IMERGENT INC
Form 10-Q
May 10, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2007

or

o 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.)
754 E. Technology Avenue, Orem, Utah 84097 (Address of Principal Executive Offices)	**84097** (Zip Code)

(801) 227-0004
(Registrant s telephone number, including area code)

Not Applicable
(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 x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (check one): Large Accelerated Filer o Accelerated Filer x

Non-Accelerated Filer o.

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

The number of shares outstanding of the registrant s common stock as of April 30, 2007 was 12,320,004.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

iMERGENT, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(Dollars in thousands, except per share data)

(unaudited)

	March 31, 2007	June 30, 2006
Assets		
Current Assets:		
Cash and cash equivalents	$ 38,981	$ 30,023
Certificate of deposit		500
Trade receivables, net of allowance for doubtful accounts of $13,152 as of March 31, 2007 and $6,894 as of June 30, 2006	24,282	13,419
Inventories	207	151
Prepaid expenses and other	7,250	2,739
Total Current Assets	70,720	46,832
Certificate of deposit	500	
Long-term trade receivables, net of allowance for doubtful accounts of $6,103 as of March 31, 2007 and $4,117 as of June 30, 2006	11,239	7,508
Property and equipment, net	1,778	696
Deferred income tax assets	11,091	9,976
Merchant account deposits and other	580	1,000
Total Assets	$ 95,908	$ 66,012
Liabilities and Stockholders Equity		
Current Liabilities:		
Accounts payable	$ 2,792	$ 2,752
Accrued expenses and other	4,722	4,085
Dividends payable	1,230	
Income taxes payable	843	348
Deferred revenue, current portion	29,313	20,064
Capital lease obligations	42	91
Total Current Liabilities	38,942	27,340
Deferred revenue, net of current portion	11,239	8,693
Total Liabilities	50,181	36,033
Commitments and contingencies		
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; 12,302,067 shares outstanding as of March 31, 2007 and 12,375,313 shares outstanding as of June 30, 2006	12	12
Additional paid-in capital	76,012	77,762
Accumulated deficit	(30,297)	(47,795)
Total Stockholders Equity	45,727	29,979
Total Liabilities and Stockholders Equity	$ 95,908	$ 66,012

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

3

iMERGENT, INC. AND SUBSIDIARIES

Condensed Consolidated Income Statements

(Dollars in thousands, except per share data)

(unaudited)

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006	Nine Months Ended March 31, 2007	Nine Months Ended March 31, 2006
Revenues:				
Product and other	$ 35,593	$ 21,508	$ 90,728	$ 147,970
Commission and other	7,043	3,497	16,592	8,923
Total revenues	42,636	25,005	107,320	156,893
Operating expenses:				
Cost of product and other revenues	12,850	7,567	33,534	21,847
Selling and marketing	19,408	10,215	47,658	27,760
General and administrative	4,102	3,473	11,976	9,931
Research and development	371	208	858	677
Total operating expenses	36,731	21,463	94,026	60,215
Income from operations	5,905	3,542	13,294	96,678
Other income (expense):				
Interest income	1,836	819	4,831	2,099
Interest expense		(3)	(3)	(17)
Other income (expense), net	(91)	158	(70)	(117)
Total other income, net	1,745	974	4,758	1,965
Income before income tax (provision) benefit	7,650	4,516	18,052	98,643
Income tax (provision) benefit	(2,953)	(1,716)	676	9,829
Net income	$ 4,697	$ 2,800	$ 18,728	$ 108,472
Net income per common share:				
Basic	$ 0.38	$ 0.23	$ 1.51	$ 8.94
Diluted	$ 0.36	$ 0.22	$ 1.45	$ 8.56
Weighted average common shares outstanding:				
Basic	12,389,854	12,135,889	12,373,728	12,133,971
Diluted	12,952,954	12,691,997	12,911,557	12,674,550

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, 2007

(Dollars in thousands)

(unaudited)

	Common Stock Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders Equity
Balance, July 1, 2006	12,375,313	$ 12	$ 77,762	$ (47,795)	$ 29,979
Expense for options granted to consultants			34		34
Expense for options granted to employees			1,710		1,710
Common stock issued upon exercise of options and related income tax benefit	220,654		1,471		1,471
Repurchase of common stock	(293,900)		(4,965)		(4,965)
Declared dividend				(1,230)	(1,230)
Net income				18,728	18,728
Balance, March 31, 2007	12,302,067	$ 12	$ 76,012	$ (30,297)	$ 45,727

The accompanying notes are an integral part of this condensed consolidated financial statement.

iMERGENT, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(Dollars in thousands)

(unaudited)

Increase (decrease) in cash and cash equivalents	**Nine Months Ended March 31, 2007**	**2006**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 18,728	$ 108,472
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	440	212
Expense for stock options issued to employees	1,710	898
Expense for stock options issued to consultants	34	44
Changes in assets and liabilities:		
Trade receivables and trade receivables held for sale	(14,594)	7,546
Inventories	(56)	(18)
Prepaid expenses and other	(4,511)	(830)
Restricted cash		(50)
Merchant account deposits and other	420	(739)
Deferred income tax assets	(1,115)	(10,639)
Accounts payable, accrued expenses and other liabilities	677	1,026
Deferred revenue	11,795	(88,469)
Income taxes payable	495	242
Net cash provided by operating activities	14,023	17,695
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(1,522)	(286)
Net cash used in investing activities	(1,522)	(286)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repurchase of common stock	(4,965)	
Proceeds from exercise of stock options and related income tax benefit	1,471	42
Principal payments on capital lease obligations	(49)	(59)
Net cash used in financing activities	(3,543)	(17)
NET INCREASE IN CASH AND CASH EQUIVALENTS	8,958	17,392
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	30,023	10,691
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	$ 38,981	$ 28,083
Supplemental disclosures of non-cash transactions:		
Trade receivables pledged for collateralized borrowings	$	$ 763
Cash paid during the period for:		
Interest	3	9
Income taxes	190	41

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 consolidated subsidiaries. iMergent is an eServices company that 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 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 footnote 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 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, 2007 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2007, 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 that 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 that 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.com, Ltd., StoresOnline Inc., StoresOnline International, Inc. and Internet Training Group, Inc. All significant intercompany account balances and transactions have been eliminated in consolidation.

(b) Use of Estimates

In the preparation of financial statements in conformity with US GAAP, estimates and assumptions must be made by management that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at balance sheet dates, and reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. The Company has recorded a liability within accrued liabilities of approximately $460,000 as of March 31, 2007 and $298,000 as of June 30, 2006, for estimated credit card charge-backs and customer returns. The Company has recorded a liability of approximately $0 and $595,000 as of March 31, 2007 and June 30, 2006, respectively, for estimated losses resulting from various legal proceedings against the Company. Other key estimates are discussed elsewhere in these notes to the condensed consolidated financial statements.

(c) Trade Receivables

For more than seven years, 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, if the Company has the intent and ability to hold the receivables for the foreseeable future, 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 based on the Company s assessment to date; however, actual collection results may differ materially from the Company s expectations. Because revenue generated from customers financing through EPTAs is deferred and not recognized prior to the collection of cash, adjustments to the allowance for doubtful accounts increase or decrease deferred revenue, 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.

(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) Revenue Recognition

Revenue Recognition Prior to Change of Business Model in December 2005

Product and Other Revenue

On October 1, 2000, the Company began selling 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 workshops, they receive a license, a 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 complete the construction of their websites. 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.

From October 1, 2000 through December 20, 2005, the Company allowed its customers unlimited access to the SOS on the Company s servers (access service), even though the Company was not legally obligated to do so. This access service was provided at no additional cost to the Company s customers with the expectation that it would generate revenues under future hosting arrangements and because there was no incremental direct cost of providing such access service. Consequently, the Company had not established vendor specific objective evidence (VSOE) of fair value for the access service.

The American Institute of Certified Public Accountants Statement of Position 97-2, *Software Revenue Recognition* (SOP 97-2), requires that all revenue from the sale of software products and related services in multiple-element arrangements be deferred until the earlier of the point at which (a) sufficient VSOE of fair value exists for each product and service in the arrangement or (b) all elements of the arrangement have been delivered. However, SOP 97-2 does provide for an exception if the only undelivered elements are services that do not involve significant production, modification, or customization of software. In that instance, fees for the bundle of software products and related services may be recognized as revenue over the period during which the services are expected to be performed. The Company has determined the access service period to be five years.

Therefore, all fees collected for the software products, setup services, customer support, hosting services, and on-line auction training workshops are deferred and recognized ratably over the five-year access service period, net of expected customer refunds. Fees related to EPTA contracts are deferred and recognized as revenue during the access service period or when cash is collected, whichever occurs later.

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 No. 99-19, Reporting Revenue Gross as a Principal Versus Net as an Agent (EITF 99-19).

Impact on Revenue Recognition Due to Change of Business Model in December 2005

Product and Other Revenue

In December 2005, the Company changed its business model to: (1) limit the free access service to a period of one year for all customers who purchased the SOS prior to December 20, 2005, and (2) begin charging customers for access services as part of customer support. The Company s general counsel reviewed the agreements between the Company and the Company s customers and is of the opinion that the Company has the legal right to limit the free access service to one year for all existing customers and that such position would be upheld by a court of law. In December 2005, customers who were beyond their one-year free access service period began renewing and paying for their customer support and access services on either a monthly or an annual basis.

As a result of this change in business model in December 2005, the Company: (1) established VSOE of fair value for the combined access and customer support services, and (2) delivered all remaining elements of the multiple-element arrangements for all customers existing prior to December 27, 2004. Therefore, in December 2005, the Company recognized revenue for all fees collected for delivered elements less the VSOE of fair value of the undelivered element (the residual method). The Company recognized approximately $117,500,000 of previously deferred product and other revenue during the three months ended December 31, 2005 as a result of this change in business model.

Cash sales of SOS licenses and other products are recognized as revenue, net of expected customer refunds, upon expiration of the customers rescission period, which occurs three days after the licenses and products are delivered.

Fees for SOS licenses sold under 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 collectibility of its receivables based upon its long history of offering EPTAs, 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 for services, including customer support, website access, 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 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.

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 EITF No. 99-19.

(f) 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, 2007 and 2006 were approximately $8,161,000, and $4,557,000, respectively, and for the nine months ended March 31, 2007 and 2006 were approximately $21,784,000 and $14,500,000, respectively. As of March 31, 2007 and June 30, 2006, the Company recorded approximately $5,273,000 and $1,855,000, respectively, of direct-response advertising related to future workshops as prepaid expenses.

(g) Stock-Based Compensation

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

The Company accounts for stock-based awards under the 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 previously presented in the pro-forma footnote disclosures), 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 tables summarize the compensation expense recognized for stock-based payments during the three and nine months ended March 31, 2007 and 2006.

	Three months ended March 31,		Nine months ended March 31,	
	2007	2006	2007	2006
	(Dollars in thousands, except per share data)			
Stock-based compensation expense recognized:				
Cost of revenue	$ 21	$ 19	$ 64	$ 57
Research and development	63	31	157	95
Selling and marketing	27	20	80	60
General and administrative	213	240	1,410	686
Total stock-based compensation expense recognized	324	310	1,711	898
Related deferred income tax benefit	(123)	(118)	(650)	(340)
Decrease in net income	$ 201	$ 192	$ 1,061	$ 558
Impact on basic net income per common share	$ 0.02	$ 0.02	$ 0.09	$ 0.05
Impact on diluted net income per common share	$ 0.02	$ 0.02	$ 0.08	$ 0.04

The Company granted 20,000, and 267,500 options during the three and nine months ended March 31, 2007, respectively. The Company granted 45,000 and 200,000 options during the three and nine months ended March 31, 2006, 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, 2007 and 2006, using the Black-Scholes option-pricing model were as follows:

	Three months ended March 31,		Nine months ended March 31,	
	2007	2006	2007	2006
Weighted average fair value of options granted	$ 16.43	$ 3.44	$ 8.70	$ 4.15
Expected volatility	79.00 %	71.00 %	78.07 %	69.00 %
Expected life (in years)	4.00	3.33	3.20	3.08
Risk-free interest rate	4.70 %	4.37 %	5.03 %	4.19 %
Expected dividend yield	0.00 %	0.00 %	0.00 %	0.00 %

The expected volatility of the option is determined using historical volatilities based on historical stock prices. The expected life of the option 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 March 7, 2007, the Company announced a $0.10 per share quarterly dividend. Prior to March 7, 2007, the Company had never paid a dividend. The Company has not granted any stock options subsequent to March 7, 2007. As of the grant date of the options, the Company had no intent to pay dividends in the foreseeable future. Therefore, the dividend yield has been determined to be 0.00% for grants of stock options prior to March 7, 2007.

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

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2006	1,058,372	$ 12.30		
Granted	20,000	26.93		
Exercised	(50,288)	5.63		
Forfeited / Cancelled	(57,140)	72.44		
Outstanding at March 31, 2007	970,944	$ 9.41	3.77 years	$ 10,465,331
Options vested and exercisable at March 31, 2007	625,313	$ 8.15	2.91 years	$ 7,633,108

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

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Outstanding at June 30, 2006	984,551	$ 10.76		
Granted	267,500	15.67		
Exercised	(220,654)	6.67		
Forfeited / Cancelled	(60,453)	70.15		
Outstanding at March 31, 2007	970,944	$ 9.41	3.77 years	$ 10,465,331
Options vested and exercisable at March 31, 2007	625,313	$ 8.15	2.91 years	$ 7,633,108

As of March 31, 2007, the total future compensation cost related to nonvested options not yet recognized in the condensed consolidated income statement was approximately $2,241,000 and the weighted average period over which these awards are expected to be recognized was approximately 1.35 years.

(h) Recently Issued Accounting Pronouncements

In September 2006, the SEC Staff issued Staff Accounting Bulletin (SAB) No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in the Current Year Financial Statements.* SAB No. 108 requires the use of two approaches in quantitatively evaluating the materiality of misstatements. If the misstatement as quantified under either approach is material to the current year financial statements, the misstatement must be corrected. If the effect of correcting the prior year misstatements, if any, in the current year income statement is material, the prior year financial statements should be corrected. In the year of adoption (fiscal years ending after November 15, 2006), the misstatements may be corrected as an accounting change by adjusting opening retained earnings rather than being included in the current year income statement. The Company does not expect SAB No. 108 to have an impact on the Company s consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements.* SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company does not expect SFAS No. 157 to have an impact on the Company s consolidated financial statements.

In July 2006, the FASB issued FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109,* which clarifies the accounting for uncertainty in tax positions. Under FIN No. 48, the tax effects of a position should be recognized only if it is more-likely-than-not to be sustained based solely on its technical merits as of the reporting date. FIN No. 48 also requires significant new annual disclosures in the notes to the financial statements. The effect of adjustments at adoption should be recorded directly to beginning retaining earnings in the period of adoption and reported as a change in accounting principle. Retroactive application is prohibited under FIN No. 48. The guidance in FIN No. 48 is required to be applied to fiscal years beginning after December 15, 2006. As such, the Company is required to adopt FIN No. 48 at the beginning of fiscal 2008. The Company is currently evaluating the impact of FIN No. 48 on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115.* SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company does not expect SFAS No. 159 to have an impact on the Company s consolidated financial statements.

(i) Reclassifications

Certain payroll costs that were previously classified as general and administrative expense in the prior period financial statements have been reclassified as selling and marketing expenses or cost of product and other revenues to conform to the current year financial statement presentation. These reclassifications did not have any impact on net income, total assets or total liabilities.

(3) Dividends

On March 7, 2007, the Company initiated a quarterly cash dividend of $0.10 per common share. The first quarterly dividend will be paid to stockholders of record as of March 20, 2007 and will be paid on June 29, 2007.

(4) 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 and warrants. 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, 2007 and 2006:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2007	2006	2007	2006
Net income (in thousands)	$ 4,697	$ 2,800	$ 18,728	$ 108,472
Weighted average shares outstanding:				
Basic	12,389,854	12,135,889	12,373,728	12,133,971
Stock options	563,100	556,108	537,829	540,579
Diluted	12,952,954	12,691,997	12,911,557	12,674,550
Net income per common share:				
Basic	$ 0.38	$ 0.23	$ 1.51	$ 8.94
Diluted	$ 0.36	$ 0.22	$ 1.45	$ 8.56

Antidilutive stock options excluded from the calculation of diluted earnings per common share totaled 93,247 for the three and nine months ended March 31, 2007.

(5) Income Taxes

During the three and nine months ended March 31, 2007, the Company recorded an income tax (provision) benefit of ($2,953,000) and $676,000, respectively. During the three and nine months ended March 31, 2006, the Company recorded an income tax (provision) benefit of ($1,716,000) and $9,829,000, respectively.

Income tax (provisions) benefits are based on the estimated annual effective federal, state and foreign income tax rates. SFAS No. 109, *Accounting for Income Taxes,* requires that a valuation allowance be established when it is more likely than not that all or a portion of deferred income tax assets will not be realized. As of December 31, 2005, due to a change in the Company s business model, the Company determined that it was more likely than not that $11,877,000 of deferred income tax assets, which had a full valuation allowance against them, would be realized. That determination was based on projections of future taxable income when taking into consideration limitations on the utilization of net operating loss carryforwards (NOLs) imposed by Section 382 of the Internal Revenue Code (Section 382). Section 382 imposes limitations on a corporation s ability to utilize its NOLs if it experiences an ownership change . In general terms, an ownership change results from transactions increasing the ownership of certain stockholders in the stock of a corporation by more than 50% over a three-year period. Since the Company s formation, it has issued a significant number of shares, and purchasers of those shares have sold some of those shares, with the result that two changes of control, as defined by Section 382, have occurred. As a result of the most recent ownership change, utilization of the Company s NOLs created prior to the ownership change are subject to an annual limitation under Section 382 determined by multiplying the value of the Company s stock at the time of the ownership change by the applicable federal long-term tax-exempt rate, resulting in an annual limitation amount of approximately $127,000. Any unused annual limitation may be carried over to later years, and the amount of the limitation may under certain circumstances be increased by the recognized built-in gains that occur during the five-year period after the ownership change (the recognition period). Based on a valuation of the Company as of April 3, 2002, the Company has approximately $15,000,000 of recognized built-in gains. Additionally, based on a valuation of the Company as of June 25, 2000, which evaluation was completed during the quarter ended March 31, 2004, the Company determined the earlier ownership change resulted in built-in gains that allow it to utilize all of its NOLs.

Due to the Company s increased taxable earnings projections and discrete event developments in the resolution of certain contingencies during the quarter ended December 31, 2006, the Company determined that it was more likely than not that its remaining deferred income tax assets of $7,746,000 would be realized. During the nine months ended March 31, 2007, the benefit resulting from the removal of the corresponding valuation allowance was partially offset by an income tax provision of $7,070,000, resulting in a net income tax benefit of $676,000 during the nine months ended March 31, 2007.

The Company has recorded deferred income tax assets of $11,091,000 in the accompanying condensed consolidated balance sheet as of March 31, 2007.

(6) Commitments and Contingencies

Operating Leases

The Company leases certain of its equipment and corporate offices under noncancelable operating lease agreements expiring at various dates through 2013. In addition to the operating leases disclosed in Note 6 to the Company s annual consolidated financial statements contained within the Company s most recently filed Form 10-K, the Company entered into a new seven-year operating lease agreement in July 2006 containing customary escalation clauses with a future aggregate minimum lease obligation of approximately $2,100,000 over the term of the lease.

Legal Proceedings

From time to time, the Company receives inquiries from federal, state, city and local government officials in the various jurisdictions, both domestically and internationally, in which the Company operates. These inquiries and investigations generally concern compliance with various city, county, state and/or federal regulations involving sales and marketing practices. The inquiries may include a demand for information, a civil investigative demand, or a subpoena for documents. The Company has responded and continues to respond to these inquiries, and has generally been successful in addressing the concerns of these persons and entities without a formal complaint or charge being made, although there is often no formal closing of the inquiry or investigation. There can be no assurance that the ultimate resolution of these or other inquiries and investigations will not have a material adverse effect on the Company s business or operations, or that a formal complaint will not be initiated. The Company also receives complaints and inquiries in the ordinary course of 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. To date, the Company has been able to resolve these matters on a mutually satisfactory basis. However, there can be no assurance that the ultimate resolution of these matters will not have a material adverse affect on the Company s business or results of operations.

On December 18, 2006, the State of Illinois filed an action in the Circuit Court of the Third Judicial Circuit, Madison County, Illinois, Case No. 2006-CH-1345, entitled, The People of the State of Illinois vs. Stores Online, Inc. and Galaxy Malls, Inc. The action alleged that the Company engaged in consumer fraud. The petition seeks refunds together with unspecified statutory damages. The Company contends that it has not violated the Illinois Consumer Fraud Act, or otherwise engaged in fraudulent or deceptive practices.

On February 8, 2007, the Company received a Notice in which the Louisiana Consumer Protection Section stated it has reasons to believe the Company may have engaged in unfair business practices. No complaint has been filed, and the Company is unaware of any unresolved customer claims in the State of Louisiana. The Company insists it has not engaged in unfair business practices.

On August 28, 2006, the Utah Department of Commerce Division of Consumer Protection (the Division) served an Administrative Citation (the Citation) seeking that the Company registers under §13-15 of the Utah Business Opportunity Disclosure Act (the Disclosure Act). The Citation indicated the maximum potential fine was $2,500 and the issuance of a cease and desist order requiring the Company to register as a Business Opportunity. The Company is contesting the Citation and does not intend to register under the Disclosure Act because the Company contends it is not selling a business opportunity. A two-day administrative proceeding was held commencing on March 27, 2007 before a Division employee empowered by the Division to determine if the Division s Citation should be sustained. The Division conceded that the Company does not sell any product in the State of Utah, but nonetheless insisted that it has authority and jurisdiction over transactions occurring outside the State of Utah. The Division employee makes recommendations to the Division director who will enter a ruling. The Division has not yet issued a ruling. The United States District Court for the District of Utah recently entered an order dismissing the Company s declaratory action seeking a judgment that (1) the Disclosure Act is unconstitutional, or (2) if constitutional, the Disclosure Act does not apply to the Company. The Company has appealed that decision. In that action in District Court, the Company had claimed individual damages against an employee of the Consumer Protection Division based upon allegations of Civil Rights Violations. On January 25, 2007, the Company and the State of Utah entered into an agreement to continue the administrative proceeding and engage in settlement discussions. The Company agreed to dismiss the individual damage claim against the Division employee. It was also agreed that if the parties cannot reach a settlement and there is an adverse ruling by the Division, the Division agrees to stay the terms of such a ruling until such time as the Company has exhausted all administrative and judicial review, notwithstanding how many years that may take.

On March 19, 2007, the Marion Superior Court in the State of Indiana entered an order confirming a Consent Judgment agreed to between the Company and the State of Indiana. This stipulated judgment stemmed from a January 13, 2006 action filed against the Company in the Marion Superior Court, Case Number 490070601PL001792. The complaint alleged that the Company sells a business opportunity and that the Company violated the Indiana Consumer Protection Act. The petition sought refunds together with statutory damages. The settlement provided that there is no finding that the Company operates as a seller of business opportunities under Indiana law, and there is no requirement for the Company to register as a seller of business opportunities now or in the future. The Company has agreed to not make certain representations at its workshops (which the Company contends it has not made in the past, and does not currently make). The Company further agreed to cancel six contracts and allow refunds totaling $19,261. In addition, the Company agreed to reimburse the State of Indiana $2,708 in costs and pay $9,815 to the Office of Attorney General Consumer Protection Fund. The order makes clear that there is no admission of any wrongdoing by the Company. The settlement does not limit the Company s ability to conduct business in the State of Indiana or require any change to the business model or practices of the Company.

On October 24, 2005, the Company announced it had been notified by the SEC that it had issued a formal order of investigation related to the Company. Prior to the order, the Company had announced a change of the independent registered public accounting firm for the Company. The Company also issued a Form 8-K of Non-Reliance on Previously Issued Financial Statements or a Related Audit Report or Completed Interim Review. The Company has restated and filed all required financial statements with the SEC. The Company is fully cooperating with the SEC in this matter.

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 United States 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. The discovery stay imposed under applicable federal law, which controls the administration of class actions, remains in place. There has been no amended complaint filed to date. In addition to the foregoing, there have been stockholder derivative lawsuits filed in the United States District Court for the District of Utah as well as the State Court in Utah against the Company, certain officers of the Company, and current and former directors of the Company. The Company has successfully requested delays in filing responses due to the consolidated class action.

On February 28, 2007, the Attorney General of Florida issued a release relating to what it described as an active public-consumer related investigation indicating that the office was investigating the Company for alleged deception of would-be entrepreneurs who buy StoresOnline business services (websites, etc.) at promotional seminars. The release incorrectly lists the business of the Company as a business opportunity . The Company vehemently disputes that it (i) is a business opportunity or (ii) that it has engaged in any deception whatsoever. The Company has received requests for information relating to only fourteen customers over the last three years from the Attorney General of Florida. Nine of those cases have been resolved; the Company is waiting for responses from the Office of the Attorney General on the other five. The Company has provided information to the Office of the Attorney General to support that its business practices are transparent and comply with all laws and regulations.

An article in the May 5, 2007 edition of Barron's magazine entitled A Web of Broken Promises? alleged that the Chief Executive Officer of the Company told select individual and institutional investors that the company's fiscal third-quarter earnings will be over 50% higher than the estimate... The allegations, if true, could be a violation of Regulation FD. The General Counsel of the Company together with outside counsel for the Board of Directors of the Company has undertaken a thorough investigation of that allegation and the actions of the Chief Executive Officer. At this time, the Company can not conclude if a violation of Regulation FD has occurred.

On May 9, 2007, the Company was sent 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 had filed a complaint motion for temporary restraining order, and motion for preliminary injunction against the Company. A hearing was set for May 10, 2007. Other than the notice of hearing no pleadings have been provided to the Company, nor has the Company been served with formal process by the State of North Carolina with either the notice or a complaint. The Company is aware of only one customer who has an unresolved customer complaint in the State of North Carolina. The Company has responded to that customer but has not yet received a response. The Company insists it has not engaged in unfair business practices or otherwise violated any laws in the State of North Carolina.

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

(7) Segment Information

The Company operates in one business segment and generates over 90% of its total revenue from customers within North America (United States and Canada) and less than 10% of its total revenue from customers in other parts of the world.

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 could differ materially from those anticipated by this forward-looking information. Factors that may cause such differences include, but are not limited to, those discussed under the heading Risk Factors in Part II, Item 1A and elsewhere in this report. Management s discussion and analysis of financial condition and results of operations should be read in conjunction with the condensed consolidated financial statements and the related notes included elsewhere in this report. 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 consolidated subsidiaries.

OVERVIEW

Our Business, Industry and Target Market

iMergent, Inc. is incorporated under the laws of Delaware. iMergent is an eServices company that provides eCommerce technology, training and a variety of web-based technologies and resources to small businesses and entrepreneurs. The Company s eServices offerings leverage industry and customer practices and are also designed to help decrease the risks associated with eCommerce implementation by providing low-cost, scalable solutions with ongoing industry updates and support.

We have experienced significant growth in the operations of our business during the past several years. Although we had incurred significant losses from operations until the quarter ended December 31, 2005 for financial reporting purposes, we have generated positive cash flows from operating activities for the past four years. The following discussion further expands on these trends and the effects of changes in our business model.

Fluctuations in Quarterly Results and Seasonality

In view of our revenue recognition policies as required by US GAAP and the rapidly evolving nature of our business and the markets we serve, we believe that period-to-period comparisons of our operating results, including operating expenses as a percentage of revenues and cash flows, should not be relied upon as an indication of future performance. We have a June 30 fiscal year end and we experience seasonality in our business. Historically, revenue from our core business during the first fiscal quarter tends to be lower than revenues in our second, third, and fourth fiscal quarters. We believe this to be attributable to summer vacations that occur during our first quarter. We strive to mitigate seasonal fluctuations in our business by conducting workshops in non-seasonal markets throughout the world during periods of seasonality in our primary markets.

Workshop Team Developments

During the quarter ended March 2007, the Company hired, trained, and launched its ninth workshop team. Each workshop team generally consists of ten members.

Common Stock Repurchase Program

In September 2006, the board of directors authorized the repurchase of up to $20,000,000 of the Company s common stock. During the quarter ended September 30, 2006, the Company repurchased 113,800 shares of the Company s common stock for $1,566,000. During the quarter ended March 31, 2007, the Company repurchased 180,100 shares of the Company s common stock for $3,399,000. The Company did not repurchase any shares of the Company s common stock during the quarter ended December 31, 2006.

Dividends

In March 2007, the board of directors authorized the initiation of a quarterly cash dividend of $0.10 per common share.

Change in Business Model

In December 2005, we changed our business model to require new customers to pay separately for customer support and access services on either a monthly or annual basis. Customers who purchased Stores Online Software prior to December 20, 2005 were limited to one year of free access service. The effects of these changes in our business model, including the recognition in December 2005 of $117,500,000 of previously deferred product and other revenue, are further described in our revenue recognition policies under Critical Accounting Policies and Estimates below.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

A summary of our significant accounting policies is provided in Note 2 to our condensed consolidated financial statements. We believe the critical accounting policies and estimates described below reflect our more significant estimates and assumptions used in the preparation of our condensed consolidated financial statements. The impact and any associated risks on our business that are related to these policies are also discussed throughout this Management s Discussion and Analysis of Financial Condition and Results of Operations where such policies affect reported and expected financial results.

Revenue Recognition

Product and Other Revenue

On October 1, 2000, the Company began selling licenses to customers to use the 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 customer desires. When customers purchase an SOS license at one of the Company s Internet workshops, they receive a license, a password and instructions that allow immediate access to the Company s website and servers where all of the necessary software programs and tools are located to complete the construction of their websites. 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 also have the option to create their websites on their own (without access to the Company website) and the option to host their websites with another hosting service. In fiscal 2005, the Company completed its certification as an eBay solution provider. Consequently, the Company began selling on-line auction training workshops designed to instruct participants on successfully selling products and services through on-line auctions and the utilization of the on-line auction functionality of the SOS.

From October 1, 2000 through December 20, 2005, the Company allowed its customers unlimited free access service, even though the Company was not legally obligated to do so. This access service was provided at no additional cost to the customers with the expectation that it would generate revenues under future hosting arrangements and because there was no incremental direct cost of providing such access service. Consequently, the Company had not established VSOE of fair value for the access service.

SOP 97-2 requires that all revenue from the sale of software products and related services in multiple-element arrangements be deferred until the earlier of the point at which (a) sufficient VSOE of fair value exists for each product and service in the arrangement or (b) all elements of the arrangement have been delivered. However, SOP 97-2 does provide for an exception if the only undelivered elements are services that do not involve significant production, modification, or customization of software. In that instance, fees for the bundle of software products and related services may be recognized as revenue over the period during which the services are expected to be performed. The Company has determined the access service period to be five years.

Therefore, for the fiscal periods prior to the change in business model in December 2005, all fees collected for sales of the software products, setup services, customer support, hosting services, and on-line auction training workshops were deferred and were being recognized ratably over the five-year access service period, net of expected customer refunds. Fees related to EPTA contracts were deferred and recognized as revenue during the service period or when cash was collected, whichever occurred later.

Commission and Other Revenue

The Company also 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 and services 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 EITF No. 99-19.

Impact on Revenue Recognition Due to Change of Business Model in December 2005

Product and Other Revenue

In December 2005, the Company changed its business model to: (1) limit the free access service to a period of one year for all customers who purchased the SOS prior to December 20, 2005, and (2) begin charging customers for access services as part of customer support. The Company s general counsel has reviewed the agreements between the Company and the Company s customers and is of the opinion that the Company has the legal right to limit the free access service to one year for all existing customers and that such position would be upheld by a court of law. In December 2005, customers who were beyond their one-year free access service period began renewing and paying for their customer support and access services on either a monthly or an annual basis.

As a result of this change in business model in December 2005, the Company: (1) established VSOE of fair value for the combined access and customer support services, and (2) delivered all remaining elements of the multiple-element arrangements for all customers existing prior to December 27, 2004. Therefore, in December 2005, the Company recognized revenue for all fees collected for delivered elements less the VSOE of fair value of the undelivered element (the residual method). The Company recognized approximately $117,500,000 of previously deferred product and other revenue during the three months ended December 31, 2005 as a result of this change in business model.

Cash sales of SOS and other products are recognized as revenue, net of expected customer refunds, upon expiration of the customers rescission period, which occurs three days after the licenses and products are delivered.

Fees for SOS software 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 collectibility of its receivables based upon its long history of offering EPTAs, 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 for services, including customer support, website access, and website hosting, are recognized as revenue over the period during which the services are expected to be performed, based upon the VSOE of fair value for such services. Fees related to EPTAs are deferred and recognized as revenue during the service period or when cash is collected, whichever occurs later.

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 EITF No. 99-19.

Allowance for Doubtful Accounts

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

Income Taxes

In preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating current income tax liabilities together with assessing temporary differences resulting from differing treatment of items for tax and financial reporting purposes. These differences result in deferred income tax assets and liabilities. Our deferred income tax assets consist primarily of the future benefit of net operating loss carryforwards, certain deferred revenue, and tax credit carryforwards. We record a valuation allowance to reduce our deferred income tax assets to the amount that is more likely than not to be realized. We have considered historical operations and current operating trends, future market growth, forecasted earnings, estimated future taxable income, the mix of earnings in the jurisdictions in which we operate and potential losses and costs from existing litigation and contingencies in determining the need for a valuation allowance. As of March 31, 2007, we have no valuation allowances against our net deferred income tax assets. Prior to December 31, 2005, we had recorded a valuation allowance against 100% of our net deferred income tax assets.

These determinations were made after taking into consideration limitations on the utilization of NOLs imposed by Section 382. Section 382 imposes limitations on a corporation s ability to utilize its NOLs if it experiences an ownership change. In general terms, an ownership change results from transactions increasing the ownership of certain stockholders in the stock of a corporation by more than 50% over a three-year period. Since our formation, we have issued a significant number of shares, and purchasers of those shares have sold some of those shares, with the result that two changes of control, as defined by Section 382, have occurred. As a result of the most recent ownership change, utilization of our NOLs is subject to an annual limitation under Section 382 determined by multiplying the value of our stock at the time of the ownership change by the applicable federal long-term tax-exempt rate, resulting in an annual limitation amount of approximately $127,000. Any unused annual limitation may be carried over to later years, and the amount of the limitation may, under certain circumstances, be increased by the recognized built-in gains that occur during the five-year period after the ownership change (the recognition period). Based on a valuation of our Company as of April 3, 2002, we have approximately $15,000,000 of recognized built-in gains. Additionally, based on a valuation of our Company as of June 25, 2000, which valuation was completed during the quarter ended March 31, 2004, we also determined the earlier ownership change resulted in built-in gains.

Due to the change in business model during December 2005, we determined that it was more likely than not that most of our net deferred income tax assets would be realized. Consequently, the corresponding portion of the valuation allowance was removed during the three months ended December 31, 2005. Due to our increased taxable earnings projections and discrete event developments in the resolution of certain contingencies during the quarter ended December 31, 2006, we determined that it was more likely than not that our remaining deferred income tax assets would be realized. Consequently, we removed the remaining valuation allowance during the three months ended December 31, 2006.

Results of Operations

Three months ended March 31, 2007 compared to three months ended March 31, 2006

Revenues

Revenues for the three months ended March 31, 2007 increased to $42,636,000 from $25,005,000 for the three months ended March 31, 2006, an increase of 71%. Product and other revenue increased to $35,593,000 for the three months ended March 31, 2007 from $21,508,000 for the three months ended March 31, 2006, an increase of 65%.

The increase in revenues is primarily attributed to the following factors. There was an increase in the number of Internet training workshops conducted during the fiscal 2007 third quarter (current quarter) over the comparable quarter of the prior year (prior year quarter). Internet training workshops conducted during the current quarter increased to 320 (including 91 that were held outside the United States) compared to 189 (including 7 that were held outside the United States) during the prior year quarter. The average number of buying units in attendance at our workshops during the current quarter was 95, which is comparable to the prior year quarter. 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. Approximately 31% of the buying units made a purchase at the workshops during the current quarter compared to 26% during the prior year quarter. The increase in percentage of buying units making a purchase was the result of the Company s efforts to better qualify persons attending the internet training workshops through improved disclosure at our Preview events. Purchases under EPTAs as a percentage of total workshop purchases were 38% in the current quarter compared to 40% in the prior year quarter. The average workshop purchase during the current quarter was $5,000 compared to $5,500 in the prior year quarter. The decrease was primarily the result of the average sales price and volume of sales at international workshops conducted during the current quarter compared to the prior year quarter. The average workshop purchase outside the U.S. during the current quarter was $4,300 compared to $6,800 in the prior year quarter. The difference in average workshop purchase outside the U.S. was primarily the result of foreign exchange rates in the international markets in which we conducted workshops. The average workshop purchase in the U.S. during the current quarter was $5,400 compared to $5,500 during the prior year quarter.

During the last three business days of March 2007 we conducted 23 workshops, which resulted in approximately $2,258,000 of cash product sales that will be recognized as revenue during our fourth quarter of fiscal 2007. During the last three business days of March 2006 we conducted 3 workshops, which resulted in approximately $147,000 of cash product sales that were recognized as revenue during our fourth quarter of fiscal 2006. This deferral was due to the three-day rescission rights of our customers. Historically the Company has conducted very few, if any, workshops during the last three business days of a fiscal quarter. There were no such workshops conducted during the last three business days of September 2005, December 2005 or December 2006. The following table summarizes the activity within deferred revenue for the three months ended March 31, 2007 and 2006.

	2007	**2006**
	(in thousands)	
Deferred revenue, beginning of period	$ 34,125	$ 24,256
Add: Cash product sales during the last three business days of March	2,258	147
Remaining net change in deferred revenue	4,169	1,178
Deferred revenue, end of period	$ 40,552	$ 25,581

Commission and other revenue increased to $7,043,000 in the current quarter compared to $3,497,000 in the prior year quarter, an increase of 101%. The increase was primarily attributed to an increase in the workshops conducted and purchases described above and an increase in other recurring and residual revenues from customers and other third-parties.

Net Dollar Volume of Contracts Written

Until the change in our business model in late December 2005, the Company recognized product and other revenue ratably over a period of five years and not at the time contracts were written in accordance with US GAAP. Effective December 2005, the Company began recognizing product and other revenue after the expiration of the three-day cancellation period for contracts written for which cash payments were received. For products purchased by customers under extended payment term arrangements, the Company continues to defer and recognize revenue as cash payments are received from customers, typically over two years.

Because of the changes in the Company s revenue recognition policies resulting from the change in business model noted above and due to the Company s growth, management believes that the Net Dollar Volume of Contracts Written is a relevant metric to understand the operations of the Company. Net Dollar Volume of Contracts Written represents the gross dollar amount of contracts executed during the period less estimates for bad debts, discounts incurred on sales of trade receivables (financial discounts), and estimates for customer returns. Net Dollar Volume of Contracts Written is not equivalent to revenue recognized in accordance with US GAAP. In contrast, revenue recognized in accordance with US GAAP represents cash contracts written net of estimated customer returns plus actual cash collections on financed contracts. Actual collections on financed contracts and the amount of customer returns may differ materially from original estimates. However, the Company has several years of experience with the financing arrangements and products and services offered to its customers. Consequently, management believes it has a reasonable basis for its estimates.

Management uses this non-GAAP measure to evaluate the results of the Company s operations because Net Dollar Volume of Contracts Written is the primary factor that influences cost of revenue and selling and marketing expenses, which are typically recognized at the time the contract is written but no later than the expiration of the customer s three-day cancellation period. Consequently, management prepares its operating budgets and measures the Company s operating performance based upon the Net Dollar Volume of Contracts Written during the period.

The following table summarizes the Net Dollar Volume of Contracts Written during the three months ended March 31, 2007 and 2006 and reconciles the Net Dollar Volume of Contracts Written to revenue as reported in our financial statements in accordance with US GAAP:

	2007	**2006**
	(in thousands)	
Total revenue recognized in financial statements in accordance with US GAAP	$ 42,636	$ 25,005
Add: Cash product sales during the last three business days of March	2,258	147
Remaining net change in deferred revenue	4,169	1,178
Net Dollar Volume of Contracts Written, non-GAAP	$ 49,063	$ 26,330

Net Dollar Volume of Contracts Written during the current quarter increased 86% from the prior year quarter. The increase is primarily attributable to the increase in the number of training workshops, the increase in percentage of buying units making a purchase at the workshop, and the increase in other recurring and residual revenues from customers and other third-parties.

Cost of Revenue

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 current quarter increased to $12,850,000 from $7,567,000 during the prior year quarter, an increase of 70%. The increase in cost of revenue is primarily attributable to the increase in revenue and Net Dollar Volume of Contracts Written during the current quarter. 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 SOP 97-2.

Selling and Marketing

Selling and marketing expenses consist of payroll and related expenses for sales and marketing activities, advertising, and promotional and public relations expenses. Selling and marketing expenses for the current quarter increased to $19,408,000 from $10,215,000 in the prior year quarter, an increase of 90%. The increase in selling and marketing expenses is primarily attributable to the increase in revenue and Net Dollar Volume of Contracts Written during the current quarter. Trends in selling and marketing expenses will not always be consistent with the trends in revenues due to the fact that selling and marketing expenses are typically recognized when incurred, at the time of sale, and no later than the expiration of the customer s three-day cancellation period, but the related revenues are often deferred in accordance with SOP 97-2. Selling and marketing expenses also increased as a result of an abnormal increase in costs to conduct Preview events internationally.

General and Administrative

General and administrative expenses consist of payroll and related expenses for executive, accounting and administrative personnel; legal, accounting and other professional fees; finance company service fees; and other general corporate expenses. General and administrative expenses in the current quarter increased to $4,102,000 from $3,473,000 in the prior year quarter, an increase of 18%. The increase is attributable to an increase in operations, which contributed to an overall increase in salaries and wages, insurance costs, financial servicing fees, and other expenses. The increase in general and administrative expenses is also attributable to an increase in legal expenses of $226,000 as a result of the various legal matters discussed elsewhere in this document. These increases were partially offset by a decrease in accounting fees of $481,000 as a result of the completion of the restatement of the Company s financial statements in March 2006.

Interest Income

Interest income is primarily derived from the EPTAs carried by us, which generally have an 18% simple interest rate. Interest income for the current quarter was $1,836,000, compared to $819,000 in the prior year quarter, an increase of 124%. The increase is attributable to the increase in trade receivables retained by us since the sale of our domestic trade receivables in August 2005. We anticipate our trade receivables will increase in the future. Consequently, we expect interest income to increase subsequent to March 31, 2007 as the trade receivables balance increases.

Nine months ended March 31, 2007 compared to nine months ended Mach 31, 2006

Revenues

Revenues for the nine months ended March 31, 2007 decreased to $107,320,000 from $156,893,000 for the nine months ended March 31, 2006, a decrease of 32%. Product and other revenue decreased to $90,728,000 for the nine months ended March 31, 2007 from $147,970,000 for the nine months ended March 31, 2006, a decrease of 39%. These decreases are primarily attributable to the decrease in the amounts recognized as revenue as a result of the change in business model in December 2005 described above. The change in business model resulted in the recognition of revenue of $108,000,000 in December 2005. This revenue would have been recognized in future periods had the change in business model not occurred. The following table summarizes the activity within deferred revenue for the nine months ended March 31, 2007 and 2006.

	2007 (in thousands)	2006
Deferred revenue, beginning of period	$ 28,757	$ 114,050
Add: Cash product sales during the last three business days of March	2,258	147
Remaining net change in deferred revenue	9,537	(88,616)
Deferred revenue, end of period	$ 40,552	$ 25,581

The increase in revenues, excluding the $108,000,000 recognized as revenue as a result of the change in business model, for the nine months ended March 31, 2007 compared to the nine months ended March 31, 2006 is attributed to the following factors. There was an increase in the number of Internet training workshops conducted during the first nine months of fiscal 2007 (current period) over the comparable nine-month period of the prior year (prior year period). Internet training workshops conducted during the current period increased to 860 (including 194 that were held outside the United States) compared to 564 (including 73 that were held outside the United States) during the prior year period. The average number of buying units in attendance at our workshops during the current period was 96, compared to 90 in the prior year period. 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. Approximately 28% of the buying units made a purchase at the workshops during the current period compared to 27% during the prior year period. Purchases under EPTAs as a percentage of total workshop purchases was 39% in the current period compared to 41% in the prior year period. The average workshop purchase during the current period was $5,200 compared to $5,400 during the prior year period. The decrease was primarily the result of the average sales price and volume of sales at international workshops conducted during the current period compared to the prior year period. The average workshop purchase outside the U.S. during the current period was $4,700 compared to $5,300 in the prior year period. The difference in average workshop purchase outside the U.S. was the result of foreign exchange rates in the international markets in which we conducted workshops. The average workshop purchase in the U.S. during the current period was $5,300 compared to $5,400 during the prior year period.

Commission and other revenue increased to $16,592,000 in the current period compared to $8,923,000 in the prior year period, an increase of 86%. The increase was primarily attributed to an increase in the workshops conducted and purchases described above and an increase in other recurring and residual revenues from customers and other third parties.

Net Dollar Volume of Contracts Written

Until the change in our business model in late December 2005, the Company recognized product and other revenue ratably over a period of five years and not at the time contracts were written in accordance with US GAAP. Effective December 2005, the Company began recognizing product and other revenue after the expiration of the three-day cancellation period for contracts written for which cash payments were received. For products purchased by customers under extended payment term arrangements, the Company continues to defer and recognize revenue as cash payments are received from customers, typically over two years.

As noted above, because of the changes in the Company s revenue recognition policies resulting from the change in business model and due to the Company s growth, management believes that the Net Dollar Volume of Contracts Written is a consistent and relevant measure to understand the operations of the Company. Net Dollar Volume of Contracts Written represents the gross dollar amount of contracts executed during the period less estimates for bad debts, discounts incurred on sales of trade receivables (financial discounts), and estimates for customer returns. Net Dollar Volume of Contracts Written is not equivalent to revenue recognized in accordance with US GAAP. In contrast, revenue recognized in accordance with US GAAP represents cash contracts written net of estimated customer returns plus actual cash collections on financed contracts. Actual collections on financed contracts and customer returns may differ materially from original estimates. However, the Company has several years of experience with the financing arrangements and products and services offered to its customers. Consequently, management believes it has a reasonable basis for its estimates.

Management uses this non-GAAP measure to evaluate the results of the Company s operations because Net Dollar Volume of Contracts Written is the primary factor that influences cost of revenue and selling and marketing expenses, which are typically recognized at the time the contract is written but no later than the expiration of the customer s three-day cancellation period. Consequently, management prepares its operating budgets and measures the Company s operating performance based upon the Net Dollar Volume of Contracts Written during the period.

The following table summarizes the Net Dollar Volume of Contracts Written during the nine months ended March 31, 2007 and 2006 and reconciles the Net Dollar Volume of Contracts Written to revenue as reported in our financial statements in accordance with US GAAP.

	2007 (in thousands)	**2006**
Total revenue recognized in financial statements in accordance with US GAAP	$ 107,320	$ 156,893
Add: Cash product sales during the last three business days of March	2,258	147
Remaining net change in deferred revenue	9,537	(88,616)
Net Dollar Volume of Contracts Written, non-GAAP	$ 119,115	$ 68,424

Net Dollar Volume of Contracts Written during the current period increased 74% from the prior year period. The increase is primarily attributable to the increase in the number of training workshops, the increase in the number of buying units attending the workshops, the increase in percentage of buying units making a purchase at the workshop, and the increase in other recurring and residual revenues from customers and other third parties.

Cost of Revenue

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 current period increased to $33,534,000 from $21,847,000 during the prior year period, an increase of 53%. The increase in cost of revenue is primarily attributable to the increase in Net Dollar Volume of Contracts Written during the current period. The increase in cost of revenue attributable to the increase in net dollar volume of contracts written was partially offset by cost-cutting measures at our Internet training workshops and due to the increase in percentage of buying units making a purchase at the workshop. 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 SOP 97-2.

Selling and Marketing

Selling and marketing expenses consist of payroll and related expenses for sales and marketing activities, advertising, and promotional and public relations expenses. Selling and marketing expenses for the current period increased to $47,658,000 from $27,760,000 in the prior year period, an increase of 72%. The increase in selling and marketing expenses is primarily attributable to the increase in Net Dollar Volume of Contracts Written during the current period. 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, typically 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 SOP 97-2.

General and Administrative

General and administrative expenses consist of payroll and related expenses for executive, accounting and administrative personnel; legal, accounting and other professional fees; finance company service fees; and other general corporate expenses. General and administrative expenses in the current period increased to $11,976,000 from $9,931,000 in the prior year period, an increase of 21%. The increase in general and administrative expenses is primarily attributable to an increase in operations, which contributed to an overall increase in salaries and wages, insurance costs, financial servicing fees, and other expenses. The increase is also attributable to an increase in stock-based compensation expenses of $590,000, primarily as a result of stock options granted to new board members during the current period. These increases were partially offset by a decrease in accounting fees of approximately $872,000 as a result of the completion of the restatement of the Company s financial statements in March 2006.

Interest Income

Interest income is primarily derived from the EPTAs carried by us, which generally have an 18% simple interest rate. Interest income for the current period was $4,831,000 compared to $2,099,000 in the prior year period, an increase of 130%. The increase is attributable to the increase in trade receivables retained by us since the sale of our domestic trade receivables in August 2005. We anticipate our trade receivables will increase in the future. Consequently, we expect interest income to increase subsequent to March 31, 2007 as the trade receivables balance increases.

Income Taxes

During the nine months ended March 31, 2007, the Company recorded an income tax benefit of $676,000. This compares to an income tax benefit of $9,829,000 during the nine months ended March 31, 2006. Income taxes are based on the estimated annual effective federal, state and foreign income tax rates.

As discussed above, due to the change in business model in December 2005, we determined that it was more likely than not that $11,877,000 of our net deferred income tax assets would be realized. The benefit recorded upon the removal of the valuation allowance during December 2005 was partially offset by an income tax provision of $332,000, resulting in a net income tax benefit of $11,545,000 during the prior year period.

Due to our increased taxable earnings projections and discrete event developments in the resolution of certain contingencies during the three months ended December 31, 2006, we determined that it was more likely than not that our remaining deferred income tax assets of $7,746,000 would be realized. The benefit resulting from the removal of the corresponding valuation allowance was partially offset by an income tax provision of $7,070,000, resulting in a net income tax benefit of $676,000 during the current period.

We expect we will recognize income tax provisions commensurate with federal, state, and foreign statutory rates in periods subsequent to March 31, 2007.

Liquidity and Capital Resources

Working Capital

As of March 31, 2007, we had working capital of $31,778,000 compared to $19,492,000 as of June 30, 2006. As of March 31, 2007, we had working capital, excluding deferred revenue, of $61,091,000 compared to $39,556,000 as of June 30, 2006. Deferred revenue balances represent historical sales for which the Company cannot immediately recognize revenue. The costs and expenses we incur as these deferred revenue amounts are recognized as product and other 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. Although we had incurred significant losses for US GAAP financial statement reporting purposes until the three months ended December 31, 2005, we have generated positive cash flows from operating activities since fiscal 2003. 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 March 31, 2007, we had $38,981,000 of cash and cash equivalents compared to $30,023,000 as of June 30, 2006. During the nine months ended March 31, 2007 and 2006, we generated positive cash flows from operating activities of $14,023,000 and $17,695,000, respectively. Net cash provided by operating activities during the nine months ended March 31, 2006 resulted primarily from the sale of trade receivables held for sale in August 2005.

Trade Receivables and Trade Receivables Held for Sale

Current trade receivables, net of allowance for doubtful accounts, totaled $24,282,000 as of March 31, 2007 compared to $13,419,000 as of June 30, 2006. Long-term trade receivables, net of allowance for doubtful accounts, were $11,239,000 as of March 31, 2007 compared to $7,508,000 as of June 30, 2006. We offer our customers a 24-month installment contract as one of several payment options. The payments that become due more than 12 months after the end of the fiscal period are classified as long-term trade receivables.

We have the ability to sell our trade receivables for cash if we desire. In August 2005 we sold, without recourse, our trade receivables held for sale of $14,006,000 for the net carrying amount. We also entered into an agreement in August 2005 with a third-party financing company for the ongoing sale of our domestic trade receivables, if we desire. Under the provisions of this agreement, we may sell our domestic trade receivables to the third-party financing company at our net book value less 7% for transaction fees and servicing costs. As the Company continues to generate positive cash flows from operating activities, we do not anticipate selling additional domestic trade receivables except as circumstances arise or may require. In the future, we may evaluate agreements with other third-party financing companies for the sale of our international trade receivables.

Accounts Payable

Accounts payable as of March 31, 2007 totaled $2,792,000, compared to $2,752,000 as of June 30, 2006. Our accounts payable as of March 31, 2007 were generally within our vendors terms of payment.

Financing Arrangements

We accept payment for sales made at our Internet training workshops in the form of cash, credit card, or EPTAs. As part of our cash flow management and in order to generate liquidity, we have historically sold a portion of our trade receivables arising from EPTAs to third-party financial institutions for cash. See Trade Receivables and Trade Receivables Held for Sale for further information.

Capital

As of March 31, 2007, total stockholders equity was $45,727,000, up 52.5% from the $29,979,000 at June 30, 2006. In addition to net income of $18,728,000, other significant changes in stockholders equity during the first nine months of fiscal year 2007 included the purchase of $4,965,000 of the Company s common stock, $1,744,000 in expense for options granted, $1,471,000 in common stock issued upon exercise of stock options, and $1,230,000 in declared common stock dividends.

On March 7, 2007 the Company initiated a quarterly cash dividend of $0.10 per common share. The first quarterly dividend will be paid to stockholders of record as of March 20, 2007 and will be paid on June 29, 2007. The dividend payout ratio, representing dividends per share divided by diluted earnings per share, for the third quarter of fiscal year 2007 was 27.8%.

Common Stock Repurchase

In September 2006, the board of directors authorized the repurchase of up to $20,000,000 of the Company s common stock. During the nine months ended March 31, 2007, we spent $4,965,000 to repurchase 293,900 shares of the Company s common stock.

Off Balance Sheet Arrangements

None except for the operating leases disclosed in Note 6 to the consolidated financial statements contained within the Company s most recently filed Form 10-K and the additional lease described in Note 6 to the condensed consolidated financial statements contained elsewhere in this Form 10-Q.

Impact of Recent Accounting Pronouncements

In September 2006, the SEC Staff issued Staff Accounting Bulletin (SAB) No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in the Current Year Financial Statements.* SAB No. 108 requires the use of two approaches in quantitatively evaluating the materiality of misstatements. If the misstatement as quantified under either approach is material to the current year financial statements, the misstatement must be corrected. If the effect of correcting the prior year misstatements, if any, in the current year income statement is material, the prior year financial statements should be corrected. In the year of adoption (fiscal years ending after November 15, 2006), the misstatements may be corrected as an accounting change by adjusting opening retained earnings rather than being included in the current year income statement. The Company does not expect SAB No. 108 to have an impact on the Company s consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements.* SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company does not expect SFAS No. 157 to have an impact on the Company s consolidated financial statements.

In July 2006, the FASB issued FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109,* which clarifies the accounting for uncertainty in tax positions. Under FIN No. 48, the tax effects of a position should be recognized only if it is more-likely-than-not to be sustained based solely on its technical merits as of the reporting date. FIN No. 48 also requires significant new annual disclosures in the notes to the financial statements. The effect of adjustments at adoption should be recorded directly to beginning retaining earnings in the period of adoption and reported as a change in accounting principle. Retroactive application is prohibited under FIN No. 48. The guidance in FIN No. 48 is required to be applied to fiscal years beginning after December 15, 2006. As such, the Company is required to adopt FIN No. 48 at the beginning of fiscal 2008. The Company is currently evaluating the impact of FIN No. 48 on its consolidated 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 Management s Discussion and Analysis of Financial Condition and Results of Operations are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, which reflect our current expectations and beliefs regarding our future results of operations, performance and achievements. 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 trends in cost of revenue will not be consistent with the trends in revenue;
- Our belief that trends in selling and marketing expense will not be consistent with the trends in revenue;
- Our belief that trade receivables will increase in the future;
- Our expectation that interest income will increase;
- Our expectation that we will recognize income tax provisions commensurate with federal, state and foreign statutory rates for periods after March 31, 2007;

- Our belief that we have sufficient liquidity and capital resources to meet our needs for at least the next twelve months;
- Our belief that we have the ability to sell our trade receivables for cash if we desire;
- Our belief that the costs and expenses we incur as the deferred revenue amounts are recognized as product and other revenue will be insignificant;
- Our expectations regarding seasonal fluctuations;
- Our expectations to pay quarterly cash dividends;
- Our expectations regarding whether we will sell additional domestic trade receivables; and
- Our expectations regarding the outcome of our litigation.

In addition, when used in this report, the words or phrases will likely result, expect, anticipate, will continue, intend, plan, believe and expressions are intended to help identify forward-looking statements.

We wish to 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. Reference is made to the risks and uncertainties described below and factors described herein in Part II, Item 1A. Risk Factors (which contain a more detailed discussion of the risks and uncertainties related to our business). We also wish to 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. Some of the risks and uncertainties that might cause actual results to differ from those anticipated include, but are not limited to, the following:

- Fluctuations in our operating results because of negative publicity, seasonality, competition and other factors;
- Adverse international or domestic regulatory developments affecting the Internet or our business;
- Costs of and developments in our pending litigation and SEC investigation;
- Our ability to generate revenue and profits from current strategic partnerships;
- Our ability to generate positive cash flows from operating activities or sell receivables;
- Our ability to expand current markets, develop new markets and establish profitable new strategic partnerships;
- Our ability to continue to finance EPTA customer contracts; and
- Whether there is continual demand for our products and services in our target market of small business and entrepreneurs for assistance in establishing websites.

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 March 31, 2007, we have $35,521,000 of trade receivables, net of allowance for doubtful accounts. These trade receivables typically bear interest at 18% for a term of 24 months. Fluctuations in interest rates may adversely impact carrying amounts of trade receivables, net of allowance for doubtful accounts.

As of March 31, 2007, we have approximately $4,094,000 of net trade receivables outstanding denominated in foreign currencies with maturity dates between calendar 2007 and 2008. 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 exchange rates.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

iMergent s Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of iMergent s 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, iMergent s disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

During calendar 2006, the Company commenced a project to replace and upgrade its core financial systems. The implementation is intended to enhance the Company s internal controls over financial reporting and all phases of the implementation are expected to be completed during calendar 2007. Other than the change above, no other changes in iMergent s internal control over financial reporting occurred during the three months ended March 31, 2007 that have materially affected, or are reasonably likely to materially affect, iMergent s internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, the Company receives inquiries from federal, state, city and local government officials in the various jurisdictions, both domestically and internationally, in which the Company operates. These inquiries and investigations generally concern compliance with various city, county, state and/or federal regulations involving sales and marketing practices. The inquiries may include a demand for information, a civil investigative demand, or a subpoena for documents. The Company has responded and continues to respond to these inquiries, and has generally been successful in addressing the concerns of these persons and entities without a formal complaint or charge being made, although there is often no formal closing of the inquiry or investigation. There can be no assurance that the ultimate resolution of these or other inquiries and investigations will not have a material adverse effect on the Company s business or operations, or that a formal complaint will not be initiated. The Company also receives complaints and inquiries in the ordinary course of 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. To date, the Company has been able to resolve these matters on a mutually satisfactory basis. However, there can be no assurance that the ultimate resolution of these matters will not have a material adverse affect on the Company s business or results of operations.

On December 18, 2006, the State of Illinois filed an action in the Circuit Court of the Third Judicial Circuit, Madison County, Illinois, Case No. 2006-CH-1345, entitled, The People of the State of Illinois vs. Stores Online, Inc. and Galaxy Malls, Inc. The action alleged that the Company engaged in consumer fraud. The petition seeks refunds together with unspecified statutory damages. The Company contends that it has not violated the Illinois Consumer Fraud Act, or otherwise engaged in fraudulent or deceptive practices.

31

On February 8, 2007, the Company received a Notice in which the Louisiana Consumer Protection Section stated it has reasons to believe the Company may have engaged in unfair business practices. No complaint has been filed, and the Company is unaware of any unresolved customer claims in the State of Louisiana. The Company insists it has not engaged in unfair business practices.

On August 28, 2006, the Utah Department of Commerce Division of Consumer Protection (the Division) served an Administrative Citation (the Citation) seeking that the Company registers under §13-15 of the Utah Business Opportunity Disclosure Act (the Disclosure Act). The Citation indicated the maximum potential fine was $2,500 and the issuance of a cease and desist order requiring the Company to register as a Business Opportunity. The Company is contesting the Citation and does not intend to register under the Disclosure Act because the Company contends it is not selling a business opportunity. A two-day administrative proceeding was held commencing on March 27, 2007 before a Division employee empowered by the Division to determine if the Division s Citation should be sustained. The Division conceded that the Company does not sell any product in the State of Utah, but nonetheless insisted that it has authority and jurisdiction over transactions occurring outside the State of Utah. The Division employee makes recommendations to the Division director who will enter a ruling. The Division has not yet issued a ruling. The United States District Court for the District of Utah recently entered an order dismissing the Company s declaratory action seeking a judgment that (1) the Disclosure Act is unconstitutional, or (2) if constitutional, the Disclosure Act does not apply to the Company. The Company has appealed that decision. In that action in District Court, the Company had claimed individual damages against an employee of the Consumer Protection Division based upon allegations of Civil Rights Violations. On January 25, 2007, the Company and the State of Utah entered into an agreement to continue the administrative proceeding and engage in settlement discussions. The Company agreed to dismiss the individual damage claim against the Division employee. It was also agreed that if the parties cannot reach a settlement and there is an adverse ruling by the Division, the Division agrees to stay the terms of such a ruling until such time as the Company has exhausted all administrative and judicial review, notwithstanding how many years that may take.

On March 19, 2007, the Marion Superior Court in the State of Indiana entered an order confirming a Consent Judgment agreed to between the Company and the State of Indiana. This stipulated judgment stemmed from a January 13, 2006 action filed against the Company in the Marion Superior Court, Case Number 490070601PL001792. The complaint alleged that the Company sells a business opportunity and that the Company violated the Indiana Consumer Protection Act. The petition sought refunds together with statutory damages. The settlement provided that there is no finding that the Company operates as a seller of business opportunities under Indiana law, and there is no requirement for the Company to register as a seller of business opportunities now or in the future. The Company has agreed to not make certain representations at its workshops (which the Company contends it has not made in the past, and does not currently make). The Company further agreed to cancel six contracts and allow refunds totaling $19,261. In addition, the Company agreed to reimburse the State of Indiana $2,708 in costs and pay $9,815 to the Office of Attorney General Consumer Protection Fund. The order makes clear that there is no admission of any wrongdoing by the Company. The settlement does not limit the Company s ability to conduct business in the State of Indiana or require any change to the business model or practices of the Company.

On October 24, 2005, the Company announced it had been notified by the SEC that it had issued a formal order of investigation related to the Company. Prior to the order, the Company had announced a change of the independent registered public accounting firm for the Company. The Company also issued a Form 8-K of Non-Reliance on Previously Issued Financial Statements or a Related Audit Report or Completed Interim Review. The Company has restated and filed all required financial statements with the SEC. The Company is fully cooperating with the SEC in this matter.

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 United States 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. The discovery stay imposed under applicable federal law, which controls the administration of class actions, remains in place. There has been no amended complaint filed to date. In addition to the foregoing, there have been stockholder derivative lawsuits filed in the United States District Court for the District of Utah as well as the State Court in Utah against the Company, certain officers of the Company, and current and former directors of the Company. The Company has successfully requested delays in filing responses due to the consolidated class action.

On February 28, 2007, the Attorney General of Florida issued a release relating to what it described as an active public-consumer related investigation indicating that the office was investigating the Company for alleged deception of would-be entrepreneurs who buy StoresOnline business services (websites, etc.) at promotional seminars. The release incorrectly lists the business of the Company as a business opportunity . The Company vehemently disputes that it (i) is a business opportunity or (ii) that it has engaged in any deception whatsoever. The Company has received requests for information relating to only fourteen customers over the last three years from the Attorney General of Florida. Nine of those cases have been resolved; the Company is waiting for responses from the Office of the Attorney General on the other five. The Company has provided information to the Office of the Attorney General to support that its business practices are transparent and comply with all laws and regulations.

An article in the May 5, 2007 edition of Barron's magazine entitled A Web of Broken Promises? alleged that the Chief Executive Officer of the Company told select individual and institutional investors that the company's fiscal third-quarter earnings will be over 50% higher than the estimate... The allegations, if true, could be a violation of Regulation FD. The General Counsel of the Company together with outside counsel for the Board of Directors of the Company has undertaken a thorough investigation of that allegation and the actions of the Chief Executive Officer. At this time, the Company can not conclude if a violation of Regulation FD has occurred.

On May 9, 2007, the Company was sent 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 had filed a complaint motion for temporary restraining order, and motion for preliminary injunction against the Company. A hearing was set for May 10, 2007. Other than the notice of hearing no pleadings have been provided to the Company, nor has the Company been served with formal process by the State of North Carolina with either the notice or a complaint. The Company is aware of only one customer who has an unresolved customer complaint in the State of North Carolina. The Company has responded to that customer but has not yet received a response. The Company insists it has not engaged in unfair business practices or otherwise violated any laws in the State of North Carolina.

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

Item 1A. Risk Factors

You should carefully consider the following risks before making an investment in our Company. In addition, you should keep in mind that the risks described below are not the only risks that we face. The risks described below are the risks that we currently believe are material to our business. However, additional risks not presently known to us, or risks that we currently believe are not material, may also impair our business operations. You should also refer to the other information set forth in our Annual Report on Form 10-K, including the discussions set forth in Business and Management s Discussion and Analysis of Financial Condition and Results of Operations as well as our consolidated financial statements and the related notes. Our business prospects, financial condition, or results of operations could be adversely affected by any of the following risks. If we are adversely affected by such risks, then the trading price of our common stock could decline, and you could lose all or part of your investment.

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

On April 5, 2006, the Federal Trade Commission, or FTC, announced proposed rules that, if adopted, could be construed or applied in a way that would negatively impact the manner in which we solicit potential customers and offer our customers our products. The FTC is currently requesting comments to the proposed rules. We cannot predict whether the proposed rules will be adopted. The proposed rules, if adopted, may be interpreted or applied in a manner that may limit the manner in which we market our products, which may reduce our revenue and profitability.

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

33

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

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

From time to time, the Company receives inquiries from federal, state, city and local government officials in the various jurisdictions, both domestically and internationally, in which the Company operates. These inquiries and investigations generally concern compliance with various city, county, state and/or federal regulations involving sales and marketing practices. The inquiries may include a demand for information, a civil investigative demand, or a subpoena for documents. The Company has responded and continues to respond to these inquiries, and has generally been successful in addressing the concerns of these persons and entities without a formal complaint or charge being made, although there is often no formal closing of the inquiry or investigation. There can be no assurance that the ultimate resolution of these or other inquiries and investigations will not have a material adverse effect on the Company s business or operations, or that a formal complaint will not be initiated. The Company also receives complaints and inquiries in the ordinary course of 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. To date, the Company has been able to resolve these matters on a mutually satisfactory basis. However, there can be no assurance that the ultimate resolution of these matters will not have a material adverse affect on the Company s business or results of operations.

On December 18, 2006, the State of Illinois filed an action in the Circuit Court of the Third Judicial Circuit, Madison County, Illinois, Case No. 2006-CH-1345, entitled, The People of the State of Illinois vs. Stores Online, Inc. and Galaxy Malls, Inc. The action alleged that the Company engaged in consumer fraud. The petition seeks refunds together with unspecified statutory damages. The Company contends that it has not violated the Illinois Consumer Fraud Act, or otherwise engaged in fraudulent or deceptive practices.

On February 8, 2007, the Company received a Notice in which the Louisiana Consumer Protection Section stated it has reasons to believe the Company may have engaged in unfair business practices. No complaint has been filed, and the Company is unaware of any unresolved customer claims in the State of Louisiana. The Company insists it has not engaged in unfair business practices.

On August 28, 2006, the Utah Department of Commerce Division of Consumer Protection (the Division) served an Administrative Citation (the Citation) seeking that the Company registers under §13-15 of the Utah Business Opportunity Disclosure Act (the Disclosure Act). The Citation indicated the maximum potential fine was $2,500 and the issuance of a cease and desist order requiring the Company to register as a Business Opportunity. The Company is contesting the Citation and does not intend to register under the Disclosure Act because the Company contends it is not selling a business opportunity. A two-day administrative proceeding was held commencing on March 27, 2007 before a Division employee empowered by the Division to determine if the Division s Citation should be sustained. The Division conceded that the Company does not sell any product in the State of Utah, but nonetheless insisted that it has authority and jurisdiction over transactions occurring outside the State of Utah. The Division employee makes recommendations to the Division director who will enter a ruling. The Division has not yet issued a ruling. The United States District Court for the District of Utah recently entered an order dismissing the Company s declaratory action seeking a judgment that (1) the Disclosure Act is unconstitutional, or (2) if constitutional, the Disclosure Act does not apply to the Company. The Company has appealed that decision. In that action in District Court the Company had claimed individual damages against an employee of the Consumer Protection Division based upon allegations of Civil Rights Violations. On January 25, 2007, the Company and the State of Utah entered into an agreement to continue the administrative proceeding and engage in settlement discussions. The Company agreed to dismiss the individual damage claim against the Division employee. It was also agreed that if the parties cannot reach a settlement and there is an adverse ruling by the Division, the Division agrees to stay the terms of such a ruling until such time as the Company has exhausted all administrative and judicial review, notwithstanding how many years that may take.

On March 19, 2007, the Marion Superior Court in the State of Indiana entered an order confirming a Consent Judgment agreed to between the Company and the State of Indiana. This stipulated judgment stemmed from a January 13, 2006 action filed against the Company in the Marion Superior Court, Case Number 490070601PL001792. The complaint alleged that the Company sells a business opportunity and that the Company violated the Indiana Consumer Protection Act. The petition sought refunds together with statutory damages. The settlement provided that there is no finding that the Company operates as a seller of business opportunities under Indiana law, and there is no requirement for the Company to register as a seller of business opportunities now or in the future. The Company has agreed to not make certain representations at its workshops (which the Company contends it has not made in the past, and does not currently make). The Company further agreed to cancel six contracts and allow refunds totaling $19,261. In addition, the Company agreed to reimburse the State of Indiana $2,708 in costs and pay $9,815 to the Office of Attorney General Consumer Protection Fund. The order makes clear that there is no admission of any wrongdoing by the Company. The settlement does not limit the Company s ability to conduct business in the State of Indiana or require any change to the business model or practices of the Company.

On October 24, 2005, the Company announced it had been notified by the SEC that it had issued a formal order of investigation related to the Company. Prior to the order, the Company had announced a change of the independent registered public accounting firm for the Company. The Company also issued a Form 8-K of Non-Reliance on Previously Issued Financial Statements or a Related Audit Report or Completed Interim Review. The Company has restated and filed all required financial statements with the SEC. The Company is fully cooperating with the SEC in this matter.

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 United States 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. The discovery stay imposed under applicable federal law, which controls the administration of class actions, remains in place. There has been no amended complaint filed to date. In addition to the foregoing, there have been stockholder derivative lawsuits filed in the United States District Court for the District of Utah as well as the State Court in Utah against the Company, certain officers of the Company, and current and former directors of the Company. The Company has successfully requested delays in filing responses due to the consolidated class action.

On February 28, 2007, the Attorney General of Florida issued a release relating to what it described as an active public-consumer related investigation indicating that the office was investigating the Company for alleged deception of would-be entrepreneurs who buy StoresOnline business services (websites, etc.) at promotional seminars. The release incorrectly lists the business of the Company as a business opportunity . The Company vehemently disputes that it (i) is a business opportunity or (ii) that it has engaged in any deception whatsoever. The

Company has received requests for information relating to only fourteen customers over the last three years from the Attorney General of Florida. Nine of those cases have been resolved; the Company is waiting for responses from the Office of the Attorney General on the other five. The Company has provided information to the Office of the Attorney General to support that its business practices are transparent and comply with all laws and regulations.

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

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

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

We are the subject of claims alleging violations of federal securities laws, which claims require us to expend significant resources to dispute, and could subject us to significant liability and the requirement to pay damages.

Our current and former directors and officers are the subject of stockholder derivative lawsuits and lawsuits alleging violations of federal securities laws. For example, on March 8, 2005, an action was filed by Elliott Firestone, on behalf of himself and all others similarly situated, against us, certain current and former officers, and certain current and former directors, in the United States District Court for the District of Utah. Additional complaints were then filed against us 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 us, certain current and former officers, and certain current and former directors, together with our former independent auditors, 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 us to restate our financial results. The suit seeks unspecified damages, including attorneys fees and costs. We may be required to pay judgments or settlements and incur expenses in amounts that would materially harm our business and financial results. For more information about these legal proceedings, please refer to Part II, Item 1, Legal Proceedings.

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

We maintain credit card and other personal information in our systems. We need to preserve and protect our data and our clients data against loss, misuse, corruption, misappropriation caused by systems failures, unauthorized access or misuse. We could be subject to liability claims by individuals and customers whose data resides in our databases for the misuse of that information.

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

On October 24, 2005, we announced we had been notified that the SEC had issued a formal order of investigation related to us. Although we have cooperated with the SEC in this matter, and intend to continue to cooperate with the SEC, the SEC may find that we have violated the securities laws. We cannot predict the ultimate outcome of the investigation, nor can we predict whether other federal, state or foreign governmental authorities will initiate separate investigations. The outcome of the investigation and any related legal and administrative proceedings could include the institution of administrative, civil, injunctive or criminal proceedings involving us and/or our current or former employees, officers and/or directors, the imposition of fines and other penalties, remedies and/or sanctions, modifications to business practices and compliance programs and/or referral to other governmental agencies for other actions. It is not possible to accurately predict at this time when matters relating to the investigation will be completed, the final outcome of the investigation, what, if any, actions may be taken by the SEC or by other governmental agencies in federal, state or foreign jurisdictions. Such actions may negatively impact our consolidated financial statements, results of operations, business prospects or liquidity.

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

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

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

- general economic conditions and economic conditions specific to Internet technology usage and eCommerce.

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

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

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

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

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

As of March 31, 2007, the Company has NOL carryforwards of approximately $31,151,000. Approximately $11,418,000 of the NOL carryforwards is subject to annual limitations under Section 382. Section 382 imposes limitations on a corporation s ability to utilize its NOL carryforwards if it experiences an ownership change . In general terms, an ownership change results from transactions increasing the ownership of certain stockholders in the stock of a corporation by more than 50 percent over a three-year period. Since our formation, we have issued a significant number of shares, and purchasers of those shares have sold some of them, with the result that two ownership changes, as defined by Section 382, have occurred. As a result of the most recent ownership change, utilization of our NOL is subject to an annual limitation determined by multiplying the value of our stock at the time of the ownership change by the applicable federal long-term tax-exempt rate. We estimate the annual limitation to be approximately $127,000. Any limited amounts may be carried over to later years, and the amount of the limitation may, under certain circumstances, be increased by the recognized built-in gains that occur during the five-year period after the ownership change (the recognition period). Based on a valuation of our Company as of April 3, 2002, we have approximately $15,000,000 of recognized built-in gains. Additionally, based on a valuation completed during the quarter ended March 31, 2004, we determined that the earlier ownership change resulted in built-in gains that allow us to utilize our entire NOL. Future changes in ownership of more than 50 percent may limit the use of these carryforwards. Our earnings, if any, and cash resources will be materially and adversely affected by this limitation if we cannot receive the full benefit of the NOL carryforwards. An ownership change could occur as a result of circumstances that are not within our control.

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

We depend on the continued services of our key personnel, including but not limited to our president, Brandon Lewis; Chief Executive Officer, Donald Danks; Chief Financial Officer, Robert Lewis; Chief Technical Officer, David Rosenvall; as well as certain speakers at our Preview Training Sessions and workshops. Each of these individuals has acquired specialized knowledge and skills with respect to our operations. The loss of one or more of these key personnel could negatively impact our performance. In addition, we expect to hire additional personnel in all areas if we are to continue to successfully execute our strategic plan, particularly if we are successful in expanding our operations internationally. Competition for the limited number of qualified personnel in our industry is intense. At times, we have experienced difficulties in hiring personnel with the necessary training or experience.

We may acquire businesses or pursue acquisitions of complementary service or product lines and technologies that may involve financial, integration and transaction completion risks that could adversely affect our operations.

From time to time, we have evaluated and in the future may evaluate potential acquisitions of businesses, services, products or technologies. These acquisitions may dilute our existing stockholders or cause us to incur debt and contingent liabilities, and expenses to amortize related tangible or intangible assets. In addition, acquisitions involve numerous risks, including difficulties in the assimilation of the operations, technologies, services and products of the acquired companies, the diversion of management s attention from other business concerns, risks of entering markets in which we have no or limited direct prior experience and the potential loss of key employees of the acquired company. We have no present commitment or agreement with respect to any material acquisition of other businesses, services, products or technologies.

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

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

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

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

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

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

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

We rely on frequent presentations of our Preview Training Sessions and Internet training workshops by a limited number of persons in various cities and these persons generally travel by air. In addition, these Preview Training Sessions and Internet training workshops involve large groups of persons in upscale and sometimes marquis hotel facilities. Our business would be materially and adversely affected by air travel becoming less available due to

39

significant cut backs in the frequency of service or significant increases in processing times at airports due to security or other factors or by air travel becoming unavailable due to governmental or other action as was the case during a brief period during September 2001. In addition, our business would be materially and adversely affected if our potential customers were to become fearful of attending large public meetings in large hotels.

The market for our products and services is evolving and its growth is uncertain.

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

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

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

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

We are continuing to expand our operations into selected international markets. There are difficulties inherent in doing business in international markets such as:

- cultural, language and other differences between the markets with which we are familiar and these international markets that could result in lower than anticipated attendance at our Preview Training Sessions and Internet training workshops and/or lower than anticipated sales,

- banking and payment mechanisms that differ from those in the United States and make it more difficult for us to both accept payments by credit card and offer to customers a product that allows customers to accept credit card payments on their websites,

- unproven markets for our services and products,

- unexpected changes in regulatory requirements,

- terrorism, war and international conflict,

- potentially adverse tax environment,

- export restrictions and tariffs and other trade barriers,

- burdens of complying with applicable foreign laws and exposures to different legal standards, particularly with respect to sales and marketing practices, intellectual property, privacy and distribution of potentially offensive or unlawful content over the Internet,

- fluctuations in currency exchange rates; and

- restrictions on repatriating cash from foreign markets.

Directors and executive officers beneficially own approximately ***7%*** *of our common stock and their interests could conflict with other stockholders.*

Our current directors and executive officers beneficially own approximately 7% of our outstanding common stock. As a result, the directors and executive officers collectively may be able to significantly influence all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. Such concentration of ownership may also have the effect of delaying or preventing a change in control.

Our future success depends on continued growth in acceptance of the Internet as a business medium.

In order for us to attain success, the Internet must continue to achieve widespread acceptance as a business medium. In addition, the businesses and merchants to whom we market our products and services must be convinced of the need for an online eCommerce presence and must be willing to rely upon third parties to develop and manage their eCommerce offerings and marketing efforts. It remains uncertain whether sustained significant demand for our products and services as sold through our workshop format will exist and whether our distribution channel to our target markets will establish itself as the preferred channel. If we are not successful in responding to the evolution of the Internet and in tailoring our product and services offerings to respond to this evolution, our business will be materially and adversely affected.

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

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

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

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

Transmission and analysis of confidential and proprietary information of the consumer, the merchant, or both, as well as our own confidential and proprietary information.

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

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

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

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

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

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

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

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

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

The market price of our common stock could decline as a result of sales of a large number of shares of our common stock in the market or the perception that these sales could occur. These sales also might make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate. As of April 30, 2007, we had outstanding 12,320,004 shares of common stock.

Significant additional dilution will result if outstanding options and warrants are exercised. As of March 31, 2007, we had outstanding stock options to purchase approximately 970,944 shares of common stock. In addition, in the event future financings should be in the form of, convertible into, or exchangeable for our equity securities, investors may experience additional dilution.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Board of Directors of the Company authorized the initiation of a quarterly cash dividend of $0.10 per common share with a record date of the twentieth day of the last month of each quarter. Although we expect to continue to pay cash dividends to our stockholders, the ability to do so will depend upon our results of operations, financial conditions, cash requirements, as well as other factors. Also, there can be no assurance that we will continue to pay cash dividends even if the necessary financial conditions are met and if sufficient cash is available for distribution.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The Company has a share repurchase program that authorizes it to purchase shares of its common stock in order to distribute cash to stockholders. The aggregate dollar amount authorized for repurchase is $20 million through September 2009. The following are details of repurchases under this program for the three-month period covered by this report:

Period	Total Number of Shares Purchased (a)	Average Price Paid Per Share	Total Number of Shares Purchased As Part of Publicly Announced Plans	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
Repurchases from January 1, 2007 through January 31, 2007	N/A	N/A	N/A	$ 18,435,000
Repurchases from February 1, 2007 through February 28, 2007	155,000	$ 19.03	155,000	$ 15,485,000
Repurchases from March 1, 2007 through March 31, 2007	25,100	$ 17.97	25,100	$ 15,035,000

(a) All shares were purchased in open-market transactions. iMergent s share purchase program was announced on September 5, 2006. The program allows for the purchase of up to $20,000,000 in shares through September 2009.

44

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

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.	
May 9, 2007	By:	/s/ Donald L. Danks Donald L. Danks Chief Executive Officer
May 9, 2007	By:	/s/ Robert M. Lewis Robert M. Lewis Chief Financial Officer