complete their websites, those websites can be hosted with the Company or any other provider of such services at the customers' option. If the customers choose to host with the Company, the Company will host the websites for an additional fee. Customers have the option to create their websites completely on their own without access to the Company website and the option to host their websites with another hosting service.

#### Product and Other Revenue

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

Fees for SOS licenses sold under EPTAs are recognized as revenue as cash payments are received from the customer and not at the time of sale. Although the Company is able to reasonably estimate the collectability of its receivables based upon its long history of offering EPTAs, the American Institute of Certified Public Accountants Statement of Position 97-2, *Software Revenue Recognition* (SOP 97-2), requires revenue to be deferred until customer payments are received if collection of the original principal balance is not probable. Additionally, if the Company subsequently sells the receivables on a non-recourse basis, SOP 97-2 requires that the related revenue be deferred until the customer makes cash payments to the third-party purchaser of the receivables.

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



Commission and Other Revenue

The Company has contracts with third-party entities with respect to telemarketing product sales to the Company's customers following the sale of the initial software licenses. These products and services are intended to assist the customers with their Internet businesses. These products are sold and delivered completely by third parties. The Company receives commissions from these third parties, and recognizes the commissions as revenue as the commissions are received in cash, net of expected customer refunds, in accordance with Emerging Issues Task Force (EITF) No. 99-19, *Reporting Revenue Gross as a Principal versus Net as an Agent*.

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

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

(h)

#### Advertising Costs

The Company expenses costs of advertising and promotions as incurred, with the exception of direct-response advertising costs. SOP 93-7, *Reporting on Advertising Costs*, provides that direct-response advertising costs that meet specified criteria should be reported as assets and amortized over the estimated benefit period. The conditions for reporting the direct-response advertising costs as assets include evidence that customers have responded specifically to the advertising, and that the advertising results in probable future benefits. The Company uses direct-response advertising to register customers for its workshops. The Company is able to document the responses of each customer to the advertising that elicited the response. Advertising expenses included in selling and marketing expenses for the three months ended March 31, 2008 and 2007 were approximately \$6,178,000 and \$8,161,000, respectively, and for the nine months ended March 31, 2008 and 2007 were approximately \$24,545,000 and \$21,784,000, respectively. As of March 31, 2008 and June 30, 2007, the Company recorded approximately \$3,301,000 and \$2,321,000, respectively, of direct-response advertising related to future workshops as prepaid expenses.

(i)

#### Stock-Based Compensation

The Company has various incentive stock plans that provide for the grant of up to 3,000,000 common shares to eligible employees, consultants and directors of stock options and other share-based awards.

The Company accounts for stock-based awards under Statement of Financial Accounting Standards (SFAS) No. 123(R), *Share-Based Payment*, using the modified prospective transition method, which requires measurement and recognition over the service period of: (a) compensation cost of all stock-based payments granted prior to, but not yet vested as of, July 1, 2005 (based on grant-date fair value estimated in accordance with the original provisions of SFAS No. 123, and (b) compensation cost for all stock-based payments granted subsequent to July 1, 2005 that are expected to vest (based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123(R)).

The following table summarizes the statement of operations effect of SFAS No. 123(R) for the three and nine months ended March 31, 2008 and 2007:

Three months ended March		Nine months ended March	
31,		31,	
2008	2007	2008	2007

(Dollars in thousands, except per share data)

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Stock-based compensation expense  
recognized:

Cost of revenue	\$	34	\$	21	\$	149	\$	64
Research and development		68		63		234		157
Selling and marketing		47		27		183		80
General and administrative		202		213		985		1,410
Total stock-based compensation expense recognized		351		324		1,551		1,711
Related deferred income tax benefit		(145)		(123)		(641)		(650)
Decrease in net income	\$	206	\$	201	\$	910	\$	1,061
Reduction in basic net income per common share	\$	0.02	\$	0.02	\$	0.08	\$	0.09
Reduction in diluted net income per common share	\$	0.02	\$	0.02	\$	0.08	\$	0.08

The Company granted 0 and 231,000 options during the three and nine months ended March 31, 2008, respectively. The Company granted 20,000 and 267,500 options during the three and nine months ended March 31, 2007, respectively. The weighted-average fair value of stock options on the date of grant, and the assumptions used to estimate the fair value of the stock options granted during the three and nine months ended March 31, 2008 and 2007, using the Black-Scholes option-pricing model, were as follows:

	Three months ended March 31,		Nine months ended March 31,	
	2008	2007	2008	2007
Weighted-average fair value of options granted	N/A	\$ 16.43	\$ 11.17	\$ 8.70
Expected volatility	N/A	79.00%	67.00%	78.07%
Expected life (in years)	N/A	4.00	3.29	3.20
Risk-free interest rate	N/A	4.70%	4.83%	5.03%
Expected dividend yield	N/A	0.00%	1.64%	0.00%

The expected volatility of the option is determined using historical volatilities based on historical stock prices. The expected life of 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. On September 5, 2007, the Company announced an \$0.11 per share quarterly cash dividend. From March 7, 2007 to September 5, 2007, the Company paid a \$0.10 per share quarterly cash dividend.

The following tables summarize stock option activity during the three months ended March 31, 2008:

	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2008	983,102	\$ 13.25		
Granted	-	-		
Exercised	(86,944)	2.74		\$ 651
Forfeited / Cancelled	(48,782)	13.42		
Outstanding as of March 31, 2008	847,376	14.32	3.58 years	1,975
Options vested and exercisable as of March 31, 2008	559,258	\$ 12.10	2.88 years	\$ 1,818

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The following table summarizes the nonvested stock options as of March 31, 2008 and the changes during the three months ended March 31, 2008:

	<b>Options</b>	<b>Weighted- Average Grant Date Fair Value</b>	<b>Weighted-Average Remaining Years to Vest</b>
Nonvested before January 1, 2008	354.830	\$ 9.07	
Granted	-	-	
Forfeited	(19.299)	10.44	
Vesed	(47.413)	7.43	
Nonvested as of March 31, 2008	288.118	\$ 9.21	2.09 years

The following table summarizes stock option activity during the nine months ended March 31, 2008:

	<b>Options</b>	<b>Weighted- Average Exercise Price</b>	<b>Weighted- Average Remaining Contractual Term</b>	<b>Aggregate Intrinsic Value (in thousands)</b>
Outstanding at July 1, 2007	805,806	\$ 10.06		
Granted	231,000	24.43		
Exercised	(103,775)	11.70		\$ 856
Forfeited / Cancelled	(85,655)	14.72		
Outstanding as of March 31, 2008	847,376	14.32	3.58 years	1,975
Options vested and exercisable as of March 31, 2008	559,258	\$ 12.10	2.88 years	\$ 1,818

The following table summarizes the nonvested stock options as of March 31, 2008 and the changes during the nine months ended March 31, 2008:

	<b>Options</b>	<b>Weighted- Average Grant Date Fair Value</b>	<b>Weighted-Average Remaining Years to Vest</b>
Nonvested before July 1, 2007	289,512	\$ 6.74	
Granted	231,000	11.17	
Forfeited	(56,172)	9.19	
Vesed	(176,222)	7.73	
Nonvested as of March 31, 2008	288,118	\$ 9.21	2.06 years

The following tables summarize stock option activity during the three months ended March 31, 2007:

	<b>Options</b>	<b>Weighted-Average Exercise Price</b>	<b>Weighted-Average Remaining Contractual Term</b>	<b>Aggregate Intrinsic Value (in thousands)</b>
Outstanding at January 1, 2007	1,058,372	\$ 12.30		
Granted	20,000	26.93		

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Exercised	(50,288)		5.63		\$	839
Forfeited / Cancelled	(57,140)		72.44			
Outstanding as of March 31, 2007	970,944	\$	9.41	3.72 years	\$	10,465
Options vested and exercisable as of						
March 31, 2007	631,875	\$	8.20	2.89 years	\$	7,675

The following table summarizes the nonvested stock options as of March 31, 2007 and the changes during the three months ended March 31, 2007:

	<b>Options</b>	<b>Weighted-Average Grant Date Fair Value</b>	<b>Weighted-Average Remaining Years to Vest</b>
Nonvested before January 1, 2007	382,641	\$ 5.64	
Granted	20,000	16.41	
Forfeited	(3,000)	5.97	
Vested	(60,572)	4.21	
Nonvested as of March 31, 2008	339,069	\$ 6.53	2.19 years

The following table summarizes stock option activity during the nine months ended March 31, 2007:

	<b>Options</b>	<b>Weighted-Average Exercise Price</b>	<b>Weighted-Average Remaining Contractual Term</b>	<b>Aggregate Intrinsic Value</b> (in thousands)
Outstanding at January 1, 2006	984,551	\$ 10.75		
Granted	267,500	15.67		
Exercised	(220,654)	6.67		\$ 2,971
Forfeited / Cancelled	(60,453)	69.05		
Outstanding as of March 31, 2007	970,944	\$ 9.41	3.72 years	\$ 10,465
Options vested and exercisable as of				
March 31, 2007	631,875	\$ 8.20	2.89 years	\$ 7,675

The following table summarizes the nonvested stock options as of March 31, 2007 and the changes during the nine months ended March 31, 2007:

	<b>Options</b>	<b>Weighted-Average Grant Date Fair Value</b>	<b>Weighted-Average Remaining Years to Vest</b>
Nonvested before July 1, 2006	350,623	\$ 4.12	
Granted	267,500	8.70	



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Forfeited	(5,062)		6.09	
Vested	(273,992)		5.57	
Nonvested as of March 31, 2007	339,069	\$	6.53	2.19 years

As of March 31, 2008, the total future compensation cost related to nonvested options not yet recognized in the condensed consolidated income statement was approximately \$2,451,000 and the weighted average period over which these awards are expected to be recognized was 1.28 years.

(j)

Recently Issued Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement 109* (FIN 48). FIN 48 establishes a single model to address accounting for uncertain tax positions. FIN 48 clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement classification, interest and penalties, accounting in interim periods, disclosure and transition. Upon adoption as of July 1, 2007, the Company increased its existing reserves for uncertain tax positions by \$199,000, largely related to an increase in state and foreign income tax matters. This increase was recorded as a cumulative effect adjustment to stockholders' equity. As of July 1, 2007, the Company had no unrecognized income tax benefits.

In many cases, the Company's uncertain tax positions are related to tax years that remain subject to examination by the relevant tax authorities. The following table summarizes these open tax years by major jurisdiction:

<b>Jurisdiction</b>	<b>Open Tax Year</b>	
	<b>Examination in progress</b>	<b>Examination not yet initiated</b>
United States (1)	2005	2004, 2006-2007
United Kingdom	N/A	2004-2006
Canada (1)	N/A	2004-2006
Australia	N/A	2004-2006

(1) Includes federal as well as state, provincial or similar local jurisdictions, as applicable.

Based on the outcome of the United States examination, or as a result of the expiration of statutes of limitations for specific jurisdictions, it is reasonably possible that the related tax reserves for tax positions taken regarding previously filed tax returns will materially change from those recorded as liabilities for uncertain tax positions in our financial statements as of March 31, 2008. In addition, the outcome of the United States examination may impact the valuation of certain deferred income tax assets (such as net operating losses) in future periods. The Company anticipates that the tax audit currently in process may be finalized in the foreseeable future. However, based on the status of this examination, and the protocol of finalizing audits by the relevant tax authorities, which could include formal legal proceedings, it is not possible to estimate the impact of the amount of such changes, if any, to previously recorded uncertain tax positions. Communications with the Internal Revenue Service ( IRS ) are ongoing to determine if the IRS has any objection regarding tax positions taken in previously filed tax returns.

Estimated interest and penalties related to the underpayment, or late payment, of income taxes are classified as a component of the income tax (provision) benefit in the condensed consolidated income statements, and were insignificant for the three months ended March 31, 2008. Accrued interest and penalties were \$147,000 as of each of March 31, 2008 and June 30, 2007.

(3)

### **Available-For-Sale Securities**

Available-for-sale securities consist primarily of auction-rate-securities ( ARS ), long-term variable rate bonds tied to short-term interest rates that are reset through a dutch auction process which generally occurs every 7 to 35 days, and other variable rate debt and equity securities.

Available-for-sale securities at fair value, which approximates amortized cost, consist of the following:

	<b>March 31, 2008</b>
Federal, state and municipal debt securities	\$ 3,154,000

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Corporate debt securities	1,000,000
Total	\$ 4,154,000

Despite the underlying long-term contractual maturity of ARS, there has historically been a ready liquid market for these securities based on the interest reset mechanism. Although we have invested in ARS in the past, historically, we have not held ARS as of each balance sheet date. However, as a result of current negative liquidity and uncertainty in financial credit markets, we have experienced failed auctions associated with our remaining ARS. In the case of a failed auction, the ARS become illiquid long-term bonds (until a future auction is successful or the security is called prior to the contractual maturity date by the issuer) and the rates are reset in accordance with terms in the prospectus/offering circular. As of March 31, 2008, total available-for-sale securities included \$4,154,000 of ARS, all of which experienced remarketing failures and are included in long-term assets. All ARS consist primarily of fully insured, AAA rated municipal, state agency or corporate issued securities. Contractual maturities of these securities are as follows as of March 31, 2008:

Less than one year		-
One to five years	\$	-
Over five years		4,154,000
Total	\$	4,154,000

In determining the fair value of our available-for-sale securities at March 31, 2008, we have taken into consideration fair values determined by the financial institutions, the current credit rating of the debt securities, insurance provisions, discounted cash flow analyses, as deemed appropriate, and our current liquidity position. The amount of unrealized gains or losses for the nine months ended March 31, 2008 was not significant.

(4)

#### Dividends

On September 5, 2007, the Company increased its quarterly cash dividend to \$0.11 per common share. The quarterly cash dividend was paid on March 28, 2008 to stockholders of record as of March 20, 2008.

(5)

#### Net Income Per Common Share

Basic net income per common share is computed by dividing the net income for the period by the weighted-average number of common shares outstanding during the period. Diluted net income per common share is computed giving effect to all dilutive common stock equivalents, primarily common stock options. The following table sets forth the computation of basic and diluted net income per common share for the three and nine months ended March 31, 2008 and 2007:

	Three months ended March		Nine months ended March 31,	
	2008	2007	2008	2007
Net income (in thousands)	\$ 1,742	\$ 4,697	\$ 2,588	\$ 18,728
Weighted-average shares outstanding:				
Basic	11,484,336	12,389,854	11,802,766	12,373,728
Employee stock options	187,806	563,100	198,609	537,829
Diluted	11,672,142	12,952,954	12,001,375	12,911,557

Net income per common share:

Basic	0.15	0.38	0.22	1.51
Diluted	0.15	0.36	0.22	1.45

Anti-dilutive stock options excluded from the calculation of diluted net income per common share totaled 512,650 and 93,247 for the three and nine months ended March 31, 2008 and 2007, respectively.

(6)

### **Income Taxes**

For the three months ended March 31, 2008 and 2007, the Company recorded an income tax provision of \$1,253,000 and \$2,953,000, respectively. Income taxes are based on the estimated annual effective federal, state and foreign income tax rates.

(7)

### **Commitments and Contingencies**

#### *Operating Leases*

The Company entered into a new five-year operating lease agreement in March 2008 containing customary escalation clauses with a future aggregate minimum lease obligation of approximately \$6,364,000 over a five-year term.

#### *Advertising Commitments*

In July 2007, the Company entered into several new multi-year advertising commitments which require aggregate cash payments of approximately \$1,000,000 over a three-year period.

*Legal Proceedings*

On March 8, 2005, an action was filed by Elliott Firestone, on behalf of himself and all others similarly situated, against the Company, certain current and former officers, and certain current and former directors, in the U.S. District Court for the District of Utah Civil No. 2:05cv00204 DB. Additional complaints were then filed against the Company alleging similar claims. The court ordered that the cases be consolidated and on November 23, 2005, allowed a consolidated amended complaint for violation of federal securities laws against the Company, certain current and former officers, and certain current and former directors, together with the former independent auditors for the Company, Grant Thornton LLP, as defendants. The amended consolidated complaint alleges violations of federal securities laws claiming that the defendants either made or were responsible for making material misleading statements and omissions, providing inaccurate financial information, and failing to make proper disclosures which required the Company to restate its financial results. The suit seeks unspecified damages, including attorneys' fees and costs. Although this action was determined by the court to be the consolidated action, a complaint was filed in October 2005 by Hillel Hyman, on behalf of himself and all others similarly situated, against the Company, certain current and former officers, certain current and former directors, and Grant Thornton LLP. This group in subsequent filings refers to itself as the accounting restatement group and alleges that it should be determined by the court to be the consolidated plaintiff as it properly alleges a class period consistent with timing necessary to raise a claim based upon the restatement of financial results announced by the Company. The complaint alleges violations of federal securities laws by the Company and Grant Thornton LLP. The Company disputes the allegations raised in both actions, but has not filed substantive responsive pleadings to the actions. On February 28, 2006, at a status conference the court determined that the complaint filed by the accounting restatement group should be substituted as the new consolidated amended complaint. On April 3, 2006, the court entered a consent order substituting Mr. Hyman as the lead plaintiff.

On March 19, 2008, the Court entered an Order of Approval of Plans of Allocation of Settlement Proceeds and a Final Approval Order and Judgment of the proposed settlement entered into between the parties (the Settlement). The Settlement provides: (i) the defendants and/or their insurers shall pay \$2,800,000 to the plaintiffs (the settlement payment is within policy limits of the directors and officers insurance policy maintained by the Company); (ii) dismissal of the Company and individual defendants from the litigation with prejudice; (iii) a provision that bars and enjoins Grant Thornton LLP from prosecuting any claims against the Company and individual defendants arising out of, based upon or related to the facts alleged in the complaint or that could have been alleged in the litigation; (iv) the Company and individual defendants assign to the plaintiffs any and all claims or causes of action that they now have against Grant Thornton LLP, including, but not limited to, any claims or causes of action for accounting malpractice or breach of contract; (v) the Company and individual defendants shall cooperate with the plaintiffs in the continuing prosecution of the litigation against Grant Thornton LLP; and (vi) the Company is required to provide documentary evidence supporting the claims against Grant Thornton LLP to the plaintiffs.

The settlement of the derivative claims provides for the Company to receive a payment of \$3,300,000 in insurance proceeds, which will be used by the Company to fund the settlements (\$500,000 will fund derivative counsel attorney fees and \$2,800,000 to pay the class action settlement). The Company has also agreed to certain corporate governance measures, most of which have already been adopted, and has agreed to present certain matters to a vote of stockholders, including limiting terms of directors. The Company has accrued for the \$3,300,000 settlement payments in accrued expenses and other and recorded a \$3,300,000 receivable from insurance proceeds in prepaid expenses and other.



On October 9, 2007, The Federal Court of Australia New South Wales District Registry (the Court) set a hearing on a request for an injunction by the Australian Competition and Consumer Commission (ACCC). The ACCC sought a temporary injunction barring the Company from conducting business in Australia until such time as a permanent injunction is entered which would require certain actions on the part of the Company. The ACCC has alleged that the Company failed to comply with the terms of a previous agreement by: (i) failing to have notified the ACCC of seminars which were being held in Australia, (ii) failing to provide copies of tapes of seminars to the ACCC which were requested, (iii) failing to notify purchasers of the three-day cooling off period (right to rescind) and (iv) failing to provide certain disclosures relating to the software, which were enumerated in the previous agreement. The Company admitted that it did not notify the ACCC, in a timely manner, of seminars which were previously held due to the failure of a former employee of the Company. Additionally, the Company also admitted that it was not able to provide one of several tapes requested by the ACCC. The Company disputed that it had failed to notify customers of the cooling off period or to provide the specified disclosures. The Court found that the Company did breach some of the terms of the previous agreement regarding the notification and the tapes. The Court also was not certain if all disclosures regarding the software were made in the terms required by the previous agreement. The Court declined to enter an injunction which barred the Company from conducting business in Australia. The Company did not cancel any scheduled workshops. The Court did require certain disclosures on the part of the Company and required compliance with the previous agreement. The Court indicated failure to follow the court order could be deemed contempt. The parties are now engaging in discovery. The Court has not scheduled a final hearing on the ACCC's request to require that the Company make specific additional disclosures to its potential customers or the claim of the ACCC for fees and damages. The Company is not precluded from conducting business in Australia and has held additional seminars.

On July 27, 2007, the Ventura County (California) District Attorney set a hearing on an ex parte basis on a motion for a temporary restraining order, and motion for a preliminary injunction against the Company. The complaint sought an injunction and penalties based upon alleged violations of the California Seller Assisted Marketing Plans Act (SAMP Act), the Unfair Competition Law, and the Business and Professions Code. The action further alleges that the Company failed to abide by the terms of a previous order. The Company, at the hearing, raised numerous defenses including, but not limited to (i) the lawsuit by the State of California (the State) is not about nor did it allege any illegal conduct, (ii) the order the State was seeking attempts to limit legal conduct, (iii) the SAMP Act is, in fact, unconstitutionally vague and unenforceable, (iv) the Company is, in fact, in compliance with the SAMP Act, (v) the State was aware of and reviewed the actions of the Company prior to the filing of this action, and (vi) there is no showing by the State of potential irreparable harm. The Company is unaware of any customer complaints which have been received by either the District Attorney or the Office of the Attorney General. On August 30, 2007, the Ventura County Superior Court entered a preliminary injunction against the Company. The preliminary injunction requires the Company to register under the SAMP Act in order to engage in selling any product with an initial required consideration of \$500 or more. The Company filed a writ of supersedes with the California Court of Appeals in an attempt to stay enforcement of the preliminary injunction. The Appeals Court, however, denied that petition. The Company also filed an appeal of the temporary injunction which is pending. There is no assurance that any appeal will be heard prior to a final hearing on the injunction. The court has not yet scheduled a trial date and the parties are, at present, engaging in discovery. The Company intends to contest the constitutionality of the relevant provisions of the SAMP Act and the Company also intends to demonstrate that it does not sell a SAMP, as well as present evidence supporting its position that it is in material compliance with the terms of the settlement agreement entered into with the State in 2006. The Company contends that neither the issues raised by the State nor the business model of the Company, would require the Company to register under the SAMP Act.

The Company contends that its Express business model does not violate the Temporary Injunction as the initial required consideration does not exceed \$500. On March 31, 2008, the Company mailed invitations to potential



customers in Orange County, California providing the invitees with the opportunity to attend a preview seminar. The Company held two preview seminars on April 19, 2008 and one workshop on April 25, 2008. At the preview seminars, attendees were invited to purchase the StoresOnline Express software offered by the Company. The purchase price of the software offered at the preview seminar was \$50. Customers who purchased the StoresOnline Express software at the preview seminars were invited to attend the workshop. At the workshop, only people who attended the preview seminar and who purchased the StoresOnline Express software were offered the opportunity to upgrade to the StoresOnline Pro software. There was no obligation for customers to upgrade from the fully-functioning StoresOnline Express software.

The Company notified the Attorney General of the State of California and the District Attorney of Ventura County (collectively, the Attorney Generals) of the intent to hold these seminars. The Company advised the Attorney Generals of its belief that the Express business model does not violate either the SAMP Act or the preliminary injunction. The only initial required consideration to purchase from the Company is the StoresOnline Express software which is below the \$500 threshold. The StoresOnline Express software is a required prerequisite to the purchase of an upgrade to StoresOnline Pro. Consequently, the Company believes that the Express business model does not violate the SAMP Act or the Preliminary Injunction.

The Attorney Generals had notified the Company that the failure to object to the holding of the Seminars or the failure to take any affirmative action shall not be deemed to be either tacit or actual agreement with the position of the Company that the Express business model violates neither the Preliminary Injunction nor the SAMP Act. The Company reserves the right to hold additional preview sessions and workshop seminars.

On May 9, 2007, the Company received by facsimile transmission a letter together with a notice of hearing from the office of the Attorney General for the State of North Carolina indicating that the State of North Carolina had filed a complaint, motion for a temporary restraining order, and motion for preliminary injunction against the Company. The action is entitled State of North Carolina ex rel. Roy Cooper, Attorney General, Plaintiff, v iMergent, Inc. and StoresOnline, Inc., Defendants, and filed in the Wake County Superior Court. The complaint sought to compel the Company to register as a business opportunity seller under North Carolina law, and further alleges unfair and deceptive trade practices. The actual motion was served on the Registered Agent for the Company on May 10, 2007. The State of North Carolina set a hearing for May 11, 2007. The Company on advice of counsel agreed to consent to a preliminary injunction order (the Order) with the State of North Carolina. The Order also requires that (i) the Company not market or sell in North Carolina until such time as the Company complies with North Carolina statutes (the Company contends that it is currently not, nor has it ever been, in violation of North Carolina statutes), (ii) the Company issue refunds to North Carolina purchasers for amounts paid to the Company, (iii) the Company pay \$10,000 in attorney fees, and (iv) the Company pay \$15,000 to the State of North Carolina to be used for the purpose of consumer education, enforcement, or other consumer protection purposes. The Company has successfully removed the case to the jurisdiction of the North Carolina Business Court. The Company filed a motion to lift the injunction seeking to affirmatively show that the Company does not sell a business opportunity and is in compliance with the statute. After the filing of that motion the State of North Carolina filed a motion seeking to hold the Company in contempt for failing to pay certain claims. The Company has refused to pay certain claims which have demanded monies in excess of what the records of the Company show have been paid by customers; in addition the Company contends it is not obligated to refund monies which have been paid by purchasers to third parties. The Company also contends that the Order entered is ambiguous and that the State of North Carolina's position is not in compliance with the Order. The Company has provided to its counsel an amount its records support as the amount that should be refunded to be held in trust pending court determination. The court has reserved ruling on the Company's motion to dissolve the injunction and indicated that it may be too early in the proceeding to rule on such a motion. The parties have agreed to a consent order addressing the refunds and the contempt claim, with no finding of wrongdoing by the Company.

On June 26, 2007, the State of Florida filed an action entitled, State of Florida Office of The Attorney General, Plaintiff, v iMergent, Inc., StoresOnline, Inc. and Galaxy Mall, Inc. Defendants, filed in the Circuit Court of the Second Judicial Circuit in and for Leon County, Florida, with a case number of 2007CA1665. The complaint alleges violations of the deceptive and unfair trade practices act and seeks to require the Company to register as a seller of business opportunities. The complaint does not name any allegedly aggrieved purchasers or any parties who may have allegedly been defrauded. Before the action was filed, the Company had received requests for information relating to only 14 customers over the last three years from the Attorney General of Florida. Nine of those cases had been resolved at that time and the Company was waiting for responses from the Office of the Attorney General on the other five. Before the action was filed, the Company met with the Office of the Attorney General, which stated that it would expect the Company to review the outstanding complaints and resolve those in order to resolve the investigation. The Company, to the best of its knowledge, has resolved all outstanding complaints in the State of Florida and is currently unaware of any unresolved complaints which the Office of the Attorney General may have. Prior to the Office of the Attorney General filing this action, the Company had confirmed to the Office of the Attorney General the satisfactory resolution of all customer complaints. The Company disputes the allegations raised in the action. The Company further disputes that it has any requirement to register as a seller of business opportunities. On January 17, 2008, the Attorney General of the State of Florida filed a notice of Dismissal without Prejudice of that complaint.

On January 18, 2008, the Attorney General of the State of Florida on its web site together with a press release announcing a new suit against the Company posted on the State of Florida's website a complaint captioned, State of Florida Office of the Attorney General, Plaintiff, v iMergent, Inc. and StoresOnline, Inc. filed in the Circuit Court of the Second Judicial Circuit in and for Leon County, Florida. The complaint alleges in two counts violations of the deceptive and unfair trade practices act. The complaint does not include a count alleging sale of a business opportunity but does have a reference that the Company sells business opportunities and there is a request to have the Company comply with the business opportunity statute. Since the filing of the initial complaint on June 26, 2007, the Company has been in discussions with the Office of the Florida Attorney General in an attempt to clarify the Company's business and sales practices including attempting to show (i) that the Company in fact does not sell a business opportunity, (ii) that the initial complaint included wrong parties and (iii) that the business practices of the Company are open, honest and transparent. The discussions to date have not resulted in a settlement that is acceptable to both parties. The Company will attempt to continue engaging in discussions with the Office of the Florida Attorney General, but is prepared to actively and aggressively litigate these allegations first filed on June 26, 2007. The Company continues to vehemently dispute that it has in any manner defrauded any purchaser. The Company has not yet filed a response to the most recent complaint.

On April 1, 2008, the Company and the State of Connecticut agreed to enter into a Final Judgment of Stipulation. The settlement stemmed from a two-year non public review and discussion of the business practices of the Company with the Office of the Attorney General of the State of Connecticut. In the settlement, the Company agreed to make certain disclosures regarding the software sold by the Company and agreed it would not make representations which are not true. The Company expressly denied any wrongdoing or that it had made any misrepresentations. The Company refunded certain customers a total amount of approximately \$65,000, and agreed to pay the State of Connecticut's costs of the investigation totaling approximately \$65,000, which amount is allocated to three funds. If the Company violates the settlement, the Company agrees to refund customers that could, under oath, demonstrate a violation of the settlement. The settlement does not otherwise restrict the Company from doing business in the State of Connecticut

On January 7, 2008, the Company was served with a complaint with the caption, Yahoo, Inc, Plaintiff, vs. StoresOnline, Inc., aka StoresOnline.com, Defendant filed in the Third District Court, State of Utah Salt Lake County, and West Jordan Department with a case number Civil No. 070422707. The complaint alleges that the Company has not paid for certain advertising services provided by Yahoo, Inc. and claims