SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark one)
[X] Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended June 30, 2002.

[ ] Transition report under section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from to ______________ to _____________.

Commission file number 000-27941

IMERGENT, INC.
(Exact Name of Registrant as Specified in Its Charter)

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

754 East Technology Avenue, Orem, Utah	84097
(Address of principal executive office)	(Zip Code)

(801) 227-0004
(Issuer's telephone number)

NETGATEWAY, INC.
(Issuer's former name, if changed since last report)

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

Title of Each Class	Name of Each Exchange On Which Registered
None	None

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

Common Stock, par value $.001

Indicate by check mark whether the registrant (1) 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), Yes[X] No [ ], and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ].

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Based on the average of the bid and asked price for the registrant's common stock on the Nasdaq OTC Bulletin Board on October 8, 2002, the aggregate market value on such date of the registrant's common stock held by non-affiliates of the registrant was $14,196,487. For the purposes of this calculation, shares owned by officers, directors and 10% stockholders known to the registrant have been deemed to be owned by affiliates.

The number of shares outstanding of the registrant's common stock, as of October 8, 2002, was 11,000,774.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for its 2002 Annual Meeting of Stockholders, which is expected to be filed within 120 days after the end of the registrant's fiscal year, are incorporated by reference in Part III (Items 10, 11, 12 and 13) of this Report.

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PART I

Throughout this report, we refer to Imergent, Inc., together with its subsidiaries, as "we," "us," or "our company."

THIS ANNUAL REPORT ON FORM 10-K CONTAINS FORWARD-LOOKING STATEMENTS. THESE STATEMENTS RELATE TO FUTURE EVENTS OR OUR FUTURE FINANCIAL PERFORMANCE. IN SOME CASES, YOU CAN IDENTIFY FORWARD-LOOKING STATEMENTS BY TERMINOLOGY SUCH AS MAY, WILL, SHOULD, EXPECT, PLAN, INTEND, ANTICIPATE, BELIEVE, ESTIMATE, PREDICT, POTENTIAL OR CONTINUE, THE NEGATIVE OF SUCH TERMS OR OTHER COMPARABLE TERMINOLOGY. THESE STATEMENTS ARE ONLY PREDICTIONS. ACTUAL EVENTS OR RESULTS MAY DIFFER MATERIALLY. IN EVALUATING THESE STATEMENTS, YOU SHOULD SPECIFICALLY CONSIDER VARIOUS FACTORS, INCLUDING THE RISKS OUTLINED BELOW. THESE FACTORS MAY CAUSE OUR ACTUAL RESULTS TO DIFFER MATERIALLY FROM ANY FORWARD-LOOKING STATEMENT.

ALTHOUGH WE BELIEVE THAT THE EXPECTATIONS REFLECTED IN THE FORWARD-LOOKING STATEMENTS ARE REASONABLE, WE CANNOT GUARANTEE FUTURE RESULTS, LEVELS OF ACTIVITY, PERFORMANCE OR ACHIEVEMENTS. MOREOVER, NEITHER WE NOR ANY OTHER PERSON ASSUMES RESPONSIBILITY FOR THE ACCURACY AND COMPLETENESS OF THE FORWARD-LOOKING STATEMENTS. WE ARE UNDER NO DUTY TO UPDATE ANY OF THE FORWARD-LOOKING STATEMENTS AFTER THE DATE OF THIS ANNUAL REPORT TO CONFORM SUCH STATEMENTS TO ACTUAL RESULTS OR TO CHANGES IN OUR EXPECTATIONS.

Item 1. Business.

General

We are an e-Services company that provides eCommerce technology, training and a variety of web-based technology and resources to over 100,000 small businesses and entrepreneurs annually. Our affordably priced e-Services offerings leverage industry and client practices, and help increase the predictability of success for Internet merchants. Our services also help decrease the risks associated with e-commerce implementation by providing low-cost, scalable solutions with minimal lead-time, ongoing industry updates and support. Our strategic vision is to remain an eCommerce provider tightly focused on our target market.

We are continuing to execute and build on a strategic plan that we adopted in fiscal year 2001 which was designed to allow us to sustain revenue and profitability at acceptable levels after we ceased, due to a change in our product offerings, to recognize revenue from prior product offerings. We have phased out our CableCommerce and Internet Commerce Center (ICC) activities and have concentrated on our StoresOnline product through our Internet Training Workshops. We will continue to seek to maximize this existing business model, which is designed to increase our revenue by enhancing the range of products and service offerings to our customer base, increasing sales to our existing customer base, and by increasing the overall number of attendees at our Internet Marketing Workshops. We will also continue to seek to reduce our cost of revenue through continued enhancement of our StoresOnline software. Currently, substantially all of our revenues are derived from our StoresOnline subsidiary.

We were incorporated under the laws of Nevada on April 13, 1995, under the name Video Calling Card, Inc. In June 1998, we acquired all of the outstanding capital stock of Netgateway, a Nevada corporation formerly known as eClassroom.com, in exchange for 5,900,000 shares (590,000 shares as presently constituted) of our common stock. At the same time, we acquired the assets of Infobahn, LLC d/b/a Digital Genesis, an electronic commerce applications developer, in exchange for 400,000 shares of our common stock.

In January 1999, StoresOnline.com, Ltd., a Canadian corporation and our wholly owned subsidiary, acquired all of the outstanding capital stock of Spartan Multimedia, Ltd., an Internet storefront developer and storefront service provider, in exchange for 371,429 shares of Class B common stock of StoresOnline.com. The Class B common stock is exchangeable on a one-to-one basis for shares of our common stock. To date, a total of 276,713 shares have been exchanged.

In November 1999, we reincorporated under the laws of Delaware.

In June 2000, we acquired all of the outstanding capital stock of Galaxy Enterprises, Inc., a Nevada corporation, in exchange for approximately 3,900,000 shares (390,000 shares as presently constituted) of our common stock. Galaxy Enterprises was organized as a Nevada corporation on March 3, 1994. Galaxy Enterprises was originally formed under the name Cipher Voice, Inc., and was incorporated for the purpose of developing, producing and marketing equipment related to computer hardware security, known as a digital voice encryption-decryption electronic device. Galaxy Enterprises was unsuccessful in developing that technology and subsequently ceased operations.

In December 1996, Galaxy Enterprises acquired all of the issued and outstanding common stock of GalaxyMall, Inc., a Wyoming corporation, in exchange for 3,600,000 shares of Galaxy Enterprises common stock. As a result of this stock acquisition, Galaxy Mall became a wholly owned subsidiary of Galaxy

Enterprises. On December 16, 1996, Galaxy Enterprises changed its name from Cipher Voice, Inc. to Galaxy Enterprises, Inc.

Effective May 31, 1999, Galaxy Enterprises, through its wholly owned subsidiary IMI, Inc., acquired substantially all of the assets of Impact Media, L.L.C., a Utah limited liability company engaged in the design, manufacture and marketing of multimedia brochure kits, shaped compact discs and similar products and services intended to facilitate conducting business over the Internet. The assets acquired included, among other things, equipment, inventory and finished goods, intellectual property, computer programs and cash and accounts receivable. The primary use of these assets relate to the design, manufacture and marketing of Impact Media's products and services. In January 2001 we sold our IMI subsidiary to Capistrano Partners LLC for $1,631,589, including $1,331,589 owed to us by IMI at the time of the sale. We received a cash payment of $300,000 and a promissory note for the balance of the purchase price which note was subsequently converted into shares, which at that time represented 8.7% of the outstanding capital stock of IMI. At the time of the original transaction, Capistrano Partners LLC was an unrelated third party, but the sole member of Capistrano is now an equity investor in us.

In August 2000, we announced that we would close our Long Beach headquarters and consolidate it with our Orem, Utah operations. After the relocation of our operations to Utah we dramatically slowed the development of our Internet Commerce Center, or ICC, stopped substantially all sales and marketing activity for business-to-business solutions based on the ICC and terminated the employment of the ICC engineering, sales and marketing teams. We are continuing to support our existing business-to-business customers served by the ICC. Although early versions of the ICC are fully operational and being used by current customers, we have suspended all ICC engineering and programming activities with respect to new versions and features of the ICC pending receipt of actual ICC customer orders. No such orders have been received to date and we are not actively soliciting such orders; however, if an existing ICC customer were to order services we would identify the actual customer needs and, if further ICC development work was required and appropriate, do such work at that time. After the relocation of our operations to Utah, we also restructured our CableCommerce operations. Through July, 2001 we continued to work with our cable operator partners in support of existing Internet cable malls and to increase the number of merchants hosted on these malls, but our activity in this regard was greatly reduced effective January 2001 as a result of reductions in the size of the sales and marketing team. In July 2001, we transferred to a third party the opportunity to market these product and service offerings to both our existing cable operator business partners and others. Pursuant to this arrangement we continued for a period of time to provide the underlying technology, hosting and other services, but all of these services have now been terminated and the existing Internet cable malls were shut down.

Effective July 2, 2002, we changed our corporate name to "Imergent, Inc." to better reflect the scope and direction of our current business activities of assisting and providing web-based technology solutions to small emerging companies and entrepreneurs who are seeking to establish a viable e-commerce presence on the Internet. Also effective July 2, 2002, we effected a 10:1 reverse split of our shares of common stock and reduced the authorized number of shares of common stock from 250,000,000 to 100,000,000.

Industry Background

The Internet economy has transformed the way business is conducted. To address this more competitive environment companies are now required to market dynamically, compete globally and communicate with a network of consumers and partners. Introducing a business to the Internet economy can unleash new opportunities for that business that can drive revenue growth, services opportunities, product innovation, and operational efficiencies. Companies must be able to offer and/or deliver their services and products through the Internet to capitalize on its potential.

In April 2002, Nielsen/NetRatings, Inc. estimated yet another increase in USA Internet users to over 165 million, and the growth trend continues worldwide as well as reported by Nua Ltd., to over 850 million Internet users worldwide.

The continued growth of business-to-consumer eCommerce and the growing acceptance of eCommerce as a mainstream medium for commercial transactions, presents a significant opportunity for companies, including small businesses and entrepreneurs. To take advantage of this opportunity they must extend their marketing and sales efforts to the Internet and often must transform their core business and technologies in order to be able to successfully conduct commerce by means of the Internet. The transformation challenges include systems engineering, technical, commercial, strategic and creative design challenges and developing an understanding of how the Internet transforms relationships between businesses and their internal organizations, customers, and business partners. A company seeking to effect such a transformation often needs outside technical expertise to assist in identifying viable Internet tools, and to develop and implement reasonable strategies all within the company's budget, especially if the company believes that rapid transformation will lead to a competitive advantage.

We believe this environment has created a significant and growing demand for third-party Internet professional services and has resulted in a proliferation of companies (e-Service companies) offering specialized solutions, such as order processing, transaction reporting, helpdesk, training, consulting, security, Website design and hosting. This specialization has resulted in a fragmented market that often requires a company to combine solutions from different providers that may be based on different, or even contradictory, strategies, models and designs. We believe that there is a very large, fragmented and under-served market for entrepreneurial companies searching for professional services firms that offer turnkey business-to-consumer eCommerce solutions coupled with training, consulting and continuing education.

We believe that few of the existing e-Services providers targeting small

businesses and entrepreneurs have the range of product and service offerings that focus on the peculiar needs of this market. This market requires a broad range of product and services offerings that are necessary to assist in a coordinated transformation of their business to embrace the opportunities presented by the Internet. Accordingly, we believe that these organizations are increasingly searching for a services firm such as ours that offers turn-key business-to-consumer eCommerce solutions focused on their e-Services requirements, which include training, education, technology, creative design, transaction processing, data warehousing/hosting, transaction reporting, help desk support and consulting. Furthermore, we believe that organizations will increasingly look to Internet solutions providers that leverage industry and client practices, increase predictability of success for Internet solution deployments and decrease implementation risks by providing low-cost, scalable solutions with minimal lead-time.

Our Business

Offering services to Small Businesses

We offer a continuum of services and technology to the small business owner and entrepreneur. Our services start with a complimentary 90-minute informational Preview Training Session for those interested in extending their business to the Internet. These Training Sessions have proven to increase awareness of and excitement for the opportunities presented by the Internet. We typically conducted 20-30 sessions each week across the United States. At these Preview Training Sessions, our instructors preview the advantages of establishing a website on the Internet, answer in general terms many of the most common questions new or prospective Internet merchants have (including the identification of the types of products, services, and information that are best marketed and/or sold on the Internet), how to develop an effective marketing and advertising strategy, and how to transform an existing "brick and mortar" company into a successful e-commerce enabled company.

Approximately two weeks after each Preview Training Session, we return to conduct an intensive eight hour Internet training workshop which provides Internet eCommerce and website implementation training to a subset of individuals and companies that attended the preview session. At the Internet training workshop, attendees learn some of the detail, tips, and techniques needed to transform an existing "brick and mortar" company into an eCommerce success. They learn how to open and promote a successful Internet business, including a plain English explanation of computer/Internet/technical requirements and e-commerce tools, specific details and tips on how to promote and drive traffic to a website and techniques to increase sales from traffic to a website.

At the conclusion of the workshop, the attending individual or company, typically a small business or individual entrepreneur, is presented an opportunity to purchase a license to use our proprietary StoresOnline software and website development platform and an integrated package of services and thereby become an Internet merchant and client of the company.

The integrated package of services includes:

- The ability to create up to three different, fully eCommerce enabled websites, with the option to host such on our servers
- Access to our detailed database of Internet marketing information
- Helpdesk technical support via on-line chat, email, and telephone
- Initial registration to over 300 different search engines, directories and link pages
- Tracking software to monitor site traffic (hits, unique visitors, page views, referring URL, search engine and keywords used, time of visit, etc.)
- Internet classified advertisements
- Merchant accounts for real-time on-line credit card processing
- Testing and marketing tools (auto responders)

The license to our StoresOnline software and website development platform permits the client to create up to three custom websites. If the client prefers, the client can use our development team of employees and contractors to design and program the website for an additional charge or the client can create their own website, which can either be a static, standalone site hosted by a third party, or it can be hosted by us for an additional fee. If we host the site, the client will be able to take advantage of the dynamic website updating capabilities of the StoresOnline platform, along with other benefits provided by the hosting service.

Following the initial sale to a client, we seek to provide additional technology and services to our clients. On the services side, we offer custom programming to create distinctive web page graphics and banners and advanced programming to enhance websites with things such as streaming audio and video media, Macromedia(TM) Flash and Director programming techniques, commitments to deliver page view traffic to the website and a ten week coaching and mentoring program. The coaching and mentoring program is provided by a third-party and involves a series of telephone training sessions with a tutor who provides specific assistance in a variety of areas, including Internet marketing. We continue to explore ideas, products and services to enhance ongoing customer training and assistance.

We also continue to seek to increase sales to our existing client base by more aggressively imposing and collecting set-up and hosting fees, selling programming services to update existing client websites and an outsourced

outbound telemarketing program through which we periodically contact persons who attended our Internet training workshops. In particular we are focusing on selling Internet training workshop attendees who did not purchase at the workshop our basic package and on selling additional product and service offerings (both ours and third parties) to persons who purchased at the workshop. Through this telemarketing program we also seek to increase the website activation rate of customers who purchase at our Internet training workshops but have not yet designed or activated their website and thereby establish a stronger relationship with these persons and offer them additional products and services. We may also, for a fee, allow third parties to market to our clients and Preview Training Session and Internet training workshop attendees, products and services that are complimentary with our product and service offerings. In some situations this could result in the client purchasing additional products and services.

In addition to seeking to grow by increasing the number of Preview Training Sessions and Workshops in the United States, we intend to continue an international expansion of our business, initially into selected English-speaking countries in the Asia Pacific region, South Africa, and Canada, and possibly thereafter to additional countries in Asia and Europe. Our research indicated that we should experience lower customer acquisition costs in these regions than we currently experience in the United States and that our turnkey product and service offering for small businesses and entrepreneurs may enjoy a first mover advantage in some of these markets. We have been encouraged by our initial experiences in some of these markets, which have validated our research and indicated that, in time, we could experience results that are comparable to those we have historically experienced in the United States market. We are continuing to refine our international market strategies based on these initial experiences and have initiated the establishment of strategic alliances with other companies with experience in certain of these countries to assist in this effort.

Seasonality. Revenues during the year for our workshop business can be subject to seasonal fluctuations. The first and second calendar quarters are generally stronger than the third and fourth calendar quarters. Customers seem less interested in attending our workshops during the period between July 15th through Labor day, and again during the holiday season from Thanksgiving Day through the first week of the following January.

Our Technology

We believe that a key component of our success will be a number of new technologies we have developed. These technologies distinguish our services and products from those of our competitors and help substantially to reduce our operating costs and expenses. The most important of these are the continued enhancements to our StoresOnline software and hosting platform and our Dynamic Image Server technology.

The StoresOnline platform is a web-based turnkey eCommerce development platform, which has been continuously improved over the past decade. The current version of the StoresOnline platform represents the culmination of over ten years of development effort on a platform that has hosted over 20,000 eCommerce-enabled websites and, in the past, has received broad acceptance in the fast growing market of small businesses and in the entrepreneurial community. The current StoresOnline platform version represents a continued stage of evolution towards an easier to use and more scalable application. The most recent additions and enhancements to the software include several new features, including the support of additional credit card processing companies, a tracking package which allows both numerical and graphical display of site traffic statistics, new target market/entry page functions, and an expanded library of design templates, in addition to enhancements to existing features.

We have made significant progress in integrating the StoresOnline platform as our primary tool for custom website design and development by our internal production group. We believe that these changes, together with extensive training of our internal production group and the upgrade of our data center to include redundant power, bandwidth and servers, has allowed us to become more self-reliant, effective for our customers and efficient in the programming of customer sites. In addition, our customers are now able to create and maintain their own sites quickly and easily without having to learn HTML programming or use other software tools.

A unique technology innovation, our DynamicImage Server, allows images to be created dynamically rather than by uploading images or using stock photos or clip art. A user can create images dynamically through the manipulation of multiple image variables (such as background color, text, borders, sizing, dropshadows, etc.) in a simple "point and click" environment. This feature allows the automatic generation of image permutations, allowing a customer, for example, to view all of the different possible combinations of shirts, tie, sport coats, and slacks before purchase. The DynamicImage Server allows for quick and easy creation of graphical and professional looking storefronts.

Other Product and Service Offerings

We deliver business-to-business eCommerce solutions to a limited number of existing clients for whom we maintain custom eCommerce applications. We are no longer actively promoting this line of business and are not spending significant resources to further develop or expand this business or its core technology - the Internet Commerce Center (ICC). This activity is no longer part of our core business, but the existing contracts provide for positive cash flow.

Our CableCommerce division originally partnered directly with several cable operators to create and launch cable-branded electronic malls with leading cable operators. The concept of Internet malls supported by advertising on cable television was originally thought to be very promising, but we were unable to find a cost effective means of attracting merchants to establish storefronts on such malls and the margins on existing malls were insufficient to absorb the associated sales and marketing costs. Accordingly, we elected not to pursue this

market or renew our contracts with our cable operator partners and are now no longer engaged in the cable mall business.

Transaction Processing

We offer solutions that capture and transact customer orders according to the business rules and specific "back office" needs of the particular client. Our eCommerce system solution acts as a gateway, so our clients can receive and process orders and payments, provide order confirmation and reporting and organize order fulfillment in conjunction with payment processes. We can provide support for eCommerce transactions using checks, credit cards, electronic funds transfers, purchase orders and other forms of payment. We currently provide this capability in conjunction with several third-party vendors.

Sales and Marketing

Because most of our products are sold at the end of our workshop sessions, a significant investment must be made before any sales are made. Therefore, the cost of customer acquisition and sell-through percentages are critical components to the success of our business. We are continuously testing and implementing changes to our business model which are intended to further reduce the level of investment necessary to get a customer to attend our events and to increase our value proposition to that customer, thereby increasing overall sales.

We advertise our preview sessions in direct mail and e-mail solicitations targeted to potential customers meeting established demographic criteria. The direct mail and e-mail pieces are sent several weeks prior to the date of the preview session. Mailing lists are obtained from list brokers. Announcements of upcoming preview sessions also appear occasionally in newspaper advertisements and radio spots in scheduled cities. Finally, we promote our preview and workshop sessions through other third-party training companies.

We also use outsourced telemarketing programs to sell products and services to preview and workshop attendees and to our existing client database.

Research and Development

Since June 1999, we have conducted considerable research and development with respect to our technology, particularly in regard to development of our StoresOnline product. During the years ended June 30, 2002, and June 30, 2001, respectively, we invested, on a consolidated basis, approximately $52,000 and $1,805,000, respectively, in the research and development of our technology. Product development expenses in fiscal year 2001 related primarily to the Internet Commerce Center (ICC) and were largely incurred during the first two fiscal quarters of that year. The reduction in our research and development costs in fiscal 2002 was also a function of substantial development and release of the 4.0 version of the StoresOnline software in fiscal year 2001, whereas development in fiscal year 2002 focused on refinement and enhancement of this product. Our specific accomplishments during fiscal year 2002 were the addition of new features to our StoresOnline platform, including the support of additional credit card processing gateways, a tracking package which allows both numerical and graphical display of site traffic statistics, new target market/entry page functions, and an expanded library of design templates. In general, our research and development efforts during fiscal years 2001 and 2002 have:

- focused on the enhancement and refinement of existing services in response to rapidly changing client specifications and industry needs

- introduced support for evolving communications methodologies and protocols, software methodologies and protocols and computer hardware technologies

- improved functionality, flexibility and ease of use

- enhanced the quality of documentation, training materials and technical support tools

- developed an internal database that replaced existing incompatible, standalone systems used in marketing and sales, and that is intended, with further development, to incorporate storefront production, customer service and accounting

- completed a new merchant login system providing enhanced security and management of password access to the Merchant Services section of the mall,

- reconfigured our computer networks, including hardware and software upgrades, firewall protection; and

- established a new company-wide data center with redundant power, bandwidth and servers.

Competition

Our markets are becoming increasingly competitive. Our competitors include a few companies like ours, that have historically had varying rates of success and longevity, application service providers, software vendors, systems integrators and information technology consulting service providers who offer some or all of the same products as us to the small business and entrepreneur markets.

Most of these competitors do not yet offer a full range of Internet professional services. Many are currently offering some of these services or have announced their intention to do so. These competitors at any time could elect to focus additional resources in our target markets, which could materially adversely affect our business, prospects, financial condition and

results of operations. Many of our current and potential competitors have longer operating histories, larger customer bases, longer relationships with clients and significantly greater financial, technical, marketing and public relations resources than we do.

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

There are relatively low barriers to entry into our business. Our proprietary technology would not preclude or inhibit competitors from entering our markets. In particular, we anticipate that new entrants will try to develop competing products and services or new forums for conducting eCommerce that could be deemed competitors. We believe, however, that we presently have a competitive advantage due to our proven marketing strategies and the flexibility we have obtained through enhancements to our StoresOnline software. In 1995, certain of our principals were instrumental in creating an Internet marketing workshop industry. We believe that this experience with marketing workshops gives us an important competitive advantage.

Anticipated and expected technology advances associated with the Internet, increasing use of the Internet and new software products are welcome advancements and are expected to attract more interest in the Internet and broaden its potential as a viable marketplace and industry. We anticipate that we can continue to compete successfully by relying on our infrastructure and existing marketing strategies and techniques, systems and procedures, by adding additional products and services in the future, by periodic revision of our methods of doing business and by continuing our expansion into international markets where we believe there is an overall lower level of competition.

Intellectual Property

Our success depends in part upon our proprietary technology and other intellectual property and on our ability to protect our proprietary technology and other intellectual property rights. In addition, we must conduct our operations without infringing on the proprietary rights of third parties. We also rely upon un-patented trade secrets and the know-how and expertise of our employees. To protect our proprietary technology and other intellectual property, we rely primarily on a combination of the protections provided by applicable copyright, trademark and trade secret laws as well as on confidentiality procedures and licensing arrangements.

Although we believe that we have taken appropriate steps to protect our intellectual property rights, including requiring that employees and third parties who are granted access to our intellectual property enter into confidentiality agreements, these measures may not be sufficient to protect our rights against third parties. Others may independently develop or otherwise acquire un-patented technologies or products similar or superior to ours.

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

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

Employees

As of September 28, 2002, we had 89 full-time employees, including 5 executive personnel, 43 in sales and marketing, 4 in the development of our e-Business solutions, 25 in web site production and customer support and 12 in general administration and finance. We also use some independent contractors who speak at our preview and/or workshop training sessions, and others who provide some programming services.

Governmental Regulation

We are subject to regulations applicable to businesses generally, including a customer's three-day right, in some states, to rescind the purchase of our StoresOnline product at one of our Internet workshops. We are also subject to an increasing number of laws and regulations directly applicable to access to, and commerce on, the Internet. In addition, due to the increasing popularity and use of the Internet, it is probable that additional laws and regulations will be adopted with respect to the Internet in the future, including with respect to issues such as user privacy, pricing and characteristics and quality of products and services. The adoption of any such additional laws or regulations may decrease the growth of the Internet, which could in turn decrease the demand for our products or services, our cost of doing business or otherwise have an adverse effect on our business, prospects, financial condition or results of

operations. Moreover, the applicability to the Internet of existing laws governing issues such as property ownership, libel and personal privacy is uncertain. Future federal or state legislation or regulation could have a material adverse effect on our business, prospects, financial condition and results of operations.

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 all the risks that we currently believe are material to our business. However, additional risks not presently know 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 this Annual Report on Form 10-K, including the discussions set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business," as well as our financial statements and the related notes.

Our business, 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 of our common stock could decline, and you could lose all or part of your investment.

We may not maintain profitability at the levels achieved during our past fiscal year, or achieve profitability in future years.

We achieved profitability for the first time in fiscal 2002. During the last two quarters of fiscal 2001 and the first two quarters of fiscal 2002, our profitability was based in large part on the benefit of deferred revenue, which did not contribute to our cash flow. We do not expect this benefit to reoccur. Successfully achieving our strategic plan and achieving profitability for future fiscal years depends on our ability to:

- increase the number of workshops held without experiencing a reduction in the portion of attendees who purchase our products and services at the workshops
- successfully develop and sell additional products to our existing customers
- generate revenues through sales of third party products and services, and
- continue to identify, attract, retain and motivate qualified personnel.

Furthermore, the growth of our business depends on factors outside our control, including:

- adoption by the market of the Internet, and more specifically, our Internet based solutions
- continued acceptance by our target customers of a "clicks and mortar" strategy, and
- acceptance of our basic outsourcing business model by our target customers.

We have had a capital deficit, we have a history of losses and we may in the future experience losses.

We have incurred substantial losses in the past and may in the future incur additional losses. At June 30, 2002 and 2001, we had working capital of $289,438 and a working capital deficit of $11,352,351, respectively. Our shareholders equity was $2,468,574 at June 30, 2002 compared to a capital deficit of $9,306,829 at June 30, 2001. We generated revenues from continuing operations of $37,350,850 for the year ended June 30, 2002 and $43,000,533 for the year ended June 30, 2001. For the year ended June 30, 2002 we realized net income of $2,198,769 and for the year ended June 30, 2001 we incurred a net loss of $3,638,736. For the year ended June 30, 2002 and the year ended June 30, 2001, we recorded negative cash flows from continuing operations of $3,548,931 and $7,347,123, respectively.

We have historically invested heavily in sales and marketing, technology infrastructure and research and development and must continue to invest heavily in sales and marketing in connection with our workshop business. As a result, we must generate significant revenues to achieve and maintain profitability. If we are able to increase revenue, then we expect our sales and marketing expenses, research and development expenses and general and administrative expenses will increase in absolute dollars and may increase as a percentage of revenues. In addition, our results for fiscal 2002 were materially affected by a benefit of deferred revenue, which did not contribute to cash flow, during the first two fiscal quarters, which benefit we do not expect to reoccur. As a result, we may not be able to achieve and maintain profitability for a complete fiscal year in the future.

Our auditor's report on our financial statements includes an explanatory paragraph with respect to substantial doubt existing about our ability to continue as a going concern

To date, we have been unable to fund operations from cash generated by our business and have funded operations primarily by selling our equity and debt securities. While we have substantially reduced our level of operating expenses, we continue to consume cash in our operations, and cash resources available to us are insufficient to fund our operations until we reach positive cash flow. As a result, our financial statements include a note that indicates that we had losses from operations and a net capital deficit and that, accordingly, these matters raise substantial doubt about our ability to continue as a going concern. Our financial statements do not include any adjustments that might result from this uncertainty.

We are subject to compliance with securities law, which expose us to

potential liabilities, including potential rescission rights.

We have periodically offered and sold our common stock to investors pursuant to certain exemptions from the registration requirements of the Securities Act of 1933, as well as those of various state securities laws. The basis for relying on such exemptions is factual; that is, the applicability of such exemptions depends upon our conduct and that of those persons contacting prospective investors and making the offering. We have not received a legal opinion to the effect that any of our prior offerings were exempt from registration under any federal or state law. Instead, we have relied upon the operative facts as the basis for such exemptions, including information provided by investors themselves.

If any prior offering did not qualify for such exemption, an investor would have the right to rescind its purchase of the securities if it so desired. It is possible that if an investor should seek rescission, such investor would succeed. A similar situation prevails under state law in those states where the securities may be offered without registration in reliance on the partial preemption from the registration or qualification provisions of such state statutes under the National Securities Markets Improvement Act of 1996. If investors were successful in seeking rescission, we would face severe financial demands that could adversely affect our business and operations. Additionally, if we did not in fact qualify for the exemptions upon which we have relied, we may become subject to significant fines and penalties imposed by the SEC and state securities agencies.

In particular, our private placement conducted January-April 2001 to a group of our then long-time stockholders who were accredited investors occurred in part while a dormant, i.e., not effective, registration statement was on file with the SEC with respect to a public offering of our common stock by a third party deemed by current SEC interpretations to be an offering by us. Although we believe that these unregistered securities were issued pursuant to an available exemption under applicable securities laws, we are aware of current interpretations of securities regulators that are inconsistent with our view. If our interpretation is proven incorrect then, among other consequences, the purchasers of such securities would be entitled to exercise rescission rights with respect to their investment in us. If such rights were exercised by these investors, we would be liable to them in an amount equal to the total proceeds of such offering, $2,076,500, plus interest at rates determined by state statutes from the date of such offering to the date of payment. We believe that, if such an offer of rescission was made to these investors at this time, it would not be accepted. If we were required to make such an offer and it was accepted, then the required payments would exceed our cash resources and would require us to seek additional financing, most likely in the form of additional issuances of common stock, to make such payments and would materially and adversely effect our financial condition.

Our ability to use our net operating loss carryforwards has been reduced. This could adversely affect our net income and cash flow.

As of June 30, 2002, we had net operating loss carryforwards of approximately $40 million that expire through 2022, which can be used to reduce our future U.S. federal income tax liabilities. However, approximately $20 million of these loss carryforwards is subject to the limitation proscribed by Section 382 of the Internal Revenue Code. In addition, future changes in ownership of more than 50% may further limit the use of these carryforwards. Our earnings and cash resources will be materially and adversely affected by this limitation if future earnings exceed the benefit of the limited net operating loss carryforwards. A stock ownership change could occur as a result of circumstances that are not within our control. In addition to the Section 382 limitations, uncertainties exist as to the future utilization of the operating loss carryforwards under the criteria set forth under FASB Statement No. 109. Therefore, we have fully reserved the deferred tax asset at June 30, 2002.

We depend on our senior management, and their loss or unavailability could put us at a serious disadvantage.

We depend on the continued services of our key personnel, including our president, chief executive officer, chief financial officer, chief technical officer and vice-president of operations, as well as the speakers at our previews and workshops and other key personnel. Each of these individuals has acquired specialized knowledge and skills with respect to our operations. As a result of the recent changes and financial difficulties we have experienced, we could face substantial difficulty in retaining and hiring qualified members of our senior executive staff. Our executive officers have been working at reduced salaries for approximately 18 months. Historically, companies such as ours have premised executive compensation on participation in corporate growth and earnings. However, recent trends have emphasized cash-based compensation, which we have not historically done. If we were to increase executive compensation, this could negatively impact our short-term financial performance. However, failure to address this issue of executive compensation could result in members of our senior management leaving the Company. The loss of one or more of these executives could negatively impact our performance. In addition, we expect that we will need to hire additional personnel in all areas if we are able 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.

Our cost reduction efforts may adversely impact our productivity and service levels.

We implemented various cost-control measures affecting all areas of our business operations during the past year, including reductions in our workforce, from 121 at June 30, 2001 to 92 at June 30, 2002. These recent workforce reductions have had an affect on the morale of our employees. Additionally, as discussed above, the reduction of executive salaries and some employee fringe benefits may reduce incentives for our employees to remain with us. Continued

cost reduction measures may be necessary to align our expenses with revenues and improve our overall cash position. These expense reductions may include additional headcount reductions and there is no assurance that these actions will not adversely impact our employees' morale and productivity, the competitiveness of our products and business, and the results of our operations.

We may enter into business combinations or pursue acquisitions of complementary service or product lines, technologies or business 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 result in a potentially dilutive issuance of equity securities, the incurrence of debt and contingent liabilities, and amortization of expenses related to 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 have experienced difficulty monetizing the customer receivables generated by our workshop business which may require us 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 delivered to one of several third parties for servicing and thereafter we seek to sell these contracts to the servicer and other third parties. We have in the past experienced difficulties selling these installment contracts at historical levels. During the first six months of fiscal 2002, there were no finance companies willing to purchase our contracts, so we carried them ourselves. In January 2002, we were once again able to sell contracts to a finance company, but on terms that were less favorable than experienced in the past. Although we are not currently experiencing difficulties selling our installment contracts, a recurrence of those conditions would likely require us to raise additional working capital to allow us to carry these assets on our balance sheet. All of these installment contract arrangements are subject to termination at any time by notice to us. The arrangements for the sale of the installment contracts include a reserve account held by the purchaser of the contracts as security against defaults by the customer. As a result of financial difficulties experienced by one of these third party purchasers there is a substantial risk that this third party may not be able to pay the amount due to us with respect to the reserve account as it becomes payable. We have therefore stopped selling receivables to this third party and have reserved against this item and may have to raise additional working capital to cover such a loss, should it materialize.

We are dependent on credit card issuers who provide us with merchant accounts that are used to receive payments from our customers.

For the fiscal year ended June 30, 2002 approximately $15,600,000, or 42%, of our total revenue was received from customers through credit card payments. 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 rate of charge-backs. If we were to experience a significant reduction in or loss of these accounts our business would be severely and negatively impacted.

We are dependent on arrangements that allow us to sell to our customers the ability to accept credit card payments for products and services sold on their websites.

During the fiscal year ended June 30, 2002 we derived approximately $5,100,000, or 14%, of our total revenues, from the sale to our customers of a product which allows the customer to accept credit card payments for goods and services sold by them through their website. In the past, we have experienced difficulty in maintaining the arrangements that allow us to offer this product to our customers and have experienced difficulty in establishing such a product for resale at our workshops held outside the United States. In addition, from time to time, credit card issuing organizations make changes that affect this product which could negatively impact, or preclude, our offering this product for sale in the United States in its present form. We presently obtain this product for resale from Electronic Commerce International, Inc. ("ECI"), the sole shareholder of which was John J. Poelman, our chief executive officer who, effective October 1, 2002, sold his interest in ECI to an unrelated third party. Were we to lose our access to this product or if its cost increases our business would be severely and negatively impacted and were we not to be able to obtain a comparable product for resale outside the United States our ability to successfully execute our international expansion would be compromised.

It is probable that we will require additional capital in order to sustain our business and execute our growth plan, and such capital may not be available to us.

Our workshop business model requires significant outlays of money in advance for directed sales and marketing expenses to obtain each new sale. This requires us to continue to make significant ongoing expenditures to cover these customer acquisition costs. Our experience over the past five years validates this business model and we have generally experienced an immediate positive financial return on these expenditures under current conditions. If these

conditions change then our operations and financial prospects will be adversely effected. Our plan to grow our business includes increasing sales to our existing customers, something with which we have had little success in the past.

Based on these factors and our current strategic plan to increase revenues, we believe that we will in the future likely need to raise additional capital, in addition to that already raised in our recent private placements of unregistered common stock. Our success in raising this capital will depend upon our ability to access equity capital markets and obtain working capital through sales of our customer receivables. We may not be able to obtain additional funds on acceptable terms. If we fail to obtain funds on acceptable terms, we might be forced to reduce the number of preview and workshop sessions we hold, delay or abandon some or all of our plans for growth, including the development of products, the financing of acquisitions, or the pursuit of business opportunities. If we issue securities for capital, the interests of investors and shareholders could be diluted.

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. The U.S. economy is much weaker now than it has been in recent years and may continue to be weak for the foreseeable future. These economic conditions may cause businesses to curtail or eliminate spending on eCommerce services or to reduce demand for our products and services.

Our operations could be hurt by terrorist attacks and other activity that make air travel difficult or reduce the willingness of our target customers to attend our group meetings.

We rely on frequent presentations of our preview training sessions and Internet training workshops by a limited number of persons in various cities and these persons generally travel by air. In addition, these preview training sessions and Internet training workshops involve large groups of persons in upscale and sometimes marquis hotel facilities. Our business would be materially and adversely affected by air travel becoming less available due to significant 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 target 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 them through our proposed international operations 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.

Although most of our direct competitors have not to date offered a range of Internet products and services comparable to those offered by us, many have announced their intention to do so. 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 longer operating histories, larger customer bases, longer relationships with clients and significantly greater financial, technical, marketing and public relations resources than we do. Competitors that have established relationships with large companies, but have limited expertise in providing Internet solutions, may nonetheless be able to successfully use their client relationships to enter our target market or prevent our penetration into their client accounts. 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.

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

In the past fiscal year, we expanded our current operations into selected international markets and, based on the results of these operations, we plan to continue to expand our international operations. Our failure to establish successful operations and sales and marketing efforts in international markets would likely seriously harm the financial results of our operations.

There are difficulties inherent in doing business in international markets such as:

- cultural 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 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

- 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 intellectual property, privacy and distribution of potentially offensive or unlawful content over the Internet, and
- fluctuations in currency exchange rates.

Management beneficially owns approximately 12% of our common stock and their interests could conflict with other stockholders.

Our current directors and executive officers beneficially own approximately 12% of our outstanding common stock. As a result, the directors and executive officers collectively may be able to substantially 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 a significant market for our products and services will grow or whether our products and services will become generally adopted. Our business model may not be successful and may need to be changed, and if we are not successful in responding to the evolution of the Internet and in tailoring our product and service offerings to respond to this evolution, our business will be materially and adversely affected.

Evolving regulation of the Internet may harm our business.

As eCcommerce continues to evolve it is subject to increasing regulation by federal, state, or foreign agencies. Areas subject to regulation include user privacy, pricing, content, quality of products and services, taxation, advertising, intellectual property rights, and information security. In particular, 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 Web site users that the data captured after visiting Web sites 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 e-commerce. 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 e-commerce 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. Processing eCommerce transactions involves the transmission and analysis of confidential and proprietary information of the consumer, the merchant, or both, as well as our own confidential and proprietary information. Anyone able to circumvent security measures could misappropriate proprietary information or cause interruptions in our operations, as well as the operations of the merchant. We may be required to expend significant capital and other resources to protect against security breaches or to minimize problems caused by security breaches. To the extent that we experience breaches in the security of proprietary information which we store and transmit, our reputation could be damaged and we could be exposed to a risk of loss or litigation 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 have any patents or significant 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, while we attempt to ensure that our licensees maintain the quality of our brand, these licensees may take actions that could materially and adversely affect the value of our proprietary rights or the reputation of our products and media properties.

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, 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 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 e-commerce services providing significant technological, creative, performance, price or other advantages over the services that we offer.

Our operations, based in Utah, could be hurt by a natural disaster 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 community, 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.

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

Our operating results for any given quarter 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; (ii) the emerging nature of the markets in which we compete, and (iii) during the second two fiscal quarters of our fiscal year ended June 30, 2001 and the first two fiscal quarters of our fiscal year ended June 30, 2002, we enjoyed a benefit resulting from the recognition of deferred revenue, which benefit we do not expect to reoccur. In addition, future results may fluctuate, causing our results of operations to fall below the expectations of investors and potentially causing the trading price of our common stock to fall, impairing our ability to raise capital. Our quarterly results may fluctuate due to the following factors, among others:

- our ability to attract and retain clients
- one time events that negatively impact attendance and sales at our preview sessions and Internet training workshops
- intense competition
- 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
- 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, and
- general economic conditions and economic conditions specific to Internet technology usage and eCommerce.

Investors will incur immediate and substantial dilution.

Significant additional dilution will result if outstanding options and warrants are exercised. As of June 30, 2002, we had outstanding stock options to purchase approximately 313,000 shares of common stock and warrants and convertible securities to purchase approximately 502,000 shares of common stock. To the extent that such options, warrants and convertible securities are exercised, there will be further dilution. In addition, in the event future financings should be in the form of, be convertible into, or exchangeable for our equity securities, investors may experience additional dilution.

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 three 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.

Our stock price and its volatility and our listing may make it more difficult to resell shares when desired or at attractive prices.

Our common stock now trades on The Nasdaq Over the Counter Bulletin Board. A proposal has been made to phase out the Over the Counter Bulletin Board and replace it with the Bulletin Board Exchange. If this proposal is implemented we will have to apply to become listed on the Bulletin Board Exchange which will require us to comply with that exchanges listing standards. Although it is currently our intention to apply to become so listed we currently do not meet all of the requirements for eligibility and there can be no assurance that even if we did comply that our application would be accepted.

Some investors view low-priced stocks as unduly speculative and therefore not appropriate candidates for investment. Many institutional investors have internal policies prohibiting the purchase or maintenance of positions in low-priced stocks. This has the effect of limiting the pool of potential purchasers of our common stock at present price levels. Stockholders may find greater percentage spreads between bid and asked prices, and more difficulty in completing transactions and higher transaction costs when buying or selling our common stock than they would if our stock were listed on the Nasdaq National Market and if we do not qualify for listing on the Bulletin Board Exchange prior to the phase out of the Over the Counter Bulletin Board prices for our shares would be available only through the "pink sheets" and accordingly these spreads would likely increase and liquidity in the market for our shares decrease. In addition, the market for our common stock may not be an active market.

Our stock price may fluctuate in response to a number of events and factors, such as quarterly variations in operating results, announcements of technological innovations or new products and services by us or our competitors, changes in financial estimates and recommendations by financial analysts covering other companies, the operating and stock price performance of other companies that investors may deem comparable, and news reports relating to trends in our markets. In addition, the stock market in general, and the market prices for Internet-related companies in particular, have experienced extreme volatility that often has been unrelated to the operating performance of such companies. These broad market and industry fluctuations may adversely affect the price of our stock, regardless of our operating performance.

Future sales of common stock by our existing stockholders and by holders of warrants 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, including as a result of our contractual obligation to register for public resale certain of our outstanding shares. 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 October 8, 2002, we had outstanding 11,000,774 shares of common stock, of which approximately 2,285,759 were freely tradable. Approximately 815,000 shares were reserved for issuance pursuant to exercise of warrants and options. Shares issued upon the exercise of stock options granted under our stock option plans will be eligible for resale in the public market from time to time subject to vesting and, in the case of some options, the expiration of the lock-up agreements.

Item 2. Properties.

In October 2000, we completed the consolidation of our then existing operations in southern California with those acquired through our merger with Galaxy Enterprises by moving our headquarters from Long Beach, California to Orem, Utah. Restructuring charges were approximately $275,000, which consisted of severance packages, relocation expenses and equipment moving costs.

Our principal office is located at 754 East Technology Avenue, Orem, Utah 84097. The property consists of approximately 12,500 square feet leased from an unaffiliated third party with a period of three years remaining on the lease with an annual rental of $263,676. We maintain tenant fire and casualty insurance on our properties located in these buildings in an amount that we deem adequate. We also rent on a daily basis hotel conference rooms and facilities from time to time in various cities throughout the United States, Canada and other countries throughout the world at which we host our preview sessions and Internet training workshops. We are under no long-term obligations to such hotels.

Item 3. Legal Proceedings.

Other than as indicated below, we are not a party to any material legal proceedings.

From time to time, we receive inquiries from attorney general offices and other regulators about civil and criminal compliance matters with various city, county, state and federal regulations. These inquiries sometimes rise to the level of threatened or actual investigations and litigation. In the past, we have received letters of inquiry from and/or have been made aware of investigations by government officials in the states of Hawaii, Illinois, Kentucky, Nebraska, North Carolina, Vermont, Utah, Texas, California and others, as well as from a regional office of the Federal Trade Commission. We have responded to these inquiries and have generally been successful in addressing the concerns of these persons and entities, although there is often no formal closing of the inquiry or investigation. There can be no assurance that these or other inquiries and investigations will not have a material adverse effect on business or operations. We also receive complaints and inquiries in the ordinary course of our business from both customers and governmental and non-governmental bodies on behalf of customers. To date we have been able to resolve these matters on a mutually satisfactory basis.

Effective January 10, 2001, we entered into severance agreements with each of Keith Freadhoff and Donald Corliss, former officers and directors of our company. In consideration for the following, Messrs. Freadhoff and Corliss agreed to release us from the provisions of their respective employment agreements: engagement as a consultant and payment of consulting fees, reimbursement of business expenses, continuation of health insurance benefits for six months, the granting of a license to the code base of the ICC, an interest in a server and a grant of options to purchase our common stock proportionate to any options granted to Donald Danks. On August 30, 2001, Mr. Freadhoff and Mr. Corliss issued a demand letter to us, claiming that the payments stipulated in the severance agreements had not been made and purporting to reassert their rights under their respective employment agreements. These demands were subsequently resolved and withdrawn.

David Bassett-Parkins our former chief financial officer and chief operating officer, and Hahn Ngo, our former executive vice president operations, each delivered notice of intent to terminate their respective employment agreements for "good reason," as that term is defined in his or her employment agreement. Each of them has claimed that, under his or her employment agreement, he or she was entitled to a lump sum severance payment as a result of terminating his or her employment for "good reason." We entered into negotiations with Mr. Bassett-Parkins and Ms. Ngo regarding their claims and other matters and now believe, due to their failure to pursue their claims or further negotiations concerning such claims, that the parties have abandoned their claims, though no agreement was entered into or payments made by us to these parties.

On October 23, 2001, we signed an Agreement and Plan of Merger with Category 5 Technologies, Inc. ("C5T"), pursuant to which, subject to stockholder approval, we would be acquired through a merger of a subsidiary of C5T into us. On January 15, 2002, we and C5T issued a joint press release to announce execution on January 14, 2002 of a Termination and Release Agreement to terminate the Agreement and Plan of Merger and to abandon the merger contemplated by such agreement. Pursuant to and upon the terms and conditions contained in the Termination and Release Agreement, we agreed to pay a reimbursement fee of $260,630 in various monthly installments of at least $20,000 to C5T in connection with the termination of the merger. We did not pay our first monthly installment under the Termination and Release Agreement due on February 1, 2002. On February 8, 2002, we received notice from C5T that we were in default under the Termination and Release Agreement, and on February 12, 2002, we received an acceleration notice whereby C5T demanded payment of the entire reimbursement fee plus interest by February 18, 2002. The February 18, 2002 payment was not made. On April 8, 2002 C5T caused us to be served with a Summons and Complaint in the Third Judicial District Court in and for Salt Lake County, State of Utah, Case No. 020902991, whereby C5T seeks judgment against us for breach of the Agreement and damages for the full amount of the Expense Reimbursement Fee. On April 11, 2002 we entered into a Waiver Agreement with C5T whereby payments due under the Termination Agreement are postponed for one year. Under the Waiver Agreement, the first payment will be due on February 1, 2003. The lawsuit has not, however, been withdrawn and we have been given an extension of time to respond. We do not believe we are obligated to pay the Expense Reimbursement Fee; however, we are continuing to evaluate this situation and are working to resolve it. Due to the uncertainty of the outcome, the entire $260,630 fee has been accrued by us and is carried as a current liability.

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

On June 28, 2002, a special meeting of our stockholders was held to consider two amendments to our Certificate of Incorporation: (i) to effect a one-for-ten reverse split of the issued and outstanding shares of our common stock and reduce the authorized number of shares of common stock from 250,000,000 to 100,000,000; and (ii) to change our name to "Imergent, Inc." 107,772,045 shares of our common stock were entitled to vote at the meeting, and of this amount, 63,424,333 shares were present in person or were represented by proxy at the special meeting. The first proposed amendment was approved, and the following votes were cast in respect of this proposal: for: 62,457,425; against: 505,198; abstain: 461,710. The second proposed amendment was also approved, and the following votes were cast in respect of this proposal: for: 63,248,098; against: 110,801; abstain: 65,434.

The amendments to our Certificate of Incorporation became effective on July 2, 2002. As a result of the reverse stock split, every ten shares of our existing common stock were converted into one share of our new common stock under our new name, Imergent, Inc. Fractional shares resulting from the reverse stock split were settled by cash payment. These amendments have been retroactively reflected in this Annual Report on Form 10-K.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.

Market Information

Our common stock has traded on the Nasdaq OTC Bulletin Board since July 3, 2002 under the symbol "IMGG." From January 10, 2001 to July 2, 2002, our common stock traded on the OTC Bulletin Board under the symbol "NGWY." Between November 18, 1999 and January 9, 2001, our common stock traded on The Nasdaq National Market under the symbol "NGWY." The following table sets forth the range of high and low bid prices as reported on The Nasdaq National Market or the Nasdaq OTC Bulletin Board, as applicable, for the periods indicated, all of which preceded our reverse split.

	High	Low
Fiscal 2002		
First Quarter	$7.20	$2.60
Second Quarter	5.50	2.70
Third Quarter	3.70	0.90
Fourth Quarter	1.80	0.85
Fiscal 2001		
First Quarter	24.40	7.80
Second Quarter	10.00	1.60
Third Quarter	6.90	1.60
Fourth Quarter	7.50	2.80

These bid prices indicate the prices that a market maker is willing to pay. These quotations do not include retail markups, markdowns or other fees and commissions and may not represent actual transactions.

Security Holders

There were approximately 720 holders of record of our shares of common stock as of September 30, 2002

Dividends

We have never paid any cash dividends on our common stock and we anticipate that we will retain future earnings, if any, to finance the growth and development of our business. Therefor, we do not anticipate paying any cash dividends on our shares for the foreseeable future.

Equity Compensation Plan Information

The following table and note provide information about shares of our common stock that were issuable as of June 30, 2002 (prior to the effective date of our reverse stock split) pursuant to exercise of options under all of our existing equity compensation plans.

Plan Category	Number of securities to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	128,125 (1)	$28.40	370,625
	8,432 (2)	$33.20	65,613
	106,001 (3)	$33.50	385,530
Equity compensation plans not approved by security holders	70,707 (4)	$15.60	-

Total	313,265	$23.30	821,768

(1) To be issued under our 1998 Stock Option Plan for Senior Executives. This plan provided for the grant of options to purchase up to 5,000,000 shares of common stock (500,000 shares after giving effect to the one for ten reverse split) to our senior executives. Options may be either incentive stock options or non-qualified stock options under Federal tax laws.

(2) To be issued under our 1998 Stock Compensation Program. This program provided for the grant of options to purchase up to 1,000,000 shares of common stock (100,000 shares after giving effect to the one for ten reverse split) to officers, employees, directors and independent contractors and agents. Options may be either incentive stock options or non-qualified stock options under Federal tax laws.

(3) To be issued under our 1999 Stock Option Plan for Non-Executives. The number of shares of stock available for grant under this plan was set at 5,000,000 (500,000 shares after giving effect to the one for ten reverse split). Options granted under this plan generally become exercisable in increments over a period of up to three years.

(4) To be issued under the 1997 Employee Stock Option Plan of Galaxy Enterprises, Inc. This plan was assumed by us pursuant to the terms of our merger with Galaxy Enterprises in June 2000.

Recent Sales of Unregistered Securities

During the quarter ended June 30, 2002, we sold by way of the private placement commenced in the third quarter of fiscal 2002, a total of 6,092,868 (post-reverse split) additional shares of our common stock for aggregate additional consideration of $2,437,147. Commissions of $107,857 were paid in connection with these sales. In our opinion, the offer and sale of these shares were exempt by virtue of Section 4(2) of the Securities Act and the rules promulgated thereunder.

On June 12, 2002, we issued 112,500 (post-reverse split) shares of common stock to SBI and its designees for services in connection with our private placement that closed in May 2002. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Related Party Transactions." In our opinion, the offer and sale of these shares were exempt by virtue of Section 4(2) of the Securities Act and the rules promulgated thereunder.

On June 20, 2002 we issued 20,000 (post-reverse split) shares of common stock to Howard Effron for services rendered to us as a financial advisor. In our opinion, the offer and sale of these shares were exempt by virtue of Section 4(2) of the Securities Act and the rules promulgated thereunder.

Item 6. Selected Financial Data

The following selected restated consolidated financial data should be read in conjunction with our consolidated financial statements and related notes thereto and Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and reflect the acquisitions of Infobahn Technologies, LLC (d/b/a Digital Genesis) completed on June 2, 1998, Spartan Multimedia, Ltd. completed on January 15, 1999 and Galaxy Enterprises, Inc. completed on June 26, 2000. The acquisition of Galaxy Enterprises, Inc. was accounted for as a pooling-of-interests. Accordingly, all periods prior to the acquisition have been restated. The consolidated statement of operations data for each of the years in the three-year period ended June 30, 2002, and the consolidated balance sheet data at June 30, 2002 and 2001 are derived from our consolidated financial statements and are included elsewhere in this document. Prior to the combination, Galaxy Enterprises' fiscal years ended on December 31. In recording the pooling-of-interests, Galaxy Enterprises' financial statements for the years ended December 31, 2000 and 1999 have been restated to conform to our fiscal years ended June 30, 2000 and 1999. The restatement of Galaxy Enterprises' results include a duplication of operations for the period from July 1, 1998 to December 31, 1998. As a result, we have eliminated the related income of $1,733,441 from accumulated deficit for fiscal 1999, which includes $3.7 million in revenue, and Galaxy Enterprises' financial statements for the year ended December 31, 1998 have been combined with our financial statements for the period from March 4, 1998 (inception) through June 30, 1998. Historical results are not necessarily indicative of the results to be expected in the future.

	Year Ended				
	June 30, 2002	June 30, 2001	June 30, 2000	June 30, 1999	June 30, 1998
Consolidated Statement of Operations Data:	(in thousands except per share amounts)				
Revenue	$ 37,351	$ 43,001	$ 22,150	$ 10,280	$ 7,268
Income (loss) from continuing operations	2,199	(4,315)	(42,790)	(16,797)	(8,521)
Income (loss) from discontinued operations	---	(286)	(1,319)	3	-

Extraordinary items	---	962	-	1,653	-
Net income (loss)	2,199	(3,639)	(44,109)	(15,141)	(8,521)
Basic and diluted (loss) income per share:					
Income (loss) from continuing operations	0.37	(1.94)	(23.12)	(13.40)	(9.70)
Loss from discontinued operations	---	(0.12)	(0.71)	-	-
Extraordinary items	---	0.43	-	1.32	-
Net income (loss) per common share	0.37	(1.63)	(23.83)	(12.08)	(9.70)
Weighted average common shares outstanding					
Basic	5,874	2,228	1,851	1,254	879
Diluted	5,878	2,228	1,851	1,254	879

Consolidated Balance Sheet Data:	As of June 30				
	2002	2001	2000	1999	1998
Cash	520	$ 149	$ 2,607	$ 968	$ 279
Working capital (deficit)	289	(11,352)	(14,845)	(9,292)	(8,733)
Total assets	7,377	6,055	11,851	5,353	2,041
Short-term debt	242	3,759	409	1,535	2,152
Long-term debt	421	442	-	-	383
Stockholders' equity (capital deficit)	2,469	(9,307)	(10,776)	(8,106)	(7,692)

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This management's discussion and analysis of financial condition and results of operations and other portions of this report contain forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated by this forward-looking information. Factors that may cause such differences include, but are not limited to, those discussed under the heading "Risk Factors" and elsewhere in this report. This management's discussion and analysis of financial condition and results of operations should be read in conjunction with the financial statements and the related notes included elsewhere in this report.

General

During the fiscal year ended June 30, 2000 and the first six months of fiscal year 2001 we incurred large losses and our liquidity was severely strained. It was not possible to continue operations without significant changes. In January 2001, we implemented a restructuring process intended to allow us to begin to operate on a cash flow positive basis. The Internet Commerce Center (ICC) division and the CableCommerce division were reduced to a maintenance staff supporting existing customers, and all other employees were laid off. Our wholly-owned subsidiary, IMI, Inc., also sometimes referred to as Impact Media, was sold. We entered into an agreement with a third party to negotiate compromise payment schedules with non-essential vendors for less than the full amount owed. In addition, key management employees agreed to voluntarily reduce their salaries.

This restructuring allowed us to focus our attention and resources on our core Galaxy Mall business which was subsequently rebranded as StoresOnline. During the subsequent 18 months, approximately $7.2 million was raised through private placements of convertible notes and common stock the proceeds of which were used to provide working capital for the business, to partially repay our long term debt and pay our past due accounts payable. The following discussion of the results of operations further expands on the effects of these changes.

Reverse Stock Split

On June 28, 2002, our stockholders approved amendments to our Certificate of Incorporation to change our corporate name to "Imergent, Inc." and to effect a one-for-ten reverse split of the issued and outstanding shares of our common stock and reduce the authorized number of shares of common stock from 250,000,000 to 100,000,000. These changes were effected July 2, 2002. As a result of the reverse stock split, every ten shares of our existing common stock was converted into one share of our new common stock under our new name, Imergent, Inc. Fractional shares resulting from the reverse stock split were settled by cash payment. Throughout this discussion references to numbers of shares and prices of shares have been adjusted to reflect the reverse stock split.

Review by the Securities and Exchange Commission

On March 6, 2002, the Securities and Exchange Commission ("SEC") notified us that they reviewed our annual report filed on Form 10-K for the fiscal year ended June 30, 2001 and our quarterly report on Form 10-Q for the quarter ended September 30, 2001. They sent us their letter of comment pointing out areas of concern and requesting that we answer their questions and provide additional information. During the ensuing six months, we exchanged correspondence with members of the SEC staff and provided them with additional information. On September 24, 2002 in a telephone conference call with the SEC staff, we resolved certain of the more material issues; however we must still respond to other comments from staff in their letter dated August 5, 2002. We believe that these remaining comments will be satisfactorily resolved.

Fluctuations in Quarterly Results and Seasonality

In view of the rapidly evolving nature of our business and our limited operating history, we believe that period-to-period comparisons of our operating results, including our gross profit and operating expenses as a percentage of net sales, are not necessarily meaningful and should not be relied upon as an indication of future performance.

While we cannot say with certainty the degree to which we experience seasonality in our business because of our limited operating history, our experience to date indicates that we experience lower sales from our core business during our first and second fiscal quarters. We believe this to be attributable to summer vacations and the Thanksgiving and December holiday seasons.

Merger of Imergent, Inc. and Galaxy Enterprises, Inc.

On June 26, 2000, we completed the merger of Galaxy Enterprises, Inc. into one of our wholly owned subsidiaries. The merger was accounted for as a pooling-of-interests. Accordingly, our historical consolidated financial statements and the discussion and analysis of financial condition and results of operations for the prior periods have been restated to include the operations of Galaxy Enterprises, Inc. as if it had been combined with our Company at the beginning of the first period presented.

The financial statements for the years ended June 30, 2001 and 2000 have been reclassified to conform to fiscal year 2002 presentation, including disclosures for discontinued operations.

Critical Accounting Policies and Estimates

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America 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.

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

Revenue Recognition

During the year ended June 30, 2001 the Company changed its product offering at its Internet training workshops. The date of the change was October 1, 2000, the beginning of our second fiscal quarter of fiscal year 2001. Prior to that time, customers were sold a service consisting of the construction of Internet websites for their business, which service was to be provided at any time during the 12 months following the sale. Included in the price paid for this service was one year's hosting beginning when the website was published. Revenue from these transactions was deferred at the time of sale and recognized as the services were rendered or when the right to receive the services terminated.

Beginning October 1, 2000, we discontinued selling the service and in its place sold a new product called the StoresOnline Software ("SOS"). The SOS is a software product that enables the customer to develop their Internet website without additional assistance from us. When a customer purchases a SOS at one of our Internet workshops, he or she receives a CD-ROM containing programs to be used with their computer and a password and instructions that allow access to our website where all the necessary tools are present to complete the construction of the customer's website. When completed, the website can be hosted with us or any other provider of such services. If they choose us there is an additional setup and hosting fee (currently $150) for publishing and 12 months of hosting. This fee is deferred at the time of sale and recognized during the subsequent 12 months.

The revenue from the sale of the SOS is recognized when the product is delivered to the customer. We accept cash and credit cards as methods of payment and we offer 24-month installment contracts to customers who prefer an extended payment term arrangement. We offer these contracts to all workshop attendees not wishing to use a check or credit card provided they complete a credit application, give us permission to independently check their credit and are willing to make an appropriate down payment. Installment contracts are carried on our books as a receivable and the revenue generated by these installment contracts is recognized when the product is delivered to the customer and the contract is signed. This new revenue recognition policy was in effect for the last three quarters of fiscal year 2001 and for all of fiscal year 2002.

SOP 97-2 states that revenue from the sale of software should be recognized when the following four specific criteria are met: 1) persuasive evidence of an arrangement exists, 2) delivery has occurred, 3) the fee is fixed and determinable and 4) collectibility is probable. All of these criteria are met when a customer purchases the SOS product. The customer signs one of our order forms and a receipt acknowledging a sale and receipt and acceptance of the product. As is noted on the order and acceptance forms, all sales are final. All fees are fixed and final. Some states require a three-day right to rescind the transaction. Sales in these states are not recognized until the rescission period has expired. We offer customers the option to pay for the SOS with Extended Payment Term Arrangements (EPTAs). The EPTAs generally have a twenty-four month term. We have a standard of using long-term or installment contracts and have a four-year history of successfully collecting under the original payment terms without making concessions. Over the past four years, we have collected or are collecting approximately 70% to 80% of all EPTAs issued to

customers. Not all customers live up to their obligations under the contracts. We make every effort to collect on the EPTAs, including the engagement of professional collection services. Despite our efforts, approximately 20 percent of all EPTAs are determined to be uncollectible. All uncollectible EPTAs are written off against an allowance for doubtful accounts, which allowance is established at the time of sale based on our four-year history of extending EPTAs. As a result, revenue from the sale of the SOS is recognized upon the delivery of the product.

Allowance for Doubtful Accounts

We record an allowance for doubtful accounts and disclose the associated expense as a separate line item in operating expenses. The allowance, which is netted against our current and long term accounts receivable balances on our consolidated balance sheets, totaled approximately $3.3 million and $3.7 million as of June 30, 2002 and June 30, 2001, respectively. The amounts represent estimated losses resulting from the inability of our customers to make required payments. The estimates are based on historical bad debt write-offs, specific identification of probable bad debts based on collection efforts, aging of accounts receivable and other known factors. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

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 actual current tax liabilities together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities which are included within the consolidated balance sheet, as applicable. Our deferred tax assets consist primarily of net operating losses carried forward. We then assess the likelihood that deferred tax assets will be recovered from future taxable income, and, to the extent that we believe that recovery is not more likely than not, we establish a valuation allowance. We have provided a valuation allowance against all of our net deferred tax assets at June 30, 2002 and 2001. To the extent we establish a valuation allowance against our deferred tax assets or change this valuation allowance in a period, we reflect the impact in the tax provision for (benefit from) income taxes in the consolidated statements of operations.

Related Party Transactions

During the fiscal year ended June 30, 2002 we derived approximately $5,100,000, or 14%, of our total revenues, from the sale to our customers of a product which allows the customer to accept credit card payments for goods and services sold by them through their website. In the past, we have experienced difficulty in maintaining the arrangements that allow us to offer this product to our customers and have experienced difficulty in establishing such a product for resale at our workshops held outside the United States. In addition, from time to time, credit card issuing organizations make changes that affect this product which could negatively impact, or preclude, our offering this product for sale in the United States in its present form. We presently obtain this product for resale from Electronic Commerce International, Inc. ("ECI"), the sole shareholder of which was John J. Poelman, our chief executive officer and one of our directors and stockholders, who, effective October 1, 2002, sold his interest in ECI to an unrelated third party. Were we to lose our access to this product or if its cost increases our business would be severely and negatively impacted and were we not to be able to obtain a comparable product for resale outside the United States our ability to successfully execute our international expansion would be compromised.

Total revenue generated by us from the sale of ECI merchant account solutions was $5,106,494, $6,403,478 and $2,412,800 for the years ended June 30, 2002, 2001 and 2000, respectively. The cost to us for these products and services totaled $994,043, $975,257 and $1,110,404 for the years ended June 30, 2002, 2001 and 2000, respectively. During the years ended June 30, 2002, 2001 and 2000, we processed leasing transactions for customers through ECI in the amounts of $1,090,520, $3,386,231, and $2,450,292, respectively. As of June 30, 2002 and 2001, we had a receivable from ECI for leases in process of $0 and $90,109, respectively. In addition, we have $26,702 and $516,858 recorded in accounts payable as of June 30, 2002 and 2001, respectively, relating to the amounts owed to ECI for the purchase of its merchant account product.

We offer our customers at our Internet training workshops, and through backend telemarketing sales, certain products intended to assist the customer in being successful with their business. These products include live chat and web traffic building services. We utilize Electronic Marketing Services, LLC. ("EMS") to fulfill these services to our customers. In addition, EMS provides telemarketing services, selling some of our products and services to those who do not purchase at our workshops and to other leads. Ryan Poelman, who owns EMS, is the son of John J. Poelman, Chief Executive Officer, a director and a stockholder of the Company. Our revenues realized from the above products and services were $4,806,497, $1,263,793 and $0 for the years ended June 30, 2002, 2001 and 2000, respectively. We paid EMS $479,984, $78,435, and $0 to fulfill these services during the years ended June 30, 2002, 2001 and 2000, respectively.

We engaged vFinance Investments, Inc. ("vFinance") as a financial advisor and placement agent for our private placement of unregistered securities that closed during May 2002. Shelly Singhal a former member of the Company's Board of Directors was a principal of vFinance at the time of the private placement. During the year ended June 30, 2002 the company paid vFinance $61,500 in fees and commissions for their services. The offering was successful with adjusted gross proceeds to the Company of $2,185,995.

We engaged SBI-E2 Capital USA Ltd. ("SBI") as a financial consultant to provide us with various financial services. Shelly Singhal a former member of

the Company's Board of Directors is a managing director of SBI. During the year ended June 30, 2002 SBI provided us with a Fairness Opinion relating to our proposed merger with Category 5 Technologies, for which we paid $67,437, and additional $85,000 is still payable to SBI for that opinion as of June 30, 2002.

We also paid SBI $58,679 for expenses and commissions relating to our private placement of unregistered securities that closed during November 2001. The offering was successful with adjusted gross proceeds to us of $2,803,466.

Pursuant to an agreement dated February 15, 2002, SBI also rendered certain financial advisory services to us in connection with our private placement that closed in May 2002, including delivery of a fairness opinion with respect to such private placement. Pursuant to this agreement, we paid SBI a total of $40,000 and issued to SBI and various of its designees an aggregate of 112,500 shares of our common stock.

During the 12 months ended June 30, 2001, we issued 12,500 warrants to Shelly Singhal for non-director services rendered. The warrants were valued at $40,657.

In each of the above-described transactions and business relationships, we believe that the terms under which business is transacted with all related parties are at least as favorable to us as would be available from an independent third party providing the same goods or services.

Results of Operations

Years Ended June 30, 2002 and 2001

Revenue

Revenues for the year ended June 30, 2002 decreased to $37,350,850 from $43,000,533 in the prior fiscal year, a decrease of 13%. Some revenues generated at our Internet training workshops for fiscal year 2001 were from the design and development of Internet web sites and the sale of the SOS product as described above, while in fiscal year 2002 revenues from the same source were from the SOS product only. Other revenues include fees charged to attend the workshop, web traffic building products, mentoring, consulting services, access to credit card transaction processing interfaces and sales of banner advertising. We expect future operating revenue to be generated principally following a business model similar to the one used in fiscal year 2002. The Internet environment continues to evolve, and we intend to offer future customers new products as they are developed. We anticipate that our offering of products and services will evolve as some products are dropped and are replaced by new and sometimes innovative products intended to assist our customers achieve success with their Internet-related businesses.

Formerly we reported product sales that came from our subsidiary, IMI, Inc. On January 11, 2001, we sold IMI. Accordingly, IMI operations from this and prior periods are now reported as discontinued operations in the accompanying consolidated statement of operations.

The decrease in revenues from fiscal 2001 to 2002 can be attributed to various factors some of which increased revenues while others caused the decline. There was a decrease in the number of Internet training workshops conducted during the years. The number decreased to 258 workshops for the current fiscal year from 337 in the fiscal year ended June 30, 2001, however the average number of persons attending each workshop increased which partially offset the total reduction of attendees during the year. This, in addition to an increase in the sales price of the product, had a net effect of decreasing revenues by approximately $1,450,000. Due to our lack of cash and because of unfavorable economic conditions during the first two quarters of fiscal 2002 it was necessary to reduce the number of workshops held and use our limited resources to attract the maximum number of attendees to these fewer workshops. We will seek to continue to hold workshops with a larger number of attendees in future years. We will seek to increase the number of these larger workshops during fiscal year 2003. During October and November 2001, we conducted workshops on a test basis in New Zealand and Australia for the first time. The workshops were moderately successful and we returned to these markets to conduct additional workshops during the forth quarter of fiscal 2002. Revenues from international workshops in fiscal year 2002 were $663,790.

Approximately 35% percent of primary workshop attendees (not including their guests) made purchases at our workshops during fiscal year 2002. This percentage remained approximately the same as has been our experience historically.

The principal cause of the reduction in revenue during the fiscal year ended June 30, 2002 was the loss of a benefit, beginning during the third quarter of fiscal 2002, of the recognition of revenue deferred from historical workshop sales at rates greater than the level at which revenue was required to be deferred from current period. This benefit resulted from a change in the business model and product offering at these workshops as noted above. This benefit has now been fully realized and we do not expect it to reoccur. We anticipate that in future years the amount of revenue recognized from earlier periods will be approximately equal to that deferred into future periods. If we should enjoy a rapid growth rate, it is possible that during any one quarter the amount of revenue deferred into future periods will exceed that recognized during the same quarter from sales in prior periods.

During the year ended June 30, 2002, we recognized $5,789,410 in revenue from sales made in prior fiscal years and we deferred revenue from fiscal year 2002 of $461,376 to future years. The net change increased revenues for fiscal year 2002 by $5,328,034. The beneficial deferred revenue impact on fiscal year 2002 occurred only during the first two quarters. Thereafter the amount of revenue recognized from earlier quarters was approximately equal to that deferred into future periods.

During the year ended June 30, 2001, we recognized $14,534,542 in revenue

from sales made in prior fiscal years and we deferred revenue from fiscal year 2001 of $5,073,856 to future years. The net change increased revenues for fiscal year 2001 by $9,460,686.

Effective January 1, 2002, we began making our product offerings through our StoresOnline subsidiary rather than our Galaxy Mall subsidiary. This culminated an eighteen month long plan to fully incorporate the SOS throughout the engineering and programming departments, servers and infrastructure and to move away from a mall-based hosting environment. Our services have been used for several years by non-mall based merchants, and we believe that principles taught by us work equally well for standalone websites, as they do with sites hosted on the mall. Although Galaxy Mall remains an active website, all new customers are sold the SOS through our StoresOnline previews and workshops.

Effective January 1, 2002, the payment options available to customers at our Internet Training Workshops were changed to eliminate the lease finance option. Although approximately 25% of our customers chose the lease finance option during calendar year 2001, we do not believe that the elimination of this option will materially adversely affect the number of customers who purchase at our workshops because we will continue to offer an installment contract payment alternative. Total sales that were financed by our customers either through leases or installment contracts were $11,984,881 in fiscal year 2002 and $17,386,728 in fiscal year 2001.

Gross Profit

Gross profit is calculated as revenue less the cost of revenue, which consists of the cost to conduct Internet training workshops, to program customer storefronts, to provide customer technical support and the cost of tangible products sold. Gross profit for the fiscal year ended June 30, 2002 decreased to $30,825,050 from $34,574,958 in the prior year. The decrease in gross profit primarily reflects the decreased sales volume related to the decrease in the number of Internet training workshops and the reduced level of benefit from the recognition of deferred revenue at rates in excess of the rates at which revenue is deferred from the current period sales to future periods as noted below.

Gross profit percentages, however, increased for the fiscal year ended June 30, 2002 to 83% of revenue from 80% of revenue for the fiscal year ended June 30, 2001. The increase in gross profit as a percentage of revenue is due to several factors: the new product sold at the workshop, the SOS, transferred much of the cost of website construction from us to the customer, thus lowering the cost of revenue from this type of sale; new programming tools and stringent cost controls increased the productivity of the support group our customers use; our cost for the online, real time credit card processing product delivered to workshop customers decreased; hosting revenues increased with minimal incremental cost being added to accommodate the new customers; and the cost of conducting our Internet training workshops remaining relatively constant per workshop, while the average number of attendees at each workshop and the selling price of the products delivered at the workshops both increased.

We anticipate that gross profit as a percentage of revenue will decline in fiscal year 2003 from the 83% achieved in fiscal year 2002. This decline is expected because there will be no increased revenues as a result of the deferred revenue amortization discussed above. We believe the achievable gross profit percentage in future periods will be approximately 70%, similar to what was historically experienced by us without regard to the amortization of the deferred revenue during the fiscal year ended June 30, 2001.

Cost of revenues includes related party transactions of $994,043 in fiscal year 2002 and $975,257 in fiscal year 2001. These are more fully described in the notes to the financial statements as Note 21. We have determined that the terms under which business is transacted with all related parties are at least as favorable to us as would be available from an independent third party providing similar goods or services.

Product Development

Product development expenses consist primarily of payroll and related expenses. Product development expenses for the fiscal year ended June 30, 2002 decreased to $51,805 from $1,804,986 in the prior fiscal year. Product development expenses in fiscal year 2001 were mostly the development expenses for the Internet Commerce Center (ICC) and were largely incurred during the first two fiscal quarters of that year. We have completed the basic development of the ICC, as redefined by us. We continue to develop SOS enhancements, but there are no other major development projects underway at this time.

We intend to make enhancements to our technology as business opportunities present themselves, but our business model currently contemplates that in most cases we will seek to pass these costs to our customers. We intend to expense these costs as incurred. We will undertake additional development projects as the needs are identified and as the funds to undertake the work are available.

Selling and Marketing

Selling and marketing expenses consist of payroll and related expenses for sales and marketing, the cost of advertising, promotional and public relations expenditures and related expenses for personnel engaged in sales and marketing activities, and commissions paid to telemarketing companies. Selling and marketing expenses for the fiscal year ended June 30, 2002 decreased to $14,020,571 from $20,949,758 in the fiscal year 2001. The decrease in selling and marketing expenses is primarily attributable to the decrease in the number of workshops held during the current year and the associated expenses including advertising and promotional expenses necessary to attract attendees. Advertising expenses for fiscal 2002 were approximately $5.3 million compared to $6.0 million in fiscal 2001. The decrease is also attributable to the fact that we incurred no marketing expenses in fiscal year 2002 with respect to our ICC and CableCommerce products and services, whereas during fiscal year 2001 there were approximately $1,700,000 in selling and marketing expenses associated with our

ICC and CableCommerce divisions. Selling and marketing expenses as a percentage of sales decreased to 38% of revenues for the current fiscal year from 49% in the previous 12-month period. We expect selling and marketing expenses to increase as a percentage of revenues in the future due to the effects of deferred revenue recognition explained above.

Selling and marketing expense includes related party transactions of $479,984 in fiscal year 2002 and $78,435 in fiscal year 2001. These are more fully described in the notes to the financial statements as Note 21. We have determined, based on competitive bidding and experience with independent vendors offering similar products and services, that the terms under which business is transacted with related parties are at least as favorable to us as would be available from an independent third party.

General and Administrative

General and administrative expenses consist of payroll and related expenses for executive, accounting and administrative personnel, professional fees and other general corporate expenses. General and administrative expenses for the fiscal year ended June 30, 2002 decreased to $5,691,434 from $7,083,426 in the previous fiscal year. This decrease is primarily attributable to the decrease in payroll and related expenses that resulted from a reduction in the size of our workforce, a reduction in the salaries of retained management personnel, elimination of certain consulting fees associated with financial public relations firms, and a reduction in legal expenses. Further cost reductions at current revenue levels are unlikely. We anticipate that general and administrative expenses will increase in future years as our business grows.

Bad Debt Expense

Bad debt expense consists mostly of actual and anticipated losses resulting from the extension of credit terms to our customers when they purchase products from us. We encourage customers to pay for their purchases by check or credit card since these are the least expensive methods of payment, but we also offer installment contracts with payment terms up to 24 months. We offer these contracts to all workshop attendees not wishing to use a check or credit card provided they complete a credit application, give us permission to independently check their credit and are willing to make an appropriate down payment. These installment contracts are sold to various finance companies, with partial or full recourse, if our customer has a credit history that meets the finance company's criteria. If not sold, we carry the contract and out-source the collection activity. Our collection experience with these 24-month contracts is satisfactory given the cost structure under which we operate. The sum of the collected contracts plus the original principal balance of those currently active as a percent of the original total value of the contracts in prior fiscal years are: Fiscal year 1999 = 70%, Fiscal year 2000 = 77%, Fiscal year 2001 = 77%. All contracts from fiscal years 1999 and 2000 have reached the end of their term, while some contracts from fiscal year 2001 are still active.

Bad debt expense was $6,675,238 in the fiscal year ended June 30, 2002 compared to $3,475,492 in the prior fiscal year. The increase is principally due to an increase in the number of installment contracts carried by us. During the first six months of fiscal year 2002 there were no finance companies willing to purchase our contracts so we carried them ourselves. In January 2002, we were once again able to sell contracts to a finance company, but on terms that were less favorable than we had experienced in the past. The new finance company agreed to purchase contracts only if they had full recourse on any uncollectable contracts. We accepted these terms and as a result have incurred increased bad debts. Based on our recent history it was necessary to increase the allowance for doubtful accounts to provide for future losses. This increased bad debt expense for fiscal 2002 by $1,089,798.

Depreciation and Amortization

Depreciation and amortization expenses consist of a systematic charge to operations for the cost of long-term equipment and amortization of the goodwill associated with the purchase of other businesses. Depreciation and amortization expenses for the fiscal year ended June 30, 2002 decreased to $668,730 from $1,296,519 in the prior 12-month period. This decrease was due to the disposal of some computer equipment and other assets as well as from reduced amortization due to the write-off of the goodwill associated with our StoresOnline (Canada) subsidiary. In future periods, goodwill will no longer be amortized based on SFAS 142 which could further reduce amortization expense.

Writedown of Goodwill and Acquired Technology

At December 31, 2000, we wrote off the goodwill relating to our StoresOnline (Canada) subsidiary in the amount of $834,331 and the acquired technology and goodwill related to our Digital Genesis operation in the amount of $250,145. It was determined that the assets and technology were no longer being used and had no market value. This write-off reduced the goodwill amortization for fiscal year 2002 compared to fiscal 2001.

Interest Expense

Interest expenses for the fiscal year ended June 30, 2002 decreased to $1,950,687 from $3,287,905 in fiscal 2001. Included in interest expense in fiscal 2002 are $212,463 relating to the conversion of an 8% convertible debenture issued to King William, LLC into common stock and $1,666,957 relating to the conversion into common stock of convertible long term notes held by investors who participated in a private placement of the notes in January and April 2001. Upon conversion of these items the debt discount previously recorded was written off in the current fiscal year instead of being amortized over the life of the notes.

Included in interest expense in the fiscal year ended June 30, 2001 is a one-time charge of $884,000 relating to the fair value of the beneficial conversion feature of an 8% convertible debenture issued to King William, LLC,

the amortization of the discount relating to the beneficial conversion feature, warrants issued in connection with the sale by us of convertible notes in January and April 2001 and the actual interest accrued on the debenture and notes.

Interest expense is anticipated to be significantly less in fiscal year 2003 due to the reduction in debt carried on our balance sheet.

Discontinued Operations

In January 2001, we sold our subsidiary, IMI, Inc. to a third party as discussed above. As a result, the loss from discontinued operations is listed on a separate line item in the statement of operations. The loss from discontinued operations for fiscal year 2001 was $285,780.

Extraordinary Items

In January 2001, we entered into an agreement with an unrelated third party to negotiate settlement agreements with vendors and other debtors, relating mainly to the B2B and CableCommerce divisions, in an effort to improve our financial condition. It was important to remove some of the debts so we could attract the outside capital investment necessary to keep us solvent and provide for future growth. We settled approximately $2.5 million in obligations in this manner, resulting in an extraordinary gain of $1,688,956.

In December 2000, certain equipment and software related to closed operations in Long Beach, California and American Fork, Utah were taken out of service and disposed of resulting in a loss of $1,091,052. Additionally, there was a gain on the disposal of IMI, Inc. in the fiscal year ended June 30 , 2001 of $363,656.

The total gain of all extraordinary items for the fiscal year ended June 30, 2001 was therefore $961,560. There was no extraordinary item in the fiscal year ended June 30, 2002.

Income Taxes

Fiscal year 2002 is the first profitable year for the Company since its inception. We have net operating loss carry forwards sufficient to reduce our pretax profits to zero, therefore, we have not paid or accrued any federal income taxes in this or prior fiscal years.

Years Ended June 30, 2001 and 2000

Revenue

Revenues for the year ended June 30, 2001 increased to $43,000,533 from $22,149,649 in the prior fiscal year, an increase of 94%. Operating revenues for both years are from the design and development of Internet web sites and related consulting projects, revenues from our Internet training workshops (including attendance at the workshop, rights to activate web sites and hosting), sales of banner advertising, web traffic building products, mentoring and transaction processing.

Formerly we reported product sales that came from our subsidiary, IMI, Inc. On January 11, 2001, we sold IMI for $1,631,589, including $1,331,589 owed to us by IMI at the time of the sale. We received a cash payment of $300,000 and a promissory note for the balance. Accordingly, IMI operations from this and prior periods are now reported as discontinued operations in the accompanying consolidated statement of operations.

The increase in revenues from fiscal 2000 to 2001 can be attributed to two major factors. First, there was an increase in the number of Internet training workshops conducted during the year. The number increased to 337 workshops for the current fiscal year from 250 in the fiscal year ended June 30, 2000.

The second factor contributing to the increased revenue was a change in the business model for our Internet workshop training business. Since October 1, 2000, the product sold to our customers at our Internet Training Workshop has been our SOS product. Under this new model, as discussed above, we now recognize all of the revenue generated at our Internet workshops at the time the SOS product is delivered. During the year ended June 30, 2001, we recognized $14,534,542 in revenue from sales made in prior fiscal years and we deferred revenue from the current fiscal year of $5,073,856 to future years. The net change increased revenues for fiscal year 2001 by $9,460,686.

Gross Profit

Gross profit for the fiscal year ended June 30, 2001 increased to $34,574,958 from $13,684,558 in the prior year. The increase in gross profit primarily reflects the increased sales volume of services provided through our Internet training workshops and the effect on revenues from the sale of the StoresOnline software as explained above.

Gross profit percentages increased for the fiscal year ended June 30, 2001 to 80% of revenue from 62% of revenue for the fiscal year ended June 30, 2000. The increase in gross profit as a percentage of revenue is due to several factors: additional revenue from prior product offerings recognized during fiscal 2001 from prior years had no corresponding cost of revenue; new programming tools and stringent cost controls increased the productivity of the support group our customers use; and the cost of conducting our Internet training workshops remaining relatively constant per workshop, while the number of workshops and the selling price of the products delivered at the workshops both increased. The percentage of attendees at the workshops who purchased the StoresOnline software remained approximately the same as it had been in the former business model.

Cost of revenues includes related party transactions of $975,257 in fiscal

year 2001 and $1,110,404 in fiscal year 2000. These are more fully described in the notes to the financial statements as Note 21. We believe that the terms under which business is transacted with all related parties are at least as favorable to us as would be available from an independent third party providing the same goods or services.

Product Development

Product development expenses for the fiscal year ended June 30, 2001 decreased to $1,804,986 from $6,462,999 in the prior fiscal year. Most of the expenses were for development of the Internet Commerce Center (ICC) and were incurred prior to December 2000. By the end of fiscal year 2001 we had completed the basic development of the ICC, as redefined by us.

Selling and Marketing

Selling and marketing expenses for the fiscal year ended June 30, 2001 increased to $20,949,758 from $18,536,486 in the previous 12-month period. The increase in selling and marketing expenses is primarily attributable to the increase in the number of workshops held during the year and the associated advertising and promotional expenses necessary to attract attendees. Advertising expenses in fiscal year 2001 were approximately $6.0 million compared to $5.9 million in fiscal 2000. During fiscal year 2001 there were approximately $1,700,000 in selling and marketing expenses associated with our ICC and CableCommerce divisions, down from approximately $4,500,000 in fiscal year 2000. Selling and marketing expenses as a percentage of sales decreased to 49% of revenues for the fiscal year 2001 from 84% in the previous 12-month period.

General and Administrative

General and administrative expenses for the fiscal year ended June 30, 2001 decreased to $7,083,426 from $24,517,450 in the previous fiscal year. This decrease is attributable to the decrease in payroll and related expenses that resulted from the relocation of our headquarters to Orem, Utah from Long Beach, California, the resignation of senior management personnel who were not replaced, a reduction in the salaries of retained management personnel and cutbacks in administrative staff associated with the reorganization of the ICC and CableCommerce divisions. During the fiscal year ended June 30, 2000, we incurred certain administrative expenses that were not repeated in fiscal 2001, consisting of one-time legal, accounting and other costs associated with the acquisition by us of Galaxy Enterprises, Inc., and the issuance of common stock for services in the amount of $3,660,498 and to executive officers in exchange for cancellation of options in the amount of $8,400,000.

During the first quarter of fiscal year 2001, we implemented our previously announced consolidation strategy to relocate our headquarters operation from Long Beach, California to Orem, Utah. The headquarters of our Galaxy Mall, Inc. subsidiary has been in Orem since 1997. We realized significant improvements in operations and savings in general and administrative expenses as a result of our relocation. The cost structure is more favorable in Orem due to lower prevailing wage rates in the local labor market, as well as lower costs for facilities, outside professional services and other costs of operations. Beginning in October 2000, we reduced personnel in accounting, the in-house legal department, and general administrative positions.

Bad Debt Expense

Bad debt expense consists mostly of actual and anticipated losses resulting from the extension of credit terms to our customers when they purchase products from us. We encourage customers to pay for their purchases by check or credit card since these are the least expensive methods of payment, but we also offer installment contracts with payment terms up to 24 months. We offer these contracts to all workshop attendees not wishing to use a check or credit card provided they complete a credit application, give us permission to independently check their credit and are willing to make an appropriate down payment. These installment contracts are sold to various finance companies, with partial or full recourse, if our customer has a credit history that meets the finance company's criteria. If not sold, we carry the contract and out-source the collection activity. Our collection experience with these 24-month contracts is satisfactory given the cost structure under which we operate.

Bad debt expense was $3,475,492 in the fiscal year ended June 30, 2001 compared to $1,159,022 in the prior fiscal year. The increase is principally due to the increase in the number of installment contracts accepted by us as the sales volume grew. At the time of a contract sale to a finance company 20% of the sales price is placed in a reserve account held by the finance company. If our customer does not make its payments on the contract, the finance company may charge the reserve for the unpaid balance previously funded to the extent there are funds available in the reserve account. At maturity of the customer contract, the net balance of the reserve is returned to us. One of the finance companies holding a reserve that may be due to us if the contracts are collected has experienced financial difficulties and may not be able to return these reserves. We therefore established a loss provision of approximately $950,000. This reserve is included in bad debt expense for fiscal year 2001.

Depreciation and Amortization

Depreciation and amortization expenses consist of a systematic charge to operations for the cost of long-term equipment and a write down of the goodwill associated with the purchase of other businesses. Depreciation and amortization expenses for the fiscal year ended June 30, 2001 increased to $1,296,519 from $1,191,143 in the prior 12-month period. This increase was due to the purchase of additional equipment and software.

Writedown of Goodwill and Acquired Technology

At December 31, 2000, we wrote off the goodwill relating to our StoresOnline (Canada) subsidiary in the amount of $834,331 and the acquired

technology and goodwill related to our Digital Genesis operation in the amount of $250,145. It was determined that the assets and technology were no longer being used and had no market value.

Interest Expense

Interest expense for the fiscal year ended June 30, 2001 decreased to $ 3,287,905 from $4,573,695 in the prior fiscal year. We included in interest expense in fiscal year 2001 a one-time charge of $884,000 relating to the fair value of the beneficial conversion feature of an 8% convertible debenture issued to King William, LLC, the amortization of the discount relating to the beneficial conversion feature, warrants issued in connection with the sale by us of convertible notes in January and April 2001 and the actual interest accrued on the debenture and notes. We repaid the various debt instruments primarily attributable to the interest expense for fiscal year ended June 30, 2000.

Discontinued Operations

In January 2001, we sold our subsidiary, IMI, Inc. to a third party as discussed above. As a result, the gain or loss from discontinued operations is listed on a separate line item in the statement of operations. The loss from discontinued operations for fiscal 2001 was $285,780, compared to a loss of $1,318,515 in the prior 12-month period.

Extraordinary Items

In January 2001, we entered into an agreement with an unrelated third party to negotiate settlement agreements with vendors and other debtors, relating mainly to the ICC and CableCommerce divisions, in an effort to improve our balance sheet ratios. It was important to reduce some of the debts so we could attract the outside capital investment necessary to keep us solvent and provide for future growth. We settled approximately $2.5 million in obligations in this manner, resulting in an extraordinary gain of $1,688,956.

In December 2000, certain equipment and software related to closed operations in Long Beach, California and American Fork, Utah were taken out of service and disposed of resulting in a loss of $1,091,052. Additionally, there was a gain on the disposal of IMI, Inc. in the fiscal year ended June 30, 2001 of $363,656.

The total gain of all extraordinary items for the fiscal year ended June 30, 2001 was therefore $961,560. There was no extraordinary item in the fiscal year ended June 30, 2000.

Income Taxes

We have not generated any taxable income to date and, therefore, we have not paid any federal income taxes. The use of our net operating loss carry forwards, which begin to expire in 2010, may be subject to certain limitations in the event of a change of control under Section 382 of the Internal Revenue Code of 1986, as amended.

Liquidity and Capital Resources

The accompanying financial statements have been prepared on the basis that the Company will continue as a going concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The Company has primarily incurred losses since its inception, fiscal year 2002 being our first profitable year. We have a cumulative net loss of a $69,520,461 through June 30, 2002. The Company has historically relied upon private placements of its stock and issuance of debt to generate funds to meet its operating needs. Management's plans include the raising of additional debt or equity capital. However, there can be no assurance that additional financing will be available on acceptable terms, if at all. The Company continues to work to improve the strength of its balance sheet and has restructured its ongoing operations in an effort to improve profitability and operating cash flow. If adequate funds are not generated the Company may not be able to execute its strategic plan and may be required to obtain funds through arrangements that require it to relinquish rights to all or part of the intellectual property of its Stores Online software or control of its business. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Cash

At the close of the year ended June 30, 2002, we had working capital of $289,438 compared to a working capital deficit of $11,352,351 at June 30, 2001. Our shareholders equity was $2,468,574 at June 30, 2002 compared to a capital deficit of $9,306,829 at June 30, 2001. We generated revenues from continuing operations of $37,350,850 for the fiscal year 2002 and $43,000,533 for the year ended June 30, 2001. For the year ended June 30, 2002 we generated net income of $2,198,769 and for the year ended June 30, 2001, we incurred a net loss of $3,638,736. For the year ended June 30, 2002 and the year ended June 30, 2001, we recorded negative cash flows from continuing operations of $3,548,931 and $7,347,123, respectively.

At June 30, 2002, we had $519,748 cash on hand, an increase of $370,583 from June 30, 2001.

Net cash used in operating activities was $3,548,931 for the fiscal year ended June 30, 2002. Net cash used in operations was mainly net income from continuing operations of $2,198,769, a provision for bad debts of $6,675,238, and depreciation and amortization of $3,078,953, but offset by a decrease in deferred revenue of $5,328,034, a decrease in accounts payable and accrued liabilities of $1,654,092 and an increase in accounts receivable of $8,250,722.

The decrease in deferred revenue is the result of our change in the product offered at our Internet training workshops. The products sold after September

30, 2000 did not require us to defer revenue, but during the current fiscal year we continued to recognize revenue deferred in prior periods. This is explained in detail in the revenue section above. The decrease in accounts payable of $1,335,964 and other liabilities of $318,128 is the result of paying past due vendor invoices using proceeds from the private sale of equity securities, settlement of outstanding liabilities by issuing stock instead of paying in cash and cash payments to officers of accrued bonuses earned in prior years of $425,857. The increase in accounts receivable occurred because we were unable to sell our installment contracts during the first two quarters of fiscal year 2002 and as a result carried them ourselves.

Net cash provided by financing activities for the fiscal year ended June 30, 2002 was $4,018,433. We sold common stock to investors in two private placements that generated $4,712,712 in net proceeds to us during the fiscal year and repaid loans to banks and others, including our officers, in the amount of $598,121.

In May 2001 we began a private placement of unregistered common stock at $3.00 per share in an attempt to raise $3 million. In November 2001 we completed the offering with adjusted gross proceeds to us of $2,803,466, of which $291,200 was received during fiscal year 2001 with the balance being received in fiscal year 2002.

In March 2002 we began an additional private placement of unregistered common stock at $.40 per share in an attempt to raise $2.5 million. The share price was lower than the offering of May 2001 because our stock was trading below the levels at May 2001 and we needed to offer investors a substantial discount in order to raise the much-needed additional capital. We completed the offering in June with adjusted gross proceeds to us of $2,185,995.

Accounts Receivable

Accounts receivable, carried as a current asset, net of allowance for doubtful accounts, were $2,247,129 at June 30, 2002 compared to $1,099,744 at June 30, 2001. Also at June 30, 2001, there was a related party current account receivable of $90,109, but none at June 30, 2002. Accounts receivable, carried as a long-term asset, net of allowance for doubtful accounts, was $1,673,740 at June 30, 2002 compared to $900,198 at June 30, 2001. 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 year are carried as long-term trade receivables. A relatively constant and significant portion of our revenues have been made on this installment contract basis. We have in the past sold, on a discounted basis, a portion of these installment contracts to third party financial institutions for cash. Because these financial institutions are small, they are limited in the quantities of contracts they can purchase from us. As a result, we were unable to sell any contracts during the first two quarters of fiscal year 2002. We continued to offer installment payment terms to our customers and carried the contracts in-house. In January 2002 we signed a contract with a new finance company to begin purchasing contracts. Unfortunately the terms were not as good as previously and the contracts were sold with recourse. In the event our customer did not meet their contractual obligation the finance company could look to us to cover their losses. This inability to sell our installment contracts at historic levels has caused the increase in the accounts receivable balance and had a material negative impact on our near-term liquidity and cash position.

Other assets relating to our installment contract sales at June 30, 2002 were $417,384 compared to $993,992 net of an allowance for doubtful accounts at June 30, 2001. These assets relate to transactions conducted prior to the new relationship we entered into in January 2002. When installment contracts were sold without recourse to the previous finance companies, the purchaser held approximately 20% of the purchase price in a reserve account that will be returned to us if the contracts are paid in full by our customer. If the customer fails to pay, the purchaser may charge this reserve account for the deficiency. Our obligation to accept such charge backs was limited to the amount in the reserve account.

Delisting of Common Stock

On January 10, 2001, our common stock was delisted from the Nasdaq National Market, and began to trade on the National Association of Securities Dealers OTC Electronic Bulletin Board. The delisting of our common stock has had an adverse impact on the market price and liquidity of our securities and has adversely affected our ability to attract additional investors. This has a material adverse effect on our liquidity, because sales of additional shares of our common stock is currently the principal potential source of additional funds that may be required to operate our businesses.

Arrangements with King William, LLC

In July 2000, we entered into a securities purchase agreement with King William, LLC. Under the terms of the agreement, we issued to King William an 8% convertible debenture due July 31, 2003, in the principal amount of $4.5 million. The debenture was convertible into shares of our common stock at the lower of $17.90 or a conversion rate of 80% of the average market price of the common stock during any three non-consecutive trading days during the 20 trading days prior to conversion. The purchase price for the debenture was payable in two tranches. The first tranche of $2.5 million was paid at the closing in July 2000. The second tranche of $2.0 million was to be payable three business days after our satisfaction of certain conditions, which conditions were never satisfied. Effective as of January 25, 2001, we reached an agreement with King William LLC to restructure this debenture. Under the terms of the agreement no second tranche of the debenture would be available, the note was amended so that it would be repaid in installments with a 15% prepayment premium over the remainder of calendar year 2001, and a related Private Equity Credit Agreement was terminated. Under this agreement, King William's right to convert the debenture into shares of our common stock was modified to permit such conversion only if the trading price of our common stock was in excess of $30.00 for 20

consecutive trading days or we failed to make a scheduled payment of principal. We also agreed to re-price the warrants issued to King William in connection with the issuance of the debenture to $2.50 per share and we issued to King William a warrant for an additional 26,900 shares of common stock at $2.50 per share. As of the date of the restructuring agreement we were in default of our obligations under the convertible debenture, but King William waived all of these defaults pursuant to the terms of the restructuring agreement.

We made the initial payment of $250,000 required under the restructuring agreement but did not make the next two payments totaling $497,000, and on May 9, 2001 we entered into a waiver agreement with King William. Pursuant to this agreement King William converted $200,000 principal balance of the remaining balance of the convertible debenture into 80,000 shares of common stock. The $200,000 was credited toward the payment due February 28, 2001 and the balance of $50,000 was rescheduled to be paid on March 10, 2002 and the payments originally due April 10, 2001 and May 10, 2001 were rescheduled to January 10, 2002 and February 10, 2002 respectively. Under the Agreement, King William waived its right to make further conversions on account of our failure to make the missed payments.

Effective July 11, 2001, we entered into a second restructuring agreement with King William pursuant to which we paid in full and final satisfaction of the Debenture (i) a cash payment of $100,000, (ii) a $400,000 promissory note and (iii) 280,000 shares of our common stock that were issued in September 2001. King William has agreed to forgive the $400,000 promissory note if we meet certain specific requirements.

We recorded the value of the beneficial conversion feature on the $2.5 million that has been drawn down on the $4.5 million principal amount as additional paid in capital and interest expense of $884,000 during our first fiscal quarter ended September 30, 2000 because the convertible debenture was immediately exercisable.

Effective February 13, 2002, we entered into a modification to the second restructuring agreement with King William pursuant to which we issued 10,000 shares of our unregistered common stock in exchange for (i) a change in the terms of the $400,000 note to extend the final payment date to July 10, 2006, (ii) the ability to pay interest in our common stock if we so elect, (iii) relief from the obligation to register any of the shares owned by King William or to be received by them through the exercise of warrants and (iv) King William waived any default under the second restructuring agreement. The stock was valued at $13,000, the fair market value on February 13, 2002.

In connection with the securities purchase agreement, we issued to King William a warrant to purchase 23,100 shares of common stock. In connection with the issuance of the debenture, we also issued to Roth Capital Partners, Inc., a warrant to purchase 9,000 shares of common stock and to Carbon Mesa Partners, LLC, a warrant to purchase 1,000 shares of common stock. Each of the warrants is exercisable for five years from the date of issue, at an exercise price of $16.25 per share and with cashless exercise and piggyback registration rights. The fair value of the warrants has been recorded at $371,000. Of the $371,000, $259,000 is accounted for as capital and debt discount and is amortized over the life of the debt. The remaining balance is accounted for as debt issuance costs classified as other assets and is amortized over the life of the debt.

Accounts Payable

Accounts payable at June 30, 2002, totaled $1,327,102, including amounts payable to a related party, as compared to $2,663,066 at June 30, 2001 and compared to $4,708,716 as of March 31, 2001. The reduction between March and June 2001 is primarily due to the settlement agreements reached with vendors as described above and funded with proceeds from the sale of convertible notes, common stock and unsecured loans from certain of our officers. The reduction between June 30, 2001 and June 30, 2002 is due to the payment of overdue vendor invoices. Our accounts payable as of June 30, 2002 were mostly within our vendor's terms of payment. Our business operations are dependent on the ongoing willingness of our suppliers and service providers to continue to extend their payment terms. A number of suppliers and service providers now require payment in advance or on delivery. Any interruption in our business operations or the imposition of more restrictive payment terms for payments to additional suppliers and service providers would have a further negative impact on our liquidity.

Deferred Revenue

Deferred revenue at June 30, 2002 totaled $705,558 as compared to $6,033,592 at June 30, 2001. We recognize deferred revenue as the services related to the deferred revenue are rendered or when the time period in which customers have the right to receive the services expires. The decrease from the prior fiscal year end is the result of a change at October 1, 2000 in the products offered at our Internet training workshops.

We changed the product offered through our Internet workshop training business and since October 1, 2000, have delivered a new product called the StoresOnline Software, as discussed above.

Under this new model, we now recognize all of the revenue generated at our Internet workshops at the time of the sale and delivery of the SOS product to our customer.

Stockholders' Equity (Capital Deficit)

Shareholders' equity at June 30, 2002 was $2,468,574 compared to capital deficit of $9,306,829 at June 30, 2001. This mainly resulted from additions to common stock and paid-in capital from our sale of unregistered common stock to private investors of $4,712,712 and the conversion of debentures and notes into equity of $4,263,179. It also increased because of fiscal year 2002 net income of $2,198,769.

Financing Arrangements

We accept payment for the sales made at our Internet training workshops by cash, credit card, installment contract, or until December 31, 2001, a third party leasing option. As part of our cash flow management and in order to generate liquidity, we have sold on a discounted basis a portion of the installment contracts generated by us to third party financial institutions for cash. Because these finance companies are small and have limited resources they have not been able to purchase all of the contracts we would like to sell. See "Liquidity and Capital Resources - Accounts Receivable," for further information.

Impact of Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board (FASB) issued Statements of Financial Accounting Standards No. 141, "Business Combinations" and No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets", which establishes new standards for the treatment of goodwill and other intangible assets. SFAS 142 is effective for fiscal years beginning after December 31, 2001 and permits early adoption for companies with a fiscal year beginning after March 15, 2001. SFAS 142 prescribes that amortization of goodwill will cease as of the adoption date. Additionally, we will be required to perform an impairment test as of the adoption date, annually thereafter, and whenever events and circumstances occur that might affect the carrying value of these assets. We have not yet determined what effect, if any, the impairment test of goodwill will have on our results of operations and financial position.

In June 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations (SFAS 143). Under this standard, asset retirement obligations will be recognized when incurred at their estimated fair value. In addition, the cost of the asset retirement obligations will be capitalized as a part of the asset's carrying value and depreciated over the asset's remaining useful life. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. The Company does not expect that adoption of SFAS No. 143 will have a material impact on its financial condition or results of operations.

In October 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144). This standard requires that all long-lived assets (including discontinued operations) that are to be disposed of by sale be measured at the lower of book value or fair value less cost to sell. Additionally, SFAS 144 expands the scope of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and will be eliminated from the ongoing operations of the entity in a disposal transaction. SFAS 144 is effective for fiscal years beginning after December 15, 2001. The Company does not expect the implementation of SFAS 144 to have a material effect on its financial condition or results of operations.

In April 2002, the FASB issued SFAS No. 145, Rescission of SFAS Nos. 4, 44, and 64, Amendment of SFAS 13, and Technical Corrections as of April 2002 (SFAS 145). This standard rescinds SFAS No. 4, Reporting Gains and Losses from Extinguishment of Debt, and an amendment of that Statement, SFAS No. 64, Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements and excludes extraordinary item treatment for gains and losses associated with the extinguishment of debt that do not meet the APB Opinion No. 30, Reporting the Results of Operations -- Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions (APB 30) criteria. Any gain or loss on extinguishment of debt that was classified as an extraordinary item in prior periods presented that does not meet the criteria in APB 30 for classification as an extraordinary item shall be reclassified. SFAS 145 also amends SFAS 13, Accounting for Leases as well as other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. Certain provisions of SFAS are effective for transactions occurring after May 15, 2002 while other are effective for fiscal years beginning after May 15, 2002. The Company has not assessed the potential impact of SFAS 145 on its financial condition or results of operations.

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities (SFAS 146). This standard addresses financial accounting and reporting for costs associated with exit or disposal activities and replaces Emerging Issues Task Force Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring) (EITF 94-3). SFAS 146 requires that a liability for costs associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF 94-3, a liability for exit costs, as defined in EITF No. 94-3 were recognized at the date of an entity's commitment to an exit plan. The provisions of SFAS 146 are effective for exit or disposal activities that are initiated by the Company after December 31, 2002.

Item 7A. Quantitative and Qualitative Disclosures About Market Risks

We do not believe we have material market risk exposure. We do not invest in market risk sensitive instruments for trading purposes. Our excess cash is placed in short-term interest-bearing accounts or instruments that are based on money market rates.

Although we conduct some business outside of the United States, to date our exposure to foreign currency rate fluctuations has not been significant. If we increase our international business, we could be subject to risks typical of an international business, including but not limited to differing economic conditions, changes in political climate, differing tax structures, other regulations and restrictions, and foreign exchange rate volatility.

Item 8. Financial Statements and Supplementary Data

See Item 14(a) for an index to the consolidated financial statements and supplementary financial information that are attached hereto.

Item 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure

On February 4, 2002, we engaged Grant Thornton LLP as our independent auditor following our dismissal, effective January 31, 2002, of Eisner LLP (formerly known as Richard A. Eisner & Company, LLP) ("Eisner"). Our board of directors approved the engagement of Grant Thornton LLP and the dismissal of Eisner.

Eisner had served as our independent accountants since April 4, 2001. Eisner's auditors' report on our consolidated financial statements as of and for the year ended June 30, 2001 contained a separate paragraph stating that it had substantial doubt about our ability to continue as a going concern. Our financial statements did not include any adjustments that might result from the outcome of this uncertainty. Except as noted above, Eisner's report on our financial statements for the fiscal year ended June 30, 2001 contained no adverse opinions or disclaimer of opinions, and were not qualified as to audit scope, accounting principles, or uncertainties.

We notified Eisner that during the most recent fiscal year and the interim period from July 1, 2001 through January 31, 2002, we were unaware of any disputes between us and Eisner as to matters of accounting principles or practices, financial statement disclosure, or audit scope or procedure, which disagreements, if not resolved to the satisfaction of Eisner, would have caused it to make a reference to the subject matter of the disagreements in connection with its reports.

Effective February 4, 2002, we engaged Grant Thornton LLP as our independent auditors with respect to our fiscal year ending June 30, 2002. We had previously retained Grant Thornton LLP on an interim basis during our previous fiscal year, from January 22, 2001 to April 4, 2001. Grant Thornton LLP had reviewed our interim financial statements for the quarter ended December 31, 2000, but did not issue any reports thereon. Other than this limited engagement, during our most recent fiscal year and through February 4, 2002, we had not consulted with Grant Thornton LLP regarding either: (i) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on our financial statements, and neither a written report was provided to us nor was oral advice provided that Grant Thornton LLP concluded was an important factor considered by us in reaching a decision as to the accounting, auditing or reporting issue; or (ii) any matter that was either the subject of a disagreement, as that term is defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions to Item 304 of Regulation S-K, or a reportable event, as that term is defined in Item 304 (a)(1)(v) of Regulation S-K.

On April 4, 2001, we engaged Eisner as our independent auditor concurrent with our termination of Grant Thornton, LLP. Our board of directors approved the engagement of Eisner as our independent auditors with respect to our fiscal year ending June 30, 2001. Grant Thornton was retained on an interim basis to replace KPMG LLP, which had served as our independent auditor between June, 1998 and January 12, 2001.

KPMG LLP's independent auditor's report on our consolidated financial statements for the years ended June 30, 2000 and 1999 contained a separate paragraph stating that it had substantial doubt as to our ability to continue as a going concern. Our financial statements do not include any adjustments that might result from the outcome of this uncertainty. Except as noted above, KPMG LLP's reports on our consolidated financial statements for the fiscal years ended June 30, 2000 and 1999 contained no adverse opinions or disclaimer of opinions, and were not qualified as to audit scope, accounting principles, or uncertainties.

We notified KPMG LLP that during the two most recent fiscal years and the interim period from July 1, 2000 through January 12, 2001, we were unaware of any disputes between us and KPMG LLP as to matters of accounting principles or practices, financial statement disclosure, or audit scope of procedure, which disagreements, if not resolved to the satisfaction of KPMG LLP would have caused them to make a reference to the subject matter of the disagreements in connection with their reports.

We engaged Grant Thornton LLP on January 22, 2001 to review our interim report on Form 10-Q for the three-month period ended March 31, 2001. On April 4, 2001, we terminated their engagement.

During the fiscal year ended June 30, 2000 and through April 4, 2001, we had not consulted with Eisner regarding either the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on our financial statements, and neither a written report was provided to us nor oral advice was provided that Eisner concluded was an important factor considered by us in reaching a decision as to the accounting, auditing or financial reporting issue, or any matter that was either the subject of a disagreement.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information required by this Item 12 is hereby incorporated by reference to the information in our definitive proxy statement to be filed within 120 days after the close of our fiscal year.

Item 11. Executive Compensation

The information required by this Item 12 is hereby incorporated by reference to the information in our definitive proxy statement to be filed within 120 days after the close of our fiscal year. Such incorporation by reference shall not be deemed to specifically incorporate by reference the information referred to in Item 402(a)(8) of Regulation S-K.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required by this Item 12 is hereby incorporated by reference to the information in our definitive proxy statement to be filed within 120 days after the close of our fiscal year.

Item 13. Certain Relationships and Related Transactions

The information required by this Item 13 is hereby incorporated by reference to the information in our definitive proxy statement to be filed within 120 days after the close of our fiscal year.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) 1. Financial Statements

The following financial statements of Imergent, Inc., and related notes thereto and auditors' report thereon are filed as part of this Form 10-K:

	PAGE
Independent Auditor's Report dated September 20, 2002	43
Independent Auditor's Report dated August 3, 2001	44
Independent Auditor's Report dated August 21, 2000	45
Consolidated Balance Sheets as of June 30, 2002 and 2001	46
Consolidated Statements of Operations for the years ended June 30, 2002, 2001 and 2000	47
Consolidated Statements of Stockholders' Equity /Capital Deficit for the years ended June 30, 2002, 2001 and 2000	48
Consolidated Statements of Cash Flows for the years ended June 30, 2002, 2001 and 2000	49
Notes to Consolidated Financial Statements	51

2. Financial Statement Schedules

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

	PAGE
Schedule II - Valuation and Qualifying Accounts	74

3. Exhibits

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

(b) Reports on Form 8-K During the Last Quarter of Fiscal 2002

We filed no reports on Form 8-K during the last quarter of fiscal 2002.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors and Stockholders
Imergent, Inc. (formerly Netgateway, Inc.)

We have audited the accompanying consolidated balance sheet of Imergent, Inc. (formerly Netgateway, Inc.) and Subsidiaries as of June 30, 2002, and the related consolidated statements of operations, stockholders' equity (capital

deficit), and cash flows for the year then ended. In connection with our audit of the consolidated financial statements, we have also audited the financial statement schedule for the year ended June 30, 2002. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Imergent, Inc. and Subsidiaries as of June 30, 2002, and the consolidated results of their operations and their consolidated cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the financial statement schedule, when considered in relation to the consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 4 to the financial statements, the Company has primarily incurred losses since its inception and has an accumulated deficit of $69,520,461 as of June 30, 2002. These factors, among others, as discussed in Note 4 to the financial statements, raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 4. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ GRANT THORNTON LLP

Salt Lake City, Utah
September 20, 2002

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders
Imergent, Inc. (formerly known as Netgateway, Inc.)

We have audited the accompanying consolidated balance sheet of Imergent, Inc. (formerly known as Netgateway, Inc.) and subsidiaries as of June 30, 2001, and the related consolidated statements of operations, capital deficit, and cash flows for the year then ended. Our audit also includes the financial statement schedule in so far as it relates to the year ended June 30, 2001 listed in the Index at Item 14(a). These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements enumerated above present fairly, in all material respects, the consolidated financial position of Imergent, Inc. (formerly known as Netgateway, Inc.) and subsidiaries at June 30, 2001, and the consolidated results of their operations and their consolidated cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

The accompanying consolidated financial statements and financial statement schedule have been prepared assuming that the Company will continue as a going concern. As discussed in Note 4 to the financial statements, the Company has suffered recurring net losses and has a capital deficit that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 4. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Eisner LLP (formerly known as RICHARD A. EISNER & COMPANY, LLP)

New York, New York
August 3, 2001,

With respect to Notes 10, 13, 14 and 23
September 30, 2001

With respect to Note 2(b)
July 3, 2002

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Imergent, Inc. (formerly Netgateway, Inc.):

We have audited the consolidated statements of operations, stockholders' deficit and cash flows of Imergent, Inc. (formerly Netgateway, Inc.) and subsidiaries for the year ended June 30, 2000. In connection with our audit of the consolidated financials statements, we have audited the financial statement schedule for the year ended June 30, 2000. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of their operations and their cash flows of Imergent, Inc. (formerly Netgateway, Inc.) and subsidiaries for the year ended June 30, 2000, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the consolidated financials statements taken as a whole, present fairly, in all material respects, the information set forth therein.

The accompanying financial statements and financial statement schedule have been prepared assuming that the Company will continue as a going concern. As discussed in Note 4 to the financial statements, the Company has suffered recurring losses from operations and has a net capital deficiency that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 4. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ KPMG LLP

Los Angeles, California
August 21, 2000, except as to Note 19,
which is as of January 11, 2001
and Note 2(b) which is as of July 3, 2002

IMERGENT, INC. AND SUBSIDIARIES
(formerly Netgateway, Inc.)
Consolidated Balance Sheets
June 30, 2002 and 2001

	2002	2001
Assets		
Current assets		
Cash	$ 519,748	$ 149,165
Trade receivables, net of allowance for doubtful accounts of $1,918,673 at June 30, 2002 and $1,103,603 at June 30, 2001.	2,247,129	1,099,744
Accounts receivable - related party	-	90,109
Inventories	23,416	44,726
Prepaid expenses	607,857	115,935
Common stock subscriptions receivable	-	107,000
Credit card reserves, net of allowance for doubtful accounts of $137,370 at June 30, 2002 and $173,000 at June 30, 2001.	1,022,701	1,187,502
Other current assets	-	3,220
Total current assets	4,420,851	2,797,401
Property and equipment, net	409,460	774,862
Goodwill, net	455,177	588,544
Trade receivables, net of allowance for doubtful accounts of $1,357,938 at June 30, 2002 and $1,011,774 at June 30, 2001.	1,673,740	900,198
Other assets, net of allowance for doubtful accounts of $0 at June 30, 2002 and $1,390,640 at June 30, 2001.	417,384	993,992
Total Assets	$ 7,376,612	$ 6,054,997
Liabilities and Stockholders' Equity / (Capital Deficit)		
Current liabilities		
Accounts payable	$ 1,215,400	$ 2,146,208
Accounts payable - related party	111,702	516,858
Bank overdraft	150,336	666,683
Accrued wages and benefits	681,472	581,400
Past due payroll taxes	26,797	497,617
Accrued liabilities	548,016	567,916
Current portion of capital lease obligations	80,938	37,802
Current portion of notes payable	160,671	97,779
Notes payable - officers and stockholders	-	490,000
Loan payable	-	100,000
Other current liabilities	450,523	423,578
Current portion of deferred revenue	705,558	5,618,849
Convertible debenture	-	2,405,062
Total current liabilities	4,131,413	14,149,753
Deferred revenue, net of current portion	-	414,743
Convertible long term notes	-	442,172
Capital lease obligations, net of current portion	27,906	-
Notes payable, net of current portion	393,560	-
Total liabilities	4,552,879	15,006,667
Commitments and contingencies	-	-
Minority interest	355,159	355,159
Stockholders' Equity / (Capital Deficit)		
Capital stock, par value $.001 per share		
Preferred stock - authorized 5,000,000 shares; none issued	-	-
Common stock - authorized 100,000,000 shares; issued and outstanding 10,995,774 and 2,446,018 shares, at June 30, 2002 and June 30, 2001, respectively	10,996	2,446
Additional paid-in capital	72,017,928	62,069,306
Common stock subscription	-	398,200
Deferred compensation	(34,987)	(52,649)
Accumulated other comprehensive loss	(4,902)	(4,902)
Accumulated deficit	(69,520,461)	(71,719,230)
Total stockholders' equity / (capital deficit)	2,468,574	(9,306,829)
Total Liabilities and Stockholders' Equity / (Capital Deficit)	$ 7,376,612	$ 6,054,997

See Notes to Consolidated Financial Statements

IMERGENT, INC. AND SUBSIDIARIES
(formerly Netgateway, Inc.)
Consolidated Statements of Operations for the
Years Ended June 30,

	2002	2001	2000
Revenue	$ 37,350,850	$ 43,000,533	$ 22,149,649
Cost of revenue	5,531,757	7,450,318	7,354,687
Cost of revenue - related party	994,043	975,257	1,110,404
Total cost of revenue	6,525,800	8,425,575	8,465,091
Gross profit	30,825,050	34,574,958	13,684,558
Product development	51,805	1,804,986	6,462,999
Selling and marketing	13,540,587	20,871,323	18,536,486
Selling and marketing - related party	479,984	78,435	-
General and administrative	5,691,434	7,083,426	24,517,450
Depreciation and amortization	668,730	1,296,519	1,191,143
Bad debt expense	6,675,238	3,475,492	1,159,022
Writedown of goodwill and acquired technology	-	1,084,476	-
Total operating expenses	27,107,778	35,694,657	51,867,100
Income (loss) from continuing operations	3,717,272	(1,119,699)	(38,182,542)
Other income (expense)	432,184	93,088	(33,677)
Interest expense	(1,950,687)	(3,287,905)	(4,573,695)
Total other expenses	(1,518,503)	(3,194,817)	(4,607,372)
Income (loss) before discontinued operations and extraordinary items	2,198,769	(4,314,516)	(42,789,914)
Discontinued Operations:			
(Loss) from discontinued operations, less applicable tax expense (benefit) of $0	-	(285,780)	(1,318,515)
Income (loss) before extraordinary items	2,198,769	(4,600,296)	(44,108,429)
Extraordinary items:			
Loss on disposal of assets subsequent to merger	-	(1,091,052)	-
Gain on disposal of segment subsequent to merger	-	363,656	-
Gain from settlement of debt	-	1,688,956	-
Extraordinary items	-	961,560	-
Net income (loss)	$ 2,198,769	$ (3,638,736)	$(44,108,429)
Basic earnings (loss) per share:			
Income (loss) from continuing operations	$ 0.37	$ (1.94)	$ (23.12)
Income (loss) from discontinued operations	-	(0.12)	(0.71)
Extraordinary items	-	0.43	-
Net income (loss)	$ 0.37	$ (1.63)	$ (23.83)
Diluted earnings (loss) per share:			
Income (loss) from continuing operations	$ 0.37	$ (1.94)	$ (23.12)
Income (loss) from discontinued operations	-	(0.12)	(0.71)
Extraordinary items	-	0.43	-
Net income (loss)	$ 0.37	$ (1.63)	$ (23.83)
Weighted average shares outstanding:			
Basic	5,873,654	2,227,965	1,851,114
Diluted	5,878,404	2,227,965	1,851,114

See Notes to Consolidated Financial Statements

IMERGENT, INC. AND SUBSIDIARIES
(formerly Netgateway, Inc.)
Consolidated Statements of Stockholders' Equity / (Capital Deficit)
For the Year Ended June 30, 2002, 2001, and 2000

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Common Stock Subscribe	Deferred Compensation	Accumulated Deficit	Accumulated Other Comprehensive loss	Total Stockholders' Equity (Capital Deficit)
Balance July 1, 1999	1,355,920	$ 1,355	$ 5,921,290	$ -	$ (52,919)	$(23,972,503)	$ (3,598)	$(8,106,375)
Common stock issued for prepaid advertising	5,000	5	299,995	-	-	-	-	300,000
Common stock issued for services	53,860	54	3,660,444	-	-	-	-	3,660,498
Warrants issued to settle an obligation	-	-	53,534	-	-	-	-	53,534
Sale of common stock for cash	415,535	415	25,313,448	-	-	-	-	25,313,863
Warrants issued for debt issue costs	-	-	145,876	-	-	-	-	145,876
Conversion of debt to common stock	8,000	8	199,992	-	-	-	-	200,000
Options issued for services	-	-	172,853	-	-	-	-	172,853
Stock option compensation	-	-	1,069,900	-	(1,069,900)	-	-	-
Amortization of deferred compensation	-	-	-	-	615,825	-	-	615,825
Exercise of warrants	2,587	3	27,868	-	-	-	-	27,871
Cashless exercise of options and warrants	118,877	119	(119)	-	-	-	-	-
Common stock issued for cancellation of options	120,000	120	8,399,880	-	-	-	-	8,400,000
Exercise of stock options	34,572	35	1,174,784	-	-	-	-	1,174,819
Common stock issued upon onversion of subsidiary common stock	23,958	24	898,385	-	-	-	-	898,409
Sale of common stock for cash	14,593	15	299,985	-	-	-	-	300,000
Stock option compensation	-	-	255,000	-	(218,000)	-	-	37,000
Common stock issued in business acquisition	11,971	12	138,613	-	-	-	-	138,625
Comprehensive income (loss)								
Net income (loss)	-	-	-	-	-	(44,108,429)	-	(44,108,429)
Foreign currency translation adjustment	-	-	-	-	-	-	(669)	(669)
Comprehensive income (loss)								(44,109,098)
Balance June 30, 2000	2,164,873	2,165	58,031,728	-	(724,994)	(68,080,932)	(4,267)	(10,776,300)
Common stock issued upon conversion of subsidiary common stock	3,714	4	139,286	-	-	-	-	139,290
Stock options exercised	2,001	2	6,773	-	-	-	-	6,775
Shares issued for services	4,780	5	17,195	-	-	-	-	17,200
Amortization of deferred compensation	-	-	-	-	258,375	-	-	258,375
Forfeiture of stock options	-	-	(413,970)	-	413,970	-	-	-
Beneficial conversion feature on convertible debenture	-	-	884,000	-	-	-	-	884,000
Warrants issued for convertible debentures	-	-	371,000	-	-	-	-	371,000
Repricing of warrants issued for convertible debentures	-	-	9,008	-	-	-	-	9,008
Warrants issued for restructuring of debenture	-	-	129,927	-	-	-	-	129,927
Debt discount on convertible note warrants	-	-	512,540	-	-	-	-	512,540
Beneficial conversion feature on convertible note	-	-	1,347,480	-	-	-	-	1,347,480
Partial conversion of convertible debenture	80,000	80	199,920	-	-	-	-	200,000
Conversion of related party note payable	39,333	39	117,961	-	-	-	-	118,000
Coversion of officers accrued liabilities	151,317	151	453,799	-	-	-	-	453,950
Warrants issued for services	-	-	223,903	-	-	-	-	223,903
Imputed Interest on notes payable to officers - contributed	-	-	38,756	-	-	-	-	38,756
Private placement offering subscriptions received, net	-	-	-	398,200	-	-	-	398,200
Comprehensive income (loss)								
Net income (loss)	-	-	-	-	-	(3,638,736)	-	3,638,736)
Foreign currency translation adjustment	-	-	-	-	-	438	(635)	(197)
Comprehensive income (loss)								(3,638,933)
Balance June 30, 2001	2,446,018	2,446	62,069,306	398,200	(52,649)	(71,719,230)	(4,902)	(9,306,829)
Stock options exercised	691	1	1,726	-	-	-	-	1,727
Amortization of deferred compensation	-	-	-	-	16,145	-	-	16,145
Forfeiture of deferred compensation	-	-	(1,517)	-	1,517	-	-	-

Imputed Interest on officer/director notes payable	-	-	12,639	-	-	-	-	12,639
Stock options issued to consultants	-	-	6,400	-	-	-	-	6,400
Common stock issued for loan restructuring	10,000	10	12,990	-	-	-	-	13,000
Conversion of convertible debenture	280,000	280	2,115,604	-	-	-	-	2,115,884
Conversion of long term notes	859,279	859	2,146,436	-	-	-	-	2,147,295
Private placement of common stock	7,164,094	7,164	5,103,748	(398,200)	-	-	-	4,712,712
Common stock shares issued for outstanding liabilities	83,192	83	449,148	-	-	-	-	449,231
Common stock shares issued for services	132,500	133	15,468	-	-	-	-	15,601
Common stock issued for settlement agreements	20,000	20	85,980	-	-	-	-	86,000
Comprehensive income (loss)								
Net income	-	-	-	-	-	2,198,769	-	2,198,769
Foreign currency translation adjustment	-	-	-	-	-	-	-	-
Comprehensive income (loss)								2,198,769
Balance June 30, 2002	10,995,774	$10,996	$72,017,928	$ -	$ (34,987)	$(69,520,461)	$ (4,902)	$ 2,468,574

See Notes to Consolidated Financial Statements

IMERGENT, INC AND SUBSIDIARIES
(formerly Netgateway, Inc.)
Consolidated Statements of Cash Flows
For the Years Ended June 30,

	2002	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) from continuing operations	$ 2,198,769	$ (4,314,516)	$ (42,789,914)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Depreciation and amortization	668,730	1,296,519	1,191,143
Amortization of deferred compensation	16,145	258,375	652,825
Write down of goodwill and acquired technology	-	1,084,476	-
Expense for stock options issued to consultant	6,400	-	-
Provision for bad debts	6,675,238	3,475,492	1,159,022
Interest expense from beneficial conversion feature	-	884,000	-
Imputed interest expense on notes payable	12,639	38,756	-
Loss on issue of common stock below market value	199,657	-	-
Common stock issued for loan restructuring	13,000	-	-
Common stock issued for services	15,601	17,200	3,660,498
Warrants and options issued for services	-	81,315	263,387
Amortization of debt issue costs	437,478	496,530	585,592
Amortization of beneficial conversion feature & debt discount	1,956,600	366,966	4,022,550
Stock issued in exchange for cancellation of options	-	-	8,400,000
Changes in assets and liabilities:			
Trade receivables and unbilled receivables	(8,250,722)	(3,312,950)	(3,208,334)
Inventories	21,310	17,299	(31,024)
Prepaid expenses and other current assets	(381,702)	867,494	-
Credit card reserves	(90,533)	(598,324)	-
Other assets	(65,415)	(51,204)	(871,561)
Deferred revenue	(5,328,034)	(9,460,686)	8,023,545
Accounts payable, accrued expenses and other liabilities	(1,654,092)	1,506,135	2,502,544
Net cash used in continuing operating activities	(3,548,931)	(7,347,123)	(16,439,729)
Net cash used in discontinued operations	-	(655,220)	(200,544)
Net cash used in operating activities	(3,548,931)	(8,002,343)	(16,640,273)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of subsidiary	-	300,000	-
Acquisition of equipment	(99,579)	(100,765)	(2,946,055)
Collection of notes receivable	-	-	30,000
Proceeds from disposition of equipment	660	-	-
Net cash provided by (used in) investing activities	(98,919)	199,235	(2,916,055)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from common stock subscribed	-	291,200	-
Proceeds from issuance of common stock	4,712,712	-	25,313,863
Proceeds from exercise of options and warrants	1,727	6,775	1,202,690
Bank overdraft borrowings	(516,347)	355,007	64,883
Proceeds from issuance of notes payable - officers	-	821,000	-
Proceeds from issuance of convertible long-term notes	273,976	2,076,500	-
Proceeds from issuance of long term debenture	-		1,114,950
Proceeds from issuance of convertible debenture	-	2,500,000	-
Proceeds from loan payable	-	100,000	-
Proceeds from financing of insurance premium	144,486	-	-
Repayment of convertible debenture	(100,000)	(152,212)	-
Repayment of notes payable - officers	-	(213,000)	-
Repayment of note payable - bank	(97,779)	-	-
Repayment of capital lease obligations	-	(69,963)	-
Repayment of note to related party	(380,000)	-	(1,799)
Repayment of notes	(20,342)	-	(6,433,500)
Cash paid for debt issue costs	-	(370,025)	(64,771)
Net cash provided by financing activities	4,018,433	5,345,282	21,196,316
NET INCREASE (DECREASE) IN CASH	370,583	(2,457,826)	1,639,988
CASH AT THE BEGINNING OF THE YEAR	149,165	2,606,991	967,672
Effect of exchange rate changes on cash balances	-	-	(669)
CASH AT THE END OF THE YEAR	$ 519,748	$ 149,165	$ 2,606,991
Supplemental disclosures of non-cash transactions:			
Subscribed stock issued	398,200	-	-
Conversion of debenture to common stock	2,115,884	200,000	200,000
Conversion of notes payable - officers to common stock	-	118,000	-
Conversion of amounts due to officers to common stock	-	453,950	-
Conversion of long term notes to common stock	2,147,295	-	-
Common stock issued for settlement agreements	86,000	-	-
Value of warrants in connection with the issuance of convertible debenture	-	509,935	-
Value of warrants in connection with the issuance of convertible long term notes	-	655,128	-

Beneficial conversion feature on convertible long term notes	-	1,347,480	-
Restructuring premium on convertible debentures	-	375,000	-
Issuance of common stock for business acquisition	-	-	138,625
Warrants issued for debt issue costs	-	-	145,876
Common stock issued for prepaid advertising	-	-	300,000
Common stock issued for outstanding liabilities	449,231	-	-
Convertible debenture settled for note payable	400,000	-	-
Accrued interest added to note payable balance	30,087	-	-
Fixed assets acquired through capital lease obligations	71,042	-	-
Supplemental disclosure of cash flow information:			
Cash paid for Interest	3,359	109,940	883,139

See Notes to Consolidated Financial Statements

IMERGENT, INC. AND SUBSIDIARIES
(formerly Netgateway, Inc.)
Notes to Consolidated Financial Statements
June 30, 2002, 2001 and 2000

(1) Description of Business

Imergent, Inc. (formerly known as "Netgateway, Inc.", referred to hereinafter as Imergent or the "Company"), was incorporated as a Nevada corporation on April 13, 1995. In November 1999, it was reincorporated under the laws of Delaware. Effective July 3, 2002, a Certificate of Amendment was filed to its Certificate of Incorporation to change its name to Imergent, Inc. Imergent is an e-Services company that provides eCommerce technology, training and a variety of web-based technology and resources to over 100,000 small businesses and entrepreneurs annually. The Company's affordably priced e-Services offerings leverage industry and client practices, and help increase the predictability of success for Internet merchants. The Company's services also help decrease the risks associated with e-commerce implementation by providing low-cost, scalable solutions with minimal lead-time, ongoing industry updates and support. The Company's strategic vision is to remain an eCommerce provider tightly focused on its target market.

During the year ended June 30, 2001 the Company consolidated its operations into one facility in Utah. During this process certain equipment was disposed of and the net book value of the equipment was written off. The write down of these assets are included as an extraordinary item due to the fact that they were part of previously separate entities in a pooling of interests combination at June 30, 2000. In addition, in January 2001, the Company sold one of its subsidiaries that was previously reported as a separate segment, and accordingly has reported the gain realized on the sale as an extraordinary item in the accompanying consolidated financial statements. During the year ended June 30, 2001, the Company settled certain of its liabilities with its vendors for amounts less than the outstanding balances. The gain realized on these settlements has been recorded as an extraordinary item in the accompanying consolidated financial statements.

In January 2001, the Company sold one of its subsidiaries that was previously reported as a separate segment, and accordingly has reported the operations as discontinued operations in the accompanying consolidated financial statements.

(2) Summary of Significant Accounting Policies

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries which include Netgateway, Galaxy Enterprises, Inc., Galaxy Mall, Inc., StoresOnline Inc., StoresOnline, LTD., and StoresOnline.com, Inc. The acquisition of Galaxy Enterprises ("Galaxy") by Imergent on June 26, 2000 was accounted for under the pooling-of-interests method and accordingly all periods prior to the acquisition have been restated to include the accounts and results of operations of Galaxy Enterprises. All Galaxy common stock and common stock option information has been adjusted to reflect the exchange ratio. All significant intercompany balances and transactions have been eliminated in consolidation.

(b) Reverse Stock Split

On June 28, 2002 the shareholders of the Company approved a one-for-ten reverse split of the Company's outstanding common stock shares, which became effective July 3, 2002. All data for common stock shares, options and warrants have been adjusted to reflect the one-for-ten reverse split for all periods presented. In addition, all common stock share prices and per share data for all periods presented have been adjusted to reflect the one-for-ten reverse stock split.

(c) Inventories

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

(d) Property and Equipment

Property and equipment are stated at cost. Depreciation expense is computed principally on the straight-line method in amounts sufficient to allocate the cost of depreciable assets, including assets held under capital leases, over their estimated useful lives ranging from 3 to 5 years. The cost of leasehold improvements is being amortized using the straight-line method over the shorter of the estimated useful life of the asset or the terms of the related leases. Depreciable lives by asset group are as follows:

Computer and office equipment	3 to 5 years
Furniture and fixtures	4 years
Computer software	3 years
Leasehold improvements	term of lease

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

(e) Intangible Assets

Intangible assets are amortized on a straight-line basis over their estimated useful lives as follows:

Acquired technology..........................5 to 7 years
Goodwill...................................... 10 years

As required by SFAS 142, beginning in July 1, 2003 goodwill will no longer be amortized but will be tested on an annual basis for impairment by comparing its fair value to its carrying value. If the carrying amount of goodwill exceeds its fair value, an impairment loss will be recognized in an amount equal to that excess.

(f) Product and Development Expenditures

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

(g) Impairment of Long-Lived Assets

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

During the fiscal year ended June 30, 2001 the Company wrote off fixed assets with a book value totaling $1,091,052 as part of the closing of the American Fork, Long Beach, and Canadian offices included in extraordinary items (See Note 20). In addition, as a result of corporate restructuring, acquired technology and goodwill aggregating $1,084,476 was determined to be impaired and was written off during the fiscal year ended June 30, 2001 (See note 9).

(h) Financial Instruments

The carrying values of cash, accounts receivable, notes receivable, accounts payable, accrued liabilities, capital lease obligations, current portion of notes payable and convertible debenture approximated fair value due to either the short maturity of the instruments or the recent date of the initial transaction or the restructuring.

(i) Income Taxes

Income taxes are accounted for under the asset and liability method. The asset and liability method recognizes deferred income taxes for the tax consequences of "temporary differences" by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities.

Deferred tax assets are to be recognized for temporary differences that will result in tax deductible amounts in future years and for tax carryforwards if, in the opinion of management, it is more likely than not that the deferred tax assets will be realized.

(j) Accounting for Stock Options

The Company applies the intrinsic value-based method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations, in accounting for its fixed plan employee stock options. As such, compensation expense would be recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. Compensation expense related to stock options granted to non-employees is accounted for under Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," whereby compensation expense is recognized over the vesting period based on the fair value of the options on the date of grant.

(k) Revenue Recognition

During the year ended June 30, 2001, the Company changed its product offering at its Internet training workshops. The date of the change was October 1, 2000, the beginning of the Company's second fiscal quarter of fiscal year 2001. Prior to that time, customers were sold a service consisting of the construction of Internet websites for their business, which service was to be provided at any time during the 12 months following the sale. Included in the price paid for this service was one year's hosting beginning when the website was published. Revenue from these transactions was deferred at the time of sale and recognized as the services were rendered or when the right to receive the services terminated.

Beginning October 1, 2000, the Company discontinued selling the service and in its place sold a new product called the StoresOnline Software ("SOS"). The SOS is a software product that enables the customer to develop their Internet website without additional assistance from the Company. When a customer purchases the SOS he or she receives a CD-ROM containing programs to be used with their computer and a password and instructions that allow access to the Company's website where all the necessary tools are present to complete the construction of the customer's website. When completed, the website can be hosted with the Company or any other provider of such services. If they choose the Company, an additional setup and hosting fee (currently $150) is required for publishing and 12 months of hosting. This fee is deferred at the time of sale and recognized over the subsequent 12 months.

The revenue from the sale of the SOS is recognized when the product is

delivered to the customer. The Company accepts cash and credit cards as methods of payment and offers 24-month installment contracts to customers who prefer an extended payment term arrangement. The Company offers these contracts to all workshop attendees not wishing to use a check or credit card provided they complete a credit application, give the Company permission to independently check their credit and are willing to make an appropriate down payment. Installment contracts are carried on the Company's books as a receivable and the revenue generated by these installment contracts is recognized when the product is delivered to the customer and the contract is signed. This new revenue recognition procedure was in effect for the last three quarters of fiscal year 2001 and for all of fiscal year 2002.

Extended payment term arrangements for software sales that are longer than 12 months are governed by the AICPA Statement of Position 97-2, Software Revenue Recognition. This Statement of Position permits the recognition of revenue at the time of sale, rather than as the monthly payments become due, if the vendor's fee is fixed or determinable and collectibility is probable. Paragraph 28 states, "...Further, if payment of a significant portion of the software licensing fee is not due until after expiration of the license or more than twelve months after delivery, the licensing fee should be presumed not to be fixed or determinable. However, this presumption may be overcome by evidence that the vendor has a standard business practice of using long-term or installment contacts and a history of successfully collecting under the original payment terms without making concessions." The Company has been offering these 24-month installment contracts for more than four years and collecting them without making concessions, as defined in the AICPA Technical Practice Aids 5100.56. Therefore it is appropriate that the Company recognize the revenue at the time of delivery of the product

SOP 97-2 states that revenue from the sale of software should be recognized when the following four specific criteria are met: 1) persuasive evidence of an arrangement exists, 2) delivery has occurred, 3) the fee is fixed and determinable and 4) collectibility is probable. All of these criteria are met when a customer purchases the SOS product. The customer signs a Company order form and a receipt acknowledging a sale and receipt and acceptance of the product. As noted on the order and acceptance forms, all sales are final. All fees are fixed and final. Some states require a three-day right to rescind the transaction. Sales in these states are not recognized until the rescission period has expired. The Company offers customers the option to pay for the SOS with Extended Payment Term Arrangements (EPTAs). The EPTAs generally have a twenty-four month term. The Company has a standard of using long-term or installment contracts and has a four-year history of successfully collecting under the original payment terms without making concessions. Over the past four years the Company has collected or is collecting approximately 70% to 80% of all EPTAs issued to customers. Not all customers live up to their obligations under the contracts. The Company makes every effort to collect on the EPTAs, including the engagement of professional collection services. Despite the Company's efforts, approximately 20 percent of all EPTAs are determined to be uncollectible. All uncollectible EPTAs are written off against an allowance for doubtful accounts, which allowance is established at the time of sale based on the Company's four-year history of extending EPTAs. As a result, revenue from the sale of the SOS is recognized upon the delivery of the product.

Revenue related to the sale of certificates for web site hosting and banner licenses is recognized over the period representing the life of the certificate and the length of the prepaid service. Revenue related to banner advertising services is recognized over the period such advertising is usable and revenue related to the delivery of mentoring services is recognized over the estimated service period. Revenue recorded relating to the sale of merchant account software is reflected net of the cost of the product paid since the Company does not take title to the product prior to its sale.

Revenues relating to the design and development of Internet Web sites and related consulting projects is recognized using the percentage-of-completion method. Unbilled receivables represent time and costs incurred on projects in progress in excess of amounts billed, and are recorded as assets. Deferred revenue represents amounts billed in excess of costs incurred, and is recorded as a liability. To the extent costs incurred and anticipated costs to complete projects in progress exceed anticipated billings, a loss is recognized in the period such determination is made for the excess.

(l) Comprehensive Income (Loss)

Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income" establishes standards for reporting and displaying comprehensive income (loss) and its components in a full set of general-purpose financial statements. This statement requires that an enterprise classify items of other comprehensive income (loss) by their nature in a financial statement and display the accumulated balance of other comprehensive income (loss) separately from retained earnings and additional paid-in capital in the equity section of a statement of financial position. The Company's only other comprehensive income (loss) were foreign currency translation adjustments related to its Canadian subsidiary, StoresOnline, Ltd.

(m) Business Segments and Related Information

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" establishes standards for the way public business enterprises are to report information about operating segments in annual financial statements and requires enterprises to report selected information about operating segments in interim financial reports issued to shareholders. It also establishes standards for related disclosure about products and services, geographic areas and major customers.

The Company has historically operated under two principal business segments (Internet services and multimedia products). The primary business segment (Internet services) is engaged in the business of providing its customers the ability to (i) acquire a presence on the Internet and (ii) to

advertise and sell their products or services on the Internet. A secondary business segment (multimedia services) was engaged in providing assistance in the design, manufacture and marketing of multimedia brochure kits, shaped compact discs and similar products and services intended to facilitate conducting business over the Internet. This second segment was sold on January 11, 2001 and the gain on the sale is reported as an extraordinary item in the accompanying consolidated financial statements. As a result, the Company currently operates in one business segment.

(n) Foreign Currency Translation

The financial statements of the Company's Canadian subsidiary, StoresOnline.com, Ltd. have been translated into U.S. dollars from its functional currency in the accompanying consolidated financial statements in accordance with Statement of Financial Accounting Standards No. 52, "Foreign Currency Translation." Balance sheet accounts of StoresOnline.com, Ltd. are translated at period-end exchange rates while income and expenses are translated at the average of the exchange rates in effect during the period. Translation gains or losses that related to the net assets of StoresOnline.com Ltd. are shown as a separate component of stockholders' equity (capital deficit) and comprehensive income (loss). There were no gains or losses resulting from realized foreign currency transactions (transactions denominated in a currency other than the entities' functional currency) during the years ended June 30, 2002, 2001 and 2000.

(o) Per Share Data

Basic net income (loss) per share is computed by dividing net income (loss) available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity.

Unexercised stock options to purchase 313,265 shares of the Company's common stock and unexercised warrants to purchase 502,212 shares of the Company's common stock were outstanding as of June 30, 2002, of which 1,236 stock options and 2,278 warrants were included in the diluted per share computation. Unexercised stock options to purchase 374,038 and 451,265 shares of the Company's common stock and unexercised warrants to purchase 210,735 and 122,490 shares of the Company's common stock at June 30, 2001 and 2000, respectively, in addition to shares of common stock from the conversion of subsidiary common stock and convertible debentures of 1,462,470 and 13,185 as of June 30, 2001 and 2000, respectively, were not included in the per share computations because their effect would have been antidilutive as a result of the Company's loss.

(p) Use of Estimates

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the balance sheet date, and the reporting of revenues and expenses during the reporting periods to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates. The Company has estimated that allowances for bad debt for Trade Receivables should be $3,276,611 as of June 30, 2002. In addition, the Company has recorded an allowance for doubtful accounts of $137,370 for estimated credit card chargebacks relating to the most recent 180 days of credit card sales.

(q) Reclassifications

Certain amounts reported in 2001 and 2000 have been reclassified to conform to the 2002 presentation.

(r) Discontinued Operations

APB Opinion No. 30 states that discontinued operations refers to the operations of a segment of a business that has been sold, abandoned, spun off, or otherwise disposed of or, although still operating, is the subject of a formal plan for disposal. In accordance with APB Opinion No. 30, the results of continuing operations are reported separately from discontinued operations and any gain or loss from disposal of a segment is reported in conjunction with the related results of discontinued operations, except where such effect is classified as an extraordinary item following a pooling-of-interests combination. In accordance with APB Opinion No. 16, the difference between the proceeds received from the sale of the Company's subsidiary and the carrying amount of the Company's investment sold is reflected as an extraordinary gain on disposal in the consolidated statements of operations.

(s) Advertising Costs

The Company expenses costs of advertising and promotions as incurred, with the exception of direct-response advertising costs. SOP 97-3 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 marketing 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 years ended June 30, 2002, 2001 and 2000 were approximately $5.3 million, $6.0 million and $5.9 million, respectively. As of June 30, 2002 the Company recorded $217,534 of direct response advertising related to future workshops as an asset.

(t) Commission Expense

Commission expense relating to third-party telemarketing activity is recognized as incurred.

(u) Recently Issued Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board (FASB) issued Statements of Financial Accounting Standards No. 141, "Business Combinations" and No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets", which establishes new standards for the treatment of goodwill and other intangible assets. SFAS 142 is effective for fiscal years beginning after December 31, 2001 and permits early adoption for companies with a fiscal year beginning after March 15, 2001. The Company did not early adopt FAS 142. SFAS 142 prescribes that amortization of goodwill will cease as of the adoption date. Additionally, the Company will be required to perform an impairment test as of the adoption date, annually thereafter, and whenever events and circumstances occur that might affect the carrying value of these assets. The Company has not yet determined what effect, if any, the impairment test of goodwill will have on the Company's results of operations and financial position.

In June 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations (SFAS 143). Under this standard, asset retirement obligations will be recognized when incurred at their estimated fair value. In addition, the cost of the asset retirement obligations will be capitalized as a part of the asset's carrying value and depreciated over the asset's remaining useful life. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. The Company does not expect that adoption of SFAS No. 143 will have a material impact on its financial condition or results of operations.

In October, 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144). This standard requires that all long-lived assets (including discontinued operations) that are to be disposed of by sale be measured at the lower of book value or fair value less cost to sell. Additionally, SFAS 144 expands the scope of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and will be eliminated from the ongoing operations of the entity in a disposal transaction. SFAS 144 is effective for fiscal years beginning after December 15, 2001. The Company does not expect the implementation of SFAS 144 to have a material effect on its financial condition or results of operations.

In April 2002, the FASB issued SFAS No. 145, Rescission of SFAS Nos. 4, 44, and 64, Amendment of SFAS 13, and Technical Corrections as of April 2002 (SFAS 145). This standard rescinds SFAS No. 4, Reporting Gains and Losses from Extinguishment of Debt, and an amendment of that Statement, SFAS No. 64, Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements and excludes extraordinary item treatment for gains and losses associated with the extinguishment of debt that do not meet the APB Opinion No. 30, Reporting the Results of Operations -- Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions (APB 30) criteria. Any gain or loss on extinguishment of debt that was classified as an extraordinary item in prior periods presented that does not meet the criteria in APB 30 for classification as an extraordinary item shall be reclassified. SFAS 145 also amends SFAS 13, Accounting for Leases as well as other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. Certain provisions of SFAS are effective for transactions occurring after May 15, 2002 while others are effective for fiscal years beginning after May 15, 2002. The Company has not assessed the potential impact of SFAS 145 on its financial condition or results of operations.

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities (SFAS 146). This standard addresses financial accounting and reporting for costs associated with exit or disposal activities and replaces Emerging Issues Task Force Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring) (EITF 94-3). SFAS 146 requires that a liability for costs associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF 94-3, a liability for exit costs, as defined in EITF No. 94-3 were recognized at the date of an entity's commitment to an exit plan. The provisions of SFAS 146 are effective for exit or disposal activities that are initiated by the Company after December 31, 2002.

(3) Business Combination

On June 26, 2000, the Company issued 392,998 shares of its common stock in exchange for all of the outstanding common stock of Galaxy Enterprises. This business combination has been accounted for as a pooling-of-interests and, accordingly, the consolidated financial statements for periods prior to the combination include the accounts and results of operations of Galaxy Enterprises.

Prior to the combination, Galaxy Enterprises' fiscal year ended December 31. In recording the pooling-of-interests combination, Galaxy Enterprises' financial statements for the twelve months ended June 30, 1999, were combined with the Company's financial statements for the same period. An adjustment has been made to capital deficit to eliminate the effect of including Galaxy Enterprises' results of operations for the six months ended December 31, 1998, in both the years ended June 30, 1999 and June 30, 1998. The adjustment results in the Company eliminating the related net income of $1,733,441 in fiscal year 1999, which includes $3.7 million in revenue.

The results of operations as previously reported by the separate enterprises and the combined amounts presented in the accompanying consolidated financial statements are summarized below:

c

	Nine months ended March 31, 2000	Year ended June 30, 1999
Net revenues:		
Imergent	$ 2,535,863	$ $157,282
Galaxy Enterprises	12,665,271	10,123,158
Combined	$ 15,201,134	$ 10,280,440
Discontinued Operations		
Income (loss) from discontinued operations	(1,028,781)	3,013
Extraordinary item:		
Imergent	$ _	$ 1,653,232
Galaxy Enterprises	-	-
Combined	$ _	$ 1,653,232
Net (loss) income:		
Imergent	$ (28,178,092)	$ (10,775,703)
Galaxy Enterprises	(6,204,080)	(4,367,788)
Discontinued Operations	(1,028,781)	3,013
Combined	(35,410,953)	(15,140,478)

On January 7, 2000, prior to completion of the combination between Imergent and Galaxy Enterprises, the Company advanced $300,000 in bridge financing to Galaxy Enterprises for working capital purposes and for the payment of certain professional fees incurred by Galaxy Enterprises in connection with the merger. On February 4, 2000, the Company advanced an additional $150,000 to Galaxy Enterprises for working capital purposes and for the payment of certain professional fees incurred by Galaxy Enterprises in connection with the merger. Each loan was secured by a pledge of Galaxy Enterprises' common stock from John J. Poelman, the chief executive officer and largest shareholder of Galaxy Enterprises prior to the merger. The notes bore interest at 9.5% and were due and payable on the earlier of June 1, 2000 or the consummation date of the merger. The maturity date of the notes was later extended to the earlier of September 1, 2000 or the consummation date of the merger.

After completion of the merger, the Company contributed these loans to the capital of its subsidiary, Galaxy Enterprises, and released the pledges securing those loans. Prior to the consummation of the merger, the Company entered into certain transactions in the normal course of business with Galaxy Enterprises. For the year ended June 30, 2000, the Company generated revenue of $470,000 from Galaxy Enterprises. For the year ended June 30, 2000, Galaxy Enterprises generated revenue of $350,000 from Imergent. The revenue and expenses associated with these intercompany transactions have been eliminated in the consolidation of these entities.

(4) Going Concern

The accompanying financial statements have been prepared on the basis that the Company will continue as a going concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The Company has primarily incurred losses since its inception, and has a cumulative net loss of a $69,520,461 through June 30, 2002. At June 30, 2002 the Company had working capital of $289,438 and an equity balance of $2,468,574. For the years ended June 30, 2002, 2001 and 2000 the Company recorded negative cash flows from continuing operations of $3,857,303, $8,002,343 and $16,640,273 respectively. The Company has historically relied upon private placements of its stock and issuance of debt to generate funds to meet its operating needs. Management's plans include the raising of additional debt or equity capital. However, there can be no assurance that additional financing will be available on acceptable terms, if at all. The Company continues to work to improve the strength of its balance sheet and has restructured its ongoing operations in an effort to improve profitability and operating cash flow. If adequate funds are not generated the Company may not be able to execute its strategic plan and may be required to obtain funds through arrangements that require it to relinquish rights to all or part of the intellectual property of its Stores Online software or control of its business. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

(5) Acquisitions

In January 1999, the Company acquired 100% of the outstanding stock of Spartan Multimedia, Inc., a Canadian corporation, in exchange for 18,572 shares of common stock of StoresOnline.com, Ltd., a wholly-owned Canadian subsidiary valued at $557,145. The shares are convertible on a one-to-one basis into common stock of the Company. The issuance of an additional 18,572 shares was contingent upon the attainment of certain performance standards in future periods. In April 1999, the Board of Directors approved the issuance of the contingent shares and waived the performance standards. Accordingly, the consideration increased to $1,392,858. The acquisition of Spartan Multimedia, Inc. was recorded using the purchase method of accounting. The consideration was allocated based on the relative fair values of the tangible and intangible assets and liabilities acquired. The operations of Spartan Multimedia, Inc. are included in the consolidated statement of operations of the Company from January 15, 1999. During the year ended June 30, 2001 the Company ceased the operations of

StoresOnline.com, Ltd. and has written off the net book value of the goodwill related to the acquisition of StoresOnline.com, Ltd., a total of $834,331 that is included in operating expenses for the year ended June 30, 2001.

The StoresOnline.com Ltd. shares held by third parties has been recognized as a minority interest until such time as the shares are converted to the Company's common stock. As of June 30, 2002, 27,649 shares had been converted and recorded in stockholders' equity (capital deficit).

Effective May 31, 1999, Galaxy Enterprises acquired substantially all the net assets of Impact Media, LLC ("Impact") using the purchase method of accounting by assuming the liabilities of Impact. The purchase of Impact resulted in the recording of goodwill in the amount of $117,655, which was the extent to which liabilities assumed exceeded the fair values of the assets acquired. The terms of the Impact Media acquisition provided for additional consideration of up to 25,000 shares of common stock to be paid if certain agreed-upon targets are met during the years ended May 31, 2000 and May 31, 2001. As of June 30, 2000, one of the targets had been met, and as a result 11,971 shares of the Company's common stock were transferred to the former owners of Impact. The Company recorded additional goodwill of $138,625 for the fair value of these shares as an additional investment in Galaxy Enterprises' subsidiary, IMI, Inc. IMI, Inc. continued to conduct the business acquired from Impact. In January 2001, the Company sold its ownership interest in IMI, Inc (See Note 19).

(6) Change in Method of Accounting for Revenue

Effective October 1, 1999, the Company changed its method of accounting for certain revenue from the completed contract method to the percentage-of-completion method. The Company believes the percentage-of-completion method more accurately reflects the earnings process under the Company's contracts. The percentage-of-completion method is preferable according to Statement of Position 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts, issued by the American Institute of Certified Public Accountants. The new method has been applied retroactively by restating the Company's consolidated financial statements for prior periods in accordance with Accounting Principles Board Opinion No. 20.

The impact of the accounting change was a decrease in net loss and loss per share as follows:

	Net Loss	Loss per Share
Three months ended September 30, 1999......	$ 8,294	$0.00
Year ended June 30, 1999	$ 13,858	$0.00

(7) Selling of Accounts Receivable With Recourse

The Company offers to customers the option to finance, through Extended Payment Term Arrangements (EPTAs), purchases made at the Internet training workshops. A significant portion of these EPTAs, are then sold, on a discounted basis, to third party financial institutions for cash. EPTAs sold to third party financial institutions are generally subject to recourse by the purchasing finance company after an EPTA is determined to be uncollectible. For the fiscal year ended June 30, 2002 the company sold contracts totaling $4,279,724. The Company maintains a two percent bad debt allowance for doubtful accounts on all EPTAs that are purchased by finance companies. The Company works with various finance companies and continues to seek relationships with other potential purchasers of these EPTAs.

(8) Property and Equipment

Property and equipment balances at June 30, 2002 and 2001 are summarized as follows:

	2002	2001
Computers and office equipment.......	$ 1,384,557	$ 1,488,716
Furniture and fixtures...................	10,406	10,406
Leasehold improvements................	30,791	30,791
Software.................................	847,448	820,472
Automobiles.................................	31,000	-
Less accumulated depreciation..........	(1,894,742)	(1,575,523)
	$ 409,460	774,862

Amounts included in property and equipment for assets capitalized under capital lease obligations as of June 30, 2002 and 2001 are $422,106 and 394,384, respectively. Accumulated depreciation for the items under capitalized leases was $303,206 and 320,763 as of June 30, 2002 and 2001, respectively.

(9) Goodwill

Goodwill as of June 30, 2002 and 2001 is summarized as follows:

	2002	2001
Goodwill	$ 867,003	$ 867,003
Less accumulated amortization	(411,826)	(278,459)
	$ 455,177	$ 588,544

Net acquired technology and goodwill balances of $910,043 and $174,433 were written off during the second quarter of Fiscal 2001 as part of a corporate-wide business restructuring (see Note 2(g)).

(10) Loans Payable

In May 2001, the Company borrowed $100,000 from an individual who is the principal member of the company that purchased IMI from the Company. The amount was non-interest bearing and due on demand. In September 2001 the loan was converted into 33,333 shares ($3.00 per share) of common stock of the Company in connection with the Company's raising capital in a private placement of equity securities (See Note 18).

(11) Notes Payable

A note payable of $97,779 to a financial institution, bearing interest at the prime rate plus 3% per annum (10% at June 30, 2001) was due on November 1, 2001. The note was secured by certain equipment of the Company and was guaranteed by the Company's current Chief Executive Officer. The note was paid in full on September 24, 2001. Notes payable at June 30, 2002 consist of $430,087 of principal and interest payable to King William (see Note 13) and $124,144 due to Imperial Premium Finance Company. Maturities of notes payable are as follows:

Year ending June 30,	
2003	$ 160,671
2004	34,407
2005	34,407
2006	34,407
2007	290,339
Thereafter	-
	$ 554,231

(12) Notes Payable - Officers and Stockholders

During the year ended June 30, 2001 several officers and members of the Board of Directors loaned the Company an aggregate of $821,000. The loans were non-interest bearing exclusive of a note in the amount of $250,000 that bears interest at 18% per annum. The balance at June 30, 2001 was $140,000. The Company has imputed interest on the non-interest bearing loans at the rate of 18% per annum and recorded an aggregate of $38,756 as interest expense and as a contribution to capital during the year ended June 30, 2001. Principal payments made during the year ended June 30, 2001 aggregated $213,000 and in April 2001 the Company's President exchanged $118,000 of the amount due for 39,333 shares (market pricing on the date of conversion) of the Company's common stock. The total balance of the notes payable to officers and directors at June 30, 2001 was $490,000.

During the year ended June 30, 2002 several officers and members of the Board of Directors loaned the Company an aggregate of $273,976. Principal payments made during the year ended June 30, 2002 totaled $380,000. In addition, $383,976 was exchanged for 127,992 shares of common stock of the Company ($3.00 per share) during the year ended June 30, 2002.

(13) Convertible Debenture

In July 2000, the Company entered into a securities purchase agreement with King William, LLC ("King William"). Under the terms of the agreement, the Company issued to King William an 8% convertible debenture due July 31, 2003 in the principal amount of $4.5 million. The debenture was convertible at King William's option into the number of shares of our common stock at the lower of $17.90 or a conversion rate of 80% of the average market price of the common stock during any three non-consecutive trading days during the 20 trading days prior to conversion. The purchase price for the debenture was payable in two tranches. The first tranche of $2.5 million was paid at the closing in July 2000. The value of the beneficial conversion feature on the $2.5 million that has been drawn down was recorded as additional paid in capital and interest expense of $884,000 for the year ended June 30, 2001, as the convertible debentures were immediately exercisable.

In connection with the securities purchase agreement, the Company issued to King William a warrant to purchase 23,100 shares of the Company's common stock. In connection with the issuance of the debenture, the Company also issued to Roth Capital Partners, Inc., a warrant to purchase 9,000 shares of common stock and to Carbon Mesa Partners, LLC, a warrant to purchase 1,000 shares of common stock. Each of the warrants is exercisable for five years from the date of issue, at an exercise price of $16.25 per share and with cashless exercise and piggyback registration rights. The fair value of the warrants has been determined to equal $371,000 using the Black-Scholes pricing model with the following assumptions: dividend yield of zero, expected volatility of 80%, risk-free interest rate of 6.5% and expected life of 5 years. The $371,000 was accounted for as additional paid in capital and debt discount and was amortized over the life of the debt. The unamortized balance at June 30, 2002 and 2001 is $0 and $168,636, respectively.

Effective January 25, 2001, the Company reached an agreement with King William to restructure the debenture (the "Restructuring Agreement"). As of the date of the Restructuring Agreement the Company was in breach and/or violation of the Purchase Agreement, the Debenture, the King William Warrant Agreement, the Registration Rights Agreements and the Equity Agreement. However, pursuant to the terms of the Restructuring Agreement the holder of the convertible debenture has waived all of these defaults as of the date of the Restructuring Agreement. Under the terms of the Restructuring Agreement the agreements were terminated effective as of the date of the Restructuring Agreement and no termination payment or additional warrants were issued in connection therewith.

Under the terms of the Restructuring and Amendment Agreement the second tranche of the debenture will not be available to the Company. The Company agreed to repay the full amount of the Debenture plus a 15% premium ($375,000) with respect to the original principal amount in ten payments. As of the date of the Restructuring and Amendment Agreement the principal amount including accrued and unpaid interest was $2,972,781. Additionally, the Company has allowed King William to retain the right to convert any or all portions of the outstanding debt to equity, but only after the stock has traded at or above $30.00 for twenty consecutive trading days, or if the Company does not make a required payment of principal. Warrants already earned by King William were re-priced at $2.50 per share and King William was issued a warrant for an additional 26,900 shares of common stock at $2.50 per share. The incremental fair value of the re-pricing of the warrants and the issuance of new warrants, valued using the Black-Scholes pricing model with the following assumptions: dividend yield of zero, expected volatility of 170%, risk-free interest rate of 5% and expected life of 5 years, was $9,008 and $129,927, respectively. These costs were classified on the balance sheet as debt financing costs and were being amortized over the life of the debt. The unamortized balance as of June 30, 2002 and 2001 is $0 and $75,783, respectively. The initial payment of $250,000, as called for by the Restructuring and Amendment Agreement, was made during the first week of February 2001. A second payment to be paid on February 28, 2001 was not made.

In May 2001 King William elected to convert $200,000 of the principal and accrued and unpaid interest of the debenture (Conversion Amount) into 80,000 shares of Common Stock of the Company, at a conversion price of $2.50 per share. The Conversion Amount was credited toward the payment of $250,000 due on February 28, 2001, with the balance plus interest accrued to be paid on March 10, 2002. In addition, in May 2001, the Company entered into a Waiver Agreement with King William, LLC to amend certain of the terms of the Restructuring Agreement and to waive certain existing defaults under the Restructuring Agreement. The Waiver Agreement amended the Restructuring Agreement payment schedule to postpone the remaining April 2001 payment of $247,278 to February 2002 and the May 2001 payment of $247,278 to March 2002. As of the date of the Waiver Agreement King William has withdrawn and waived all defaults and violations.

Effective July 11, 2001 the Company and King William entered into a Second Restructuring Agreement. The Company agreed to pay, and King William agreed to accept, in full and final satisfaction of the Debenture at a closing effective September 10, 2001, (i) a cash payment of $100,000, (ii) a $400,000 promissory note of the Company due August 2004 bearing interest at 8% per annum and (iii) 280,000 shares of the Company's common stock. No accrued interest was payable in connection with these payments. King William has agreed to certain volume limitations relating to the subsequent sale of its shares of the Company's common stock and has also agreed to forgive the promissory note if the Company meets certain specific requirements including a minimal amount ($2,250,000) of proceeds King William receives from its sale of Company common stock. The Final Conversion Shares insure that King William will receive sufficient shares so that on the day of the closing King William will beneficially own common shares equal to 9.99% of the then outstanding shares of the Company. In September 2001 the Company issued the final conversion shares equal to 280,000. No gain or loss on the exchange of shares for debt was recorded in the accompanying financial statements. The Company was in default under the Second Restructuring Agreement for failure to make interest payments on November 10, 2001 and February 10, 2002, as called for by the agreement. King William may have accelerated payment of the unpaid balance of the note plus accrued interest upon written notice to the Company. No written notice of default had been received.

Effective February 13, 2002 the Company and King William agreed to amend certain terms of the Second Restructuring Agreement. The New Note is amended to provide for a final maturity on July 10, 2006 and to provide that interest shall accrue at the rate stated in the New Note and be added to the principal balance until August 13, 2002. In addition, interest payable may be paid in either cash or common stock of the Company, which common stock is to be valued at an amount equal to the average closing bid price of the Company's common stock during the five trading days prior to the date the interest payment is made. Upon the signing of this agreement the Company issued 10,000 shares of restricted common stock valued at $13,000. The Company is no longer required to file a registration statement with respect to the common stock of the Company currently held by King William or acquirable by it upon exercise of the warrants held by it. King William has waived any default by the Company under the Second Agreement and the New Note. Finally, the selling limitations in Section 4 of the Second Agreement are no longer in effect and King William is only bound by the limitations under Rule 144 relating to the resale of any securities.

(14) Convertible Long Term Notes

In January and April 2001, the Company issued long term Convertible Promissory Notes ("Notes") in a private placement offering totaling $2,076,500. The terms of Notes required them to be repaid on July 1, 2004 and April 4, 2004, respectively, plus accrual of interest at the rate of eight percent (8%) per annum. The Notes were convertible prior to the Maturity Date at the option of the Holder any time after July 1, 2001, or by the Company at any time after July 1, 2001 upon certain conditions as detailed in the Notes. The Notes were convertible into shares of common stock of the Company by dividing the Note balance on the date of conversion by $2.50, subject to Conversion Price Adjustments as defined in the agreement. The relative fair value of this Beneficial Conversion Feature of the notes was calculated to be $1,347,480 and was recorded as debt discount on the balance sheet, and was amortized over the life of the Notes in accordance with Emerging Issues Task Force issue 00-27 effective November 16, 2000.

In connection with the sale of the Notes, the Company issued a warrant to purchase a share of the Company's common stock at an exercise price of $5.00 per share for every two shares of Common Stock into which the Note is originally convertible. The Company issued a total of 366,100 warrants in connection with the sale of the Notes, with a date of expiration not to exceed sixty calendar

days following the commencement date of the warrants. The relative fair value of the warrants has been determined to be $512,540 and has been recorded as debt discount on the balance sheet and is amortized over the life of the Notes in accordance with Emerging Issues Task Force issue 00-27 effective November 16, 2000. None of the warrants were exercised.

The beneficial conversion feature and debt discounts of $1,347,480 and $512,540, respectively, have been netted against the $2,076,500 balance of the Notes on the Balance Sheet and are being amortized over the life of the Notes in accordance with Emerging Issues Task Force issue 00-27 effective November 16, 2000. The unamortized balance of the beneficial conversion feature and debt discount at June 30, 2002 and 2001 was $0 and $1,634,328, respectively.

On July 15, 2001 the Company sent a letter to all holders of the Notes explaining their right to convert their investment into common stock. The letter included a calculation of the interest the note holder had earned and offered to convert both the principal balance of the Note and the accrued interest into common stock at a conversions price of $2.50 per share.

As of December 31, 2001, all Note holders, holding $2,147,295 of aggregate principal and accrued interest, had exercised their right to convert both principal and accrued interest into 859,279 shares of common stock.

(15) Income Taxes

Income tax expense for the years ended June 30, 2002, 2001 and 2000 represents the Utah and California state minimum franchise tax and is included in selling, general and administrative expenses in the accompanying consolidated statements of operations.

Income tax (benefit) expense attributable to income (loss) from operations during the years ended June 30, 2002, 2001 and 2000 differed from the amounts computed by applying the U.S. federal income tax rate of 34 percent as a result of the following:

	2002	2001	2000
Computed "expected" tax (benefit) expense	$ 747,580	$ (1,237,170)	$(14,996,866)
Decrease (increase) in income tax resulting from: State and local income tax benefit, net of federal effect	101,583	(192,125)	(2,114,471)
Change in the valuation allowance for deferred tax assets	(5,634,171)	1,657,117	14,133,260
Other (including cancellation of debt)	4,785,008	(227,822)	122,077
Non-deductible stock compensation	-	-	2,856,000
Income tax expense	$ -	$ -	$ -

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at June 30, 2002 and 2001 are presented below:

	2002	2001
Deferred tax assets:		
Net operating loss carryforwards	$ 15,430,985	$ 17,754,865
Stock option expense	2,131,625	2,286,615
Deferred compensation	451,105	471,501
Accounts receivable principally due to allowance for doubtful accounts	1,226,526	998,477
Accrued expenses	346,206	110,306
Other	13,801	112,926
Deferred revenue	263,255	2,413,436
Legal fees	429,439	460,524
Property and equipment	139,085	-
Debt issuance costs	74,024	1,550,938
Total gross deferred tax assets	20,506,051	26,159,588
Less valuation allowance	(20,506,051)	(26,140,222)
Deferred tax liability:		
Property and equipment, principally due to differences in depreciation	-	(19,366)
Net deferred tax assets	$ -	$ -

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the

deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become includable. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based on the projections for future taxable income over the periods which the deferred tax assets are deductible, management believe it is more likely than not that the Company will not realize the benefits of these deductible differences. Such potential future benefits have been fully reserved, and accordingly, there are no net deferred tax assets.

As of June 30, 2002, the Company has net operating loss ("NOL") carryforwards of approximately of $40,000,000 available to reduce future taxable income of which a substantial portion is subject to limitations in accordance with Section 382 of the Internal Revenue Code. Additionally, the NOL carryforwards may be subject to further limitations should certain future ownership changes occur. The NOL carryforwards expire through 2022.

(16) Commitments and Contingencies

Operating Leases

The Company leases certain of its equipment and corporate offices under long-term operating lease agreements expiring at various dates through 2005. Future aggregate minimum obligations under operating leases as of June 30, 2002, exclusive of taxes and insurance, are as follows:

Year ending June 30,	
2003	$ 275,650
2004	279,975
2005	247,724
Thereafter	-
Total	$ 803,349

Rental expense for the years ended June 30, 2002, 2001 and 2000 was approximately $270,000, $582,000 and $721,000, respectively.

Employment Agreements

In connection with the merger in June 2000, the Company entered into employment agreements with four of its employees expiring June 2002. The agreements require aggregate salary payments of approximately $358,000, bonus payments in September 2000 of approximately $69,000 and the granting of 78,000 options to purchase the Company's common stock with an exercise price to be determined on the date of the grant. As of June 30, 2002 the options have not been granted.

In January 2001, the Company entered into severance agreements with three former executives of the Company. The agreements require cash payments aggregating $97,000 through June 30, 2001, and two of them provide for a one-half interest in certain licenses and equipment owned by the Company and a grant of options to purchase common stock of the Company proportionate to any options granted to the Chairman of Board of the Company. In August 2001, two of the individuals issued a demand letter to the Company, claiming that certain payments stipulated in the agreements had not been made and purporting to reassert their rights under their respective employment agreements. These demands were subsequently resolved and withdrawn. As of June 30, 2002 no options have been granted to the Chairman of the Board or the former executives.

Private Placement of Stock

The private placement conducted in January-April 2001 to a group of accredited investors occurred in part while a dormant but not effective registration statement was on file with the SEC with respect to a public offering of the Company's common stock by a third party deemed by current SEC interpretations to be an offering by the Company. Although the Company believes that these unregistered securities were issued pursuant to an available exemption under applicable securities laws, other current interpretations by securities regulators may not be consistent with their view and if in fact the interpretation is proven incorrect then, among other consequences, the purchasers of such securities would be entitled to exercise rescission rights with respect to their investment of total proceeds of $2,076,500, plus interest at rates determined by state statutes from the date of such offering to the date of payment. If the Company were required to make such an offer and it was accepted, then the required payments would exceed current cash resources of the Company and would require the Company to seek additional financing, most likely in the form of additional issuances of common stock, to make such payments and would materially and adversely affect the financial condition of the Company.

Category 5 Complaint

On October 23, 2001, the Company signed an Agreement and Plan of Merger with Category 5 Technologies, Inc. (C5T), pursuant to which, subject to stockholder approval, the Company would be acquired through a merger of a subsidiary of C5T into the Company. On January 15, 2002, the Company and C5T issued a joint press release to announce that they had executed a Termination and Release Agreement on January 14, 2002 to terminate the Agreement and Plan of Merger and to abandon the merger contemplated by such agreement. Pursuant to and upon the terms and conditions contained in the Termination and Release Agreement, the Company agreed to pay a reimbursement fee of $260,630 in various monthly installments of at least $20,000 to C5T in connection with the termination of the merger. The Company did not pay the first monthly installment due under the Termination and Release Agreement on February 1, 2002. On February 8, 2002, the Company received notice from Category 5 that it was in default

under the Termination and Release Agreement, and on February 12, 2002, the Company received an acceleration notice from Category 5, whereby Category 5 demanded payment of the entire reimbursement fee plus interest by February 18, 2002. The February 18, 2002 payment was not made. On April 8, 2002, C5T filed a Summons and Complaint against the Company for Breach of Contract, in the Third Judicial District Court in and for Salt Lake County, State of Utah, whereby C5T seeks judgment against the Company for breach of the Agreement and damages for the full amount of the Expense Reimbursement Fee. On April 11, 2002 the Company entered into a Waiver Agreement with C5T whereby payments due under the Termination Agreement are postponed for one year. Under the Waiver Agreement, the first payment will be due on February 1, 2003. The lawsuit has not, however, been withdrawn and the Company has been given an extension of time to respond. The Company does not believe that it is obligated to pay the Expense Reimbursement Fee; however, the Company is continuing to evaluate this situation and is working to resolve it. Due to the uncertainty of the outcome, the entire $260,630 fee has been accrued by the Company and is carried as a current liability.

Compliance with State and Federal Regulations

From time to time, the Company receives inquiries from attorney general offices and other regulators about civil and criminal compliance matters with various city, county, state and federal regulations. These inquiries sometimes rose to the level of threatened or actual investigations and/or litigation. In the past, the Company has received letters of inquiry from and/or has been made aware of investigations by government officials of the states of Hawaii, Illinois, Kentucky, Nebraska, North Carolina, Utah, Vermont, Texas, California and others, as well as from a regional office of the Federal Trade Commission and has responded to these inquiries and has generally been successful in addressing the concerns of these persons and entities, although there is often no formal closing of the inquiry or investigation. In the opinion of management, the outcome of any of these presently existing matters should not have a material adverse effect on the results of operations, cash flows or financial position of the Company.

General Litigation

The Company is involved in various legal proceedings arising in the normal course of its business. In the opinion of management, the outcome, if any, resulting from these matters will not have a material adverse effect on the results of operations, cash flows or financial position of the Company, but there can be no guarantee to this effect.

(17) Stock Option Plan

In July 1998, the Board of Directors adopted the 1998 Stock Compensation Program ("Program") which consists of, among other things, a non-qualified stock option plan. An aggregate of 100,000 shares were reserved for issuance under the Program. During the year ended June 30, 1999, the Company granted 98,335 options under the Program at exercise prices greater than and below the estimated market price of the Company's common stock on the date of grant ranging from $20.00 to $133.00 per share. The weighted-average fair value of options granted during the year ended June 30, 1999 under the Program was $34.40 per share. During the year ended June 30, 2000, the Company granted 12,642 options under the Program at exercise prices greater than and below the estimated market price of the Company's common stock on the date of grant ranging from $35.00 to $60.00 per share. The weighted-average fair value of options granted during the year ended June 30, 2000 under the Program was $35.90 per share. During the year ended June 30, 2001 the Company cancelled 60,326 options granted under the Program. The Company did not grant any options during the year ended June 30, 2001. During the year ended June 30, 2002, 250 options were cancelled. As of June 30, 2002 and 2001, options available for future grants under the Program totaled 65,613 and 65,363, respectively.

In December 1998, the Board of Directors adopted the 1998 Stock Option Plan (Plan) for Senior Executives. An aggregate of 500,000 shares were reserved for issuance under the Plan. During the year ended June 30, 1999, the Company granted 254,667 options under the Plan at exercise prices greater than and below the estimated market price of the Company's common stock on the date of grant ranging from $20.00 to $65.00 per share. The weighted-average fair value of the options granted under the Plan during the year ended June 30, 1999 was $26.90 per share. Subsequent to June 30, 1999, 224,667 of these options were cancelled. During the year ended June 30, 2000, the Company granted 55,071 options under the Plan at exercise prices greater than and below the estimated market price of the Company's common stock on the date of grant ranging from $35.00 to $92.50 per share. The weighted-average fair value of the options granted under the Plan during the year ended June 30, 2000 was $67.30 per share. During the year ended June 30, 2001 the Company granted 167,500 options under the Plan, with a weighted-average fair value of $7.10 per share. During the year ended June 30, 2002, 18,750 options were cancelled. There were 370,625 and 351,875 options available for future grants under the Plan as of June 30, 2002 and 2001, respectively.

In July 1999, the Board of Directors adopted the 1998 Stock Option Plan (Option Plan) for Non-Executives. An aggregate of 200,000 shares were reserved for issuance under the Option Plan; the reserve amount was later increased to 500,000 shares. During the year ended June 30, 2000, the Company granted 223,783 options under the Option Plan at exercise prices greater than and below the estimated market price of the Company's common stock on the date of grant ranging from $17.80 to $145.00 per share. The weighted-average fair value of the options granted under the Option Plan during the year ended June 30, 2000 was $73.40 per share. Also during the year ended June 30, 2000, 27,978 of these options were canceled. During the year ended June 30, 2001 the Company granted 165,550 options under the Option Plan, with a weighted-average fair value of $7.40 per share. During the year ended June 30, 2002, the Company granted 6,000 options under the Option Plan, with a weighted average fair value of $5.20, while 691 options were exercised. As of June 30, 2002 and 2001, there were 385,530 and 346,827 options, respectively, available for future grants under the

Option Plan.

Pursuant to the terms of the Company's merger with Galaxy Enterprises in June 2000, each outstanding option to purchase shares of Galaxy Enterprises' common stock under Galaxy Enterprises' 1997 Employee Stock Option Plan was assumed by the Company, whether or not vested and exercisable subject to the per share equivalent used to issue common shares in the merger accounted for as a pooling of interests. The Company assumed options exercisable for an aggregate of 106,347 shares of its common stock.

The following is a summary of stock option activity under the Company's stock option plans:

	Number of Shares	Weighted average exercise price
Balance at July 1, 1999	408,976	$ 36.50
Granted......................................	346,050	66.00
Exercised....................................	(34,572)	34.00
Canceled or expired..........................	(269,189)	31.30
Balance at June 30, 2000	451,265	62.40
Granted......................................	333,051	7.30
Exercised....................................	(2,001)	2.50
Canceled or expired..........................	(408,275)	45.00
Balance at June 30, 2001	374,038	21.10
Grantedn.....................................	6,000	5.20
Exercised....................................	(691)	2.50
Canceled or expired..........................	(66,082)	8.70
Balance at June 30, 2002	313,265	$ 23.30

The following table summarizes information about shares under option as of June 30, 2002:

Outstanding				Exercisable	
Range of Exercise Prices	Number of Options	Weighted Average Remaining Contractual Life	Weighted-Average Price	Number of Options	Weighted-Average Price
$.00 - $4.99	40,724	8.52	$ 2.50	40,724	$ 2.50
$5.00 - $7.49	47,250	8.42	5.03	42,563	5.03
$7.50	41,000	8.52	7.50	20,625	7.50
$7.60 - $10.00	42,750	8.50	9.99	875	9.99
$10.01 - $29.99	74,324	6.33	17.80	47,862	17.24
$30.00 - $59.99	16,330	7.57	37.70	16,172	37.77
$60.00 - $89.99	35,878	7.07	75.80	35,863	75.65
$90.00 - $113.10	15,009	7.18	103.80	14,344	102.99
	313,265	7.70	$ 23.30	219,028	$ 27.70

The Company applies APB Opinion No. 25 in accounting for stock options granted to employees, under which no compensation cost for stock options is recognized for stock option awards granted at or above fair market value. The Company recognized $652,825 of compensation expense for options granted below fair market value during the year ended June 30, 2000. The Company granted no employee stock options below market price during the years ended June 30, 2002 and 2001.

Had the Company determined compensation cost based on the fair value at the grant date for its stock options under SFAS No. 123, the Company's net income (loss) would have been changed to the pro forma amounts indicated below for the years ended June 30, 2002, 2001 and 2000.

	2002	2001	2000
Net income (loss) as reported	$ 2,198,769	$(3,638,736)	$(44,108,429)
Net income (loss) proforma	1,839,009	$(5,396,419)	$(46,776,831)
Net (income) loss per share as reported:			

Basic	$ 0.37	$(1.63)	$(23.83)
Diluted	$0.37	$(1.63)	$(23.83)
Net (income) loss per share pro forma:			
Basic	$0.31	$(2.42)	$(25.27)
Diluted	$0.31	$(2.42)	$(25.27)

The weighted average fair value at date of grant for options granted during 2002, 2001 and 2000 was calculated using the Black-Scholes pricing model with the following weighted average assumptions: dividend yield of zero for each year, expected volatility of 262%, 384% and 80%, respectively, risk free interest rate of 5%, 5%, and 5.5%, respectively and expected life of 4 years.

(18) Stockholders' Equity

Year ended June 30, 2000

In July 1999, the Company entered into a Cable Reseller and Mall agreement with MediaOne of Colorado, Inc. (MediaOne) whereby the Company also issued to MediaOne 5,000 shares of common stock and warrants to purchase 20,000 shares of common stock. The exercise price of the warrants is dependent upon the market price of the Company's common stock on the date that the warrants are earned under certain performance criteria. As of June 30, 2002, the performance criteria had not been met.

In October 1999, the Company issued 118,877 shares of common stock upon the cashless exercise of warrants and 120,000 shares of common stock valued at $8,400,000 to three executives upon the cancellation of 198,000 options.

In November and December 1999, the Company sold 415,535 shares of common stock in a public offering generating net proceeds of $25,313,863. The Company also granted 19,025 warrants as stock issuance costs.

During the period December 1999 through June 2000, the Company issued 23,958 shares of common stock upon the exchange of common stock of its StoresOnline.com, Ltd. subsidiary, pursuant to the terms of the original issuance of StoresOnline.com Ltd.'s common stock.

During the year ended June 30, 2000, the Company issued 53,859 shares of common stock valued at $3,660,498 for services, of which 50,000 shares were issued to the chief executive officer of the Company.

During the year ended June 30, 2000, the Company sold 14,593 shares of common stock in exchange for cash of $300,000.

Year ended June 30, 2001

During the year ended June 30, 2001, the Company issued 3,714 shares of common stock upon the exchange of common stock of its StoresOnline.com, Ltd. subsidiary, pursuant to the terms of the original issuance of common stock of StoresOnline.com Ltd. In addition, the Company issued 2,001 shares upon the exercise of employee options and issued 700 shares at fair market value on the date of issuance of common stock pursuant to employment contracts during the year ended June 30, 2001. The Company also issued 151,317 shares of common stock to officers of the Company for payment of past due wages, employment agreement obligations, and accrued liabilities at fair market value on the date of issuance. In addition, the Company issued 39,333 shares of common stock to an officer of the Company as payment in full of a note due to the officer, and issued 4,080 shares of common stock to an outside party for services at fair market value on the date of issuance.

In June 2001 pursuant to a private placement agreement, the Company received subscription agreements aggregating $398,200 for the sale of common stock at a price of $3.00 per share. As of June 30, 2001 the Company had collected $291,200 of these subscriptions and recorded a receivable of $107,000 that was subsequently received.

Year ended June 30, 2002

On August 1, 2001, the Company entered into an agreement with Electronic Commerce International ("ECI"), a company owned by Jay Poelman who was at that time a director of and the president of the Company, pursuant to which, among other matters, the Company agreed to issue to them a total of 83,192 shares of common stock of the Company at a price of $3.00 per share in exchange for the release by ECI of trade claims by them against the Company totaling $249,575. In connection with the exchange, the Company recorded a charge of $199,657, representing the difference between the market value and the exchange rate, which is included in cost of revenue.

During September 2001 the Company issued 280,000 common shares upon conversion of a long-term convertible debenture (see Note 13).

On November 13, 2001, the Company issued 233,333 shares of the common stock of the Company, and recorded an amount of $150,000 in its accounts payable, pursuant to the October 10, 2001 agreement with SBI E-2 Capital (USA) Ltd., for services as a financial advisor to the Company in connection with the acquisition of the Company by Category 5 Technologies. A member of the Company's Board of Directors at that time was a managing director of SBI E-2 Capital (USA) Ltd. The business combination transaction between the Company and Category Five Technologies, Inc. was never consummated. On account of the termination of this proposed transaction, SBI E-2 Capital (USA) Ltd. was not able to complete the provision of the financial advisory services to the Company. On February 1, 2002 an agreement was entered into between the Company and SBI E-2 Capital (USA) Ltd. to rescind and nullify the issuance of the common stock pursuant to the October 10 agreement and the related designation by SBI E-2 Capital (USA) Ltd. of certain persons to whom certain of the shares should be issued. Pursuant to the

Rescission Agreement, the certificates representing all 233,333 shares of the common stock were returned to the Company, together with all documentation to transfer legal title in the common stock back to the Company. In addition, SBI E-2 and the designees disclaimed any interest whatsoever in the common stock. Upon receipt of the certificates representing the common stock, the Company directed its transfer agent to cancel the common stock from its books and records. As a result of the Rescission Agreement, the Company did not record the issuance of the shares during the three months ending December 31, 2001 and does not reflect the shares outstanding as of June 30, 2002.

On November 28, 2001 the Company issued 5,000 shares of common stock as settlement for contractual obligations to National Financial Communications Corp. (NFCC).

On November 28, 2001 the Company issued 15,000 shares of common stock as settlement for contractual obligations to Howard Effron.

During the twelve month period June 30, 2002, the Company converted long-term convertible notes totaling $2,147,294 of principle and interest into 859,279 shares of common stock (see Note 14.)

On February 27, 2002 the Company issued 10,000 shares of common stock pursuant to the amendment of the Second Restructuring Agreement with King William LLC.

On June 12, 2002 the Company issued an aggregate of 112,500 shares of common stock to SBI and its designees for services rendered in connection with the Company's private placement that closed in May 2002 (see Note 21).

On June 20, 2002 the Company issued 20,000 shares of common stock to Howard Effron for services as a financial advisor.

During the twelve month period ended June 30, 2002, the Company issued 691 shares of common stock upon the exercise of employee stock options.

During the twelve months ended June 30, 2002, the Company closed two private placements. In the first, which closed in November 2001, the Company issued 1,061,226 shares of common stock at a price of $3.00 per share and recorded $285,223 of placement agent and finders' fees relating to the private placement offering against Additional Paid in Capital. In the second private placement, which closed in May 2002, the Company issued 6,102,869 shares of common stock at a price of $0.40 per share and recorded $228,691 of placement agent and finders' fees relating to the private placement offering against Additional Paid in Capital.

(19) Discontinued Operations

On January 11, 2001, the Company sold all of the outstanding shares of IMI, Inc. (see Note 20) and accordingly has reported the operations of IMI as discontinued operations for all of the periods presented. Certain information with respect to discontinued operations of IMI is summarized as follows. Operating results for the year ended June 30, 2001 include the operating activity through January 11, 2001.

	Year Ended June 30	
	2001	2000
Revenue	$ 1,116,863	$5,275,110
Cost of revenue	703,831	5,467,840
Gross profit (loss)	413,032	(192,730)
Total operating expenses	698,580	1,124,467
Loss from discontinued operations before other item shown below	(285,548)	(1,317,197)
Other expense	(232)	(1,318)
Net loss from discontinued operations	$(285,780)	$(1,318,515)

(20) Extraordinary Items

During the year ended June 30, 2001, the Company restructured its operations and combined its California facility with its facility in Utah. In connection with this decision, certain assets of the Company, which were owned prior to the merger in June 2000, were disposed. In accordance with Accounting Principles Board Opinion No.16 Accounting for Business Combinations relating to the disposition of assets of the previously separate entities in a pooling of interests combination, the Company recorded an extraordinary charge of an aggregate of $1,091,052.

On January 11, 2001, the Company sold all of the outstanding shares of IMI, Inc., dba Impact Media, a wholly-owned subsidiary, for $1,631,589 to Capistrano Capital, LLC ("Capistrano"). The principal shareholder of Capistrano subsequently became a stockholder of the Company. The Company received from Capistrano a cash payment of $300,000, with the balance owing of $1,331,589 in the form of a long-term note bearing interest at 8% per annum, payable by Capistrano. Principal payments under the note are due based on IMI's product sales, due no later than January 2011. Due to the uncertainty of the ultimate collectibility of the note, management has recorded a reserve on the entire note balance at June 30, 2001. The reserve has been netted against the gain on disposal of IMI. The net gain recorded on the sale of $363,656 has been included as an extraordinary item as a gain on disposal of assets subsequent to merger in the accompanying financial statements.

In January 2001 the Company entered into an agreement with an unrelated

third party to negotiate settlement agreements with vendors and other debtors, relating mainly to the ICC (business-to-business) and CableCommerce divisions. Prior to June 30, 2001 approximately $2.5 million in obligations were settled for approximately $800,000, resulting in an extraordinary gain of $1,688,956.

(21) Related Entity Transactions

The Company utilizes the services of Electronic Commerce International, Inc. ("ECI"), a Utah corporation, to provide a credit card merchant account solution to our customers and formerly provided a leasing opportunity to customers who purchased our products at the Internet training workshops. The Company buys a product from ECI that provides on-line, real-time processing of credit card transactions and resells it to its customers. John J. Poelman, Chief Executive Officer, a director and a stockholder of the Company, was the sole owner of ECI during the fiscal years ended June 30, 2002, 2001 and 2000. Total revenue generated by the Company from the sale of ECI merchant account solutions was $5,106,494, $6,403,478 and $2,412,800 for the years ended June 30, 2002, 2001 and 2000, respectively. The cost to the Company for these products and services totaled $994,043, $975,257 and $1,110,404 for the years ended June 30, 2002, 2001 and 2000, respectively. During the years ended June 30, 2002, 2001 and 2000 the Company processed leasing transactions for its customers through ECI in the amounts of $1,090,520, $3,386,231, and $2,450,292, respectively. As of June 30, 2002 and 2001 the Company had a receivable from ECI for leases in process of $0 and $90,109, respectively. In addition, the Company had $26,702 and $516,858 as of June 30, 2002 and 2001, respectively, recorded in accounts payable relating to the amounts owed to ECI for the purchase of the merchant account software.

The Company offers its customers at its Internet training workshops, and through backend telemarketing sales, certain products intended to assist the customer in being successful with their business. These products include live chat and web traffic building services. The Company utilizes Electronic Marketing Services, LLC. ("EMS") to fulfill these services to the Company's customers. In addition, EMS provides telemarketing services, selling some of the Company's products and services. Ryan Poelman, who owns EMS, is the son of John J. Poelman, Chief Executive Officer, a director and a stockholder of the Company. The Company's revenues generated from the above products and services were $4,806,497, $1,263,793 and $0 for the years ended June 30, 2002, 2001 and 2000, respectively. The Company paid EMS $479,984, $78,435, and $0 to fulfill these services during the years ended June 30, 2002, 2001 and 2000, respectively.

The Company engaged vFinance Investments, Inc. ("vFinance") as a financial advisor and placement agent for its private placement of unregistered securities that closed during May 2002. Shelly Singha1, a former member of the Company's Board of Directors, was a principal of vFinance at the time of private placement. During the year ended June 30, 2002 the Company paid vFinance $61,500 in fees and commissions for their services. The offering was successful with adjusted gross proceeds to the Company of $2,185,995.

The Company engaged SBI-E2 Capital USA Ltd. ("SBI") as a financial consultant to provide various financial services. Shelly Singhal, a former member of the Company's Board of Directors, is a managing director of SBI. During the year ended June 30, 2002 SBI provided the Company with a Fairness Opinion relating to the proposed merger with Category 5 Technologies, for which the Company was billed $152,437, of which the Company has paid $67,437, and $85,000 was still payable to SBI as of June 30, 2002.

The Company also paid SBI $58,679 for expenses & commissions relating to its private placement of unregistered securities which closed during November 2001. Adjusted gross proceeds to the Company from the offering totaled $2,898,455.

In addition, the Company paid SBI a total of $40,000 and issued to it and various of its designees an aggregate of 112,500 shares of the Company's common stock in payment for services rendered to the Company in connection with its private placement of common stock that closed in May 2002.

During the year ended June 30, 2001 the Company issued 12,500 warrants to Shelly Singhal, a former member of the Company's Board of Directors, for non-director services rendered. The warrants were valued using the Black-Scholes pricing model at $40,657.

(22) Segment Information

The Company has operated under two principal business segments (Internet services and multimedia products). The primary business segment (Internet services) is engaged in the business of providing its customers the ability to (i) acquire a presence on the Internet and (ii) to advertise and sell their products or services on the Internet. A secondary business segment (multimedia services) has been engaged in providing assistance in the design, manufacture and marketing of multimedia brochure kits, shaped compact discs and similar products and services intended to facilitate conducting business over the Internet. This second segment was sold on January 11, 2001 and accordingly is reported as discontinued operations in the accompanying consolidated statements of operations. As a result, the Company now operates in one business segment.

(23) Subsequent Event

On June 28, 2002 a special shareholders meeting was held to vote on three proposed amendments to the Certificate of Incorporation of the Company. The three proposed amendments included a one-for-ten reverse split of common stock shares, a reduction in the authorized number of shares outstanding from 250,000,000 to 100,000,000, and a change in the name of the Company to Imergent, Inc. All three proposed amendments were approved. Effective July 3, 2002 the shares of common stock began trading under the name Imergent, Inc. Also, beginning July 3, 2002 the shares of common stock outstanding of the Company

reflected the one-for-ten reverse split.

(24) Quarterly Financial Information (unaudited)

Fiscal Year 2002	Quarter Ended			
	09/30/01	12/31/01	03/31/02	06/30/02
Revenue	$ 11,634,043	$ 7,455,746	$ 7,296,696	$ 10,964,365
Gross profit	10,044,474	6,159,180	5,804,382	8,817,014
Income (loss) from continuing operations	2,335,308	(185,688)	377,335	(328,186)
Income (loss) from discontinued operations	-	-	-	-
Income (loss) from extraordinary items	-	-	-	-
Net income (loss)	$ 2,335,308	$ (185,688)	$ 337,335	$ (328,186)
Basic income (loss) per share:				
Income (loss) from continuing operations	$ 0.68	$ (0.04)	$ 0.08	$ (0.04)
Income (loss) from discontinued operations	-	-	-	-
Income (loss) from extraordinary items	-	-	-	-
Net income (loss)	$ 0.68	$ (0.04)	$ 0.07	$ (0.04)
Diluted income (loss) per share:				
Income (loss) from continuing operations	$ 0.66	$ (0.04)	$ 0.08	$ (0.04)
Income (loss) from discontinued operations	-	-	-	-
Income (loss) from extraordinary items	-	-	-	-
Net income (loss)	$ 0.66	$ (0.04)	$ 0.07	$ (0.04)
Weighted average Common shares outstanding				
Basic	3,450,711	4,388,230	4,833,462	9,035,396
Diluted (1)	3,539,724	4,388,230	4,833,462	9,035,396

Fiscal Year 2001	Quarter Ended			
	09/30/00	12/31/00	03/31/01	06/30/01
Revenue	$ 7,425,857	$ 14,179,643	$ 7,886,385	$ 13,508,648
Gross profit	5,235,950	11,952,131	5,753,014	11,633,863
Income (loss) from continuing operations	(6,478,573)	(2,011,994)	1,211,000	2,965,051
Income (loss) from discontinued operations	(201,462)	(83,190)	(1,128)	-
Income (loss) from extraordinary items	-	(1,091,052)	363,656	1,688,956
Net income (loss)	$(6,680,035)	$ (3,186,236)	$ 1,573,528	$ 4,654,007
Basic income (loss) per share:				
Income (loss) from continuing operations	$ (3.00)$	$ (0.90)	$ 0.60	$ 1.20
Income (loss) from discontinued operations	(0.10)	(0.10)	-	-
Income (loss) from extraordinary items	-	(0.50)	0.20	0.70
Net income (loss)	$ (3.10)	$ (1.50)	$ 0.80	$ 1.90
Diluted income (loss) per share:				
Income (loss) from continuing operations	$ (3.00)	$ (0.90)	$ 0.30	$ 0.90
Income (loss) from discontinued operations	(0.10)	(0.10)	-	-
Income (loss) from extraordinary items	-	(0.50)	0.10	0.40
Net income (loss)	$ (3.10)	$ (1.50)	$ 0.40	$ 1.30
Weighted average Common shares outstanding				
Basic	2,169,146	2,169,146	2,169,479	2,404,402
Diluted (1)	2,169,146	2,169,146	4,127,412	3,950,085

Fiscal Year 2000	Quarter Ended			
	9/30/99	12/31/99	3/31/00	6/30/00
Revenue	$ 3,942,509	$ 4,671,502	$ 6,587,123	$ 6,948,515
Gross profit	1,638,160	3,584,244	5,024,566	3,437,588
Loss from continuing operations	(5,143,546)	(21,687,644)	(7,550,983)	(8,407,741)
Loss from discontinued operations	(75,471)	(756,644)	(196,666)	(289,734)
Net loss	$(5,219,017)	$(22,444,288)	$(7,747,649)	$ (8,697,475)
Basic and diluted loss per share:				
Loss from continuing operations	$ (3.70)	$ (12.30)	$ (4.80)	$ $ (2.30)
Loss from discontinued operations	(0.10)	(0.40)	(0.10)	(0.10)
Net loss	$ (3.80)	$ (12.70)	$ (4.90)	$ (2.40)

(1) Includes the dilutive effect of options, warrants and convertible securities.

(25) Income (Loss) Per Share

The following data was used in computing income (loss) per share:

	Year ended June 30,		
	2002	2001	2000
Income (loss) available to common shareholders	$ 2,198,769	$ (3,638,736)	$ (44,108,429)
Basic EPS			
Shares			
Common shares outstanding entire period	2,446,018	2,164,873	1,561,315
Weighted average common shares:			
Issued during period	3,427,636	63,092	289,799
Canceled during period	-	-	-
Weighted average common shares outstanding during period	5,873,654	2,227,965	1,851,114
Income (loss) per common share - basic	$ 0.37	$ (1.63)	$ (23.83)
Diluted EPS			
Weighted average common shares outstanding during period - basic	5,873,654	2,227,965	1,851,114
Dilutive effect of stock equivalents	4,750	-	-
Weighted average common shares outstanding during period - diluted	5,878,404	2,227,965	1,851,114
Income (loss) per common share - diluted	$ 0.37	$ (1.63)	(23.83)

Income (loss) per share is computed independently for each of the quarters presented. Therefore, the sum of quarterly income (loss) per share amounts do not necessarily equal the total for the year due to rounding.

IMERGENT, INC.

Schedule II- Valuation and Qualifying Accounts

Years ended June 30, 2002, 2001 and 2000

	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions/ Write-off	Balance at End of Period
Year ended June 30, 2002				
Deducted from accounts receivable:				
Allowance for doubtful accounts sales returns, credit card chargebacks, and other assets	$ 3,679,017	$ 6,675,238	$ 6,940,274	$ 3,413,981
Year ended June 30, 2001 Deducted from accounts receivable:				
Allowance for doubtful accounts sales returns, credit card chargebacks, and other assets	960,601	3,475,492	757,076	3,679,017
Year ended June 30, 2000 Deducted from accounts receivable:				
Allowance for doubtful accounts sales returns, credit card chargebacks and other assets	$ 36,925	1,159,022	235,346	$ 960,601

EXHIBIT INDEX

Exhibit No.	Exhibit Description	Incorporated by Reference Form	Date	Number	Filed Herewith
2.1	Agreement and Plan of Merger dated March 10, 2000 by and among Netgateway, Inc., Galaxy Acquisition Corp. and Galaxy Enterprises, Inc.	8-K	3/21/00	10.1	
3.1	Certificate of Incorporation	S-1	6/1/99	3.1	
3.2	Certificate of Amendment to Certificate of Incorporation	S-1	9/7/00	3.1	
3.3	Certificate of Amendment to Certificate of Incorporation	-	-	-	X
3.4	Amended and Restated Bylaws	10-Q	11/20/01	3.2	
3.5	Certificate of Ownership and Merger (4)	S-1/A	11/12/99	3.3	
3.6	Articles of Merger	S-1/A	11/12/99	3.4	
4.1	Form of Common Stock Certificate	-	-	-	X
4.2	Form of Representatives' Warrant	S-1	6/1/99	4.1	
10.1	1998 Stock Compensation Program	S-1	6/1/99	10.6	
10.2	1998 Stock Option Plan for Senior Executives	S-1	6/1/99	10.7	
10.3	1999 Stock Option Plan for Employees	S-1/A	10/14/99	10.35	
10.4	Internet Services Agreement dated as of October 25, 1999 between Netgateway, Inc. and Bergen Brunswig Drug Company	S-1/A	11/12/99	10.53	
10.5	Securities Purchase Agreement dated July 31, 2000 between Netgateway, Inc. and King William, LLC.	S-1	9/7/00	10.95	
10.6	Form of 8% Convertible Debenture Due July 31, 2003	S-1	9/7/00	10.96	
10.7	Registration Rights Agreement dated July 31, 2000 between Netgateway, Inc. and King William, LLC	S-1	9/7/00	10.97	
10.8	Form of Common Stock Purchase Warrant	S-1	9/7/00	10.98	
10.9	Private Equity Credit Agreement dated August 2, 2000 between Netgateway, Inc. and King William, LLC	S-1	9/7/00	10.99	
10.10	Registration Rights Agreement dated August 2, 2000 between Netgateway, Inc. and King William, LLC	S-1	9/7/00	10.100	
10.11	Stock Purchase Agreement dated January 11, 2001 between Galaxy Enterprises, Inc. and Capistrano Capital, LLC.	8-K	1/16/01	10.82	
10.12	Note dated January 11, 2001 issued to Galaxy Enterprises, Inc. by IMI, Inc.	8-K	1/16/01	10.83	
10.13	Security Agreement dated January 11, 2001 among Galaxy Enterprises, Inc., Galaxy Mall, Inc. Netgateway, Inc. and IMI, Inc.	8-K	1/16/01	10.84	
10.14	Restructuring and Amendment Agreement dated January 25, 2001 between Netgateway and King William, LLC	10-Q	2/14/01	10.85	
10.15	Settlement Agreement and Mutual Release dated March 27, 2001 between CONVANSYS, Inc. and Netgateway, Inc.	10-Q	5/15/01	10.86	
10.16	Form of Convertible Promissory Note.	10-Q	5/15/01	10.87	
10.17	Form of Note Purchase Agreement.	10-Q	5/15/01	10.88	
10.18	Form of Note Purchase Agreement with warrants.	10-Q	5/15/01	10.89	
10.19	Form of Common Stock Purchase Warrant.	10-Q	5/15/01	10.90	
10.20	Waiver Agreement dated May 9, 2001 between Netgateway and King William, LLC.	10-Q	5/15/01	10.91	
10.21	Letter Agreement dated January 10, 2001 between Netgateway and Keith Freadhoff.	10-Q	5/15/01	10.92	
10.22	Letter Agreement dated January 10, 2001 between Netgateway and Donald M. Corliss.	10-Q	5/15/01	10.93	
10.23	Letter Agreement dated January 10, 2001 between Netgateway and Jill Glashow Padwa	10-Q	5/15/01	10.95	
10.24	Form of Debt Settlement Agreement with Netgateway executive officers dated as of April 5, 2001	10-K	10/15/01	10.115	
10.25	Form of Private Placement Subscription Agreement	10-K	10/15/01	10.116	
10.26	Second Restructuring Agreement dated as of July 11, 2001 between Netgateway, Inc. and King William, LLC	10-K	10/15/01	10.117	
10.27	Promissory Note from Netgateway, Inc. to King William, LLC	10-K	10/15/01	10.118	
10.28	Finder's Agreement dated as of June 14, 2001 between SBI E2-Capital (USA) Inc. and Netgateway, Inc.	10-K	10/15/01	10.119	
10.29	Lease dated May 7, 1999 between Novell, Inc. and Galaxy Mall, Inc., along with a first amendment dated as of September 17, 1999 and a second amendment dated as of September 18, 2000	10-K	10/15/01	10.120	
10.30	Placement Agent Agreement dated as of June 1, 2001 between Netgateway, Inc. and Alpine Securities, Inc.	10-K	10/15/01	10.121	
10.31	Agreement and Plan of Merger among Netgateway, Inc., Category 5 Technologies, Inc., and C5T Acquisition Corp., dated October 23, 2001	10-Q	11/20/01	2.1	
10.32	Engagement Agreement dated October 10, 2001 between Netgateway, Inc. and SBI E2-Capital (USA) Ltd.	10-Q	11/20/01	10.124	
10.33	Termination and Release Agreement dated January 14, 2002 among Netgateway, Inc., Category 5 Technologies, Inc. and C5T Acquisition Corp.	8-K	1/18/02	2.1	
10.34	Rescission Agreement dated February 1, 2002 between Netgateway, Inc and SBI-E2 Capital (USA) Ltd. et al.	10-Q	2/14/02	10.125	
10.35	Letter Agreement re: Modification of August Restructuring Agreement as of February 13, 2002 between Netgateway, Inc. and King William LLC	10-Q	5/8/02	10.126	
10.36	Agreement dated February 15, 2002 between SBI E2-Capital (USA) Ltd. and Netgateway, Inc.				X
10.37	Agreement dated March 22, 2002 between vFinance Investments, Inc. and Netgateway, Inc.				X
18.1	Letter dated February 9, 2000 from KPMG LLP	10-Q	2/15/00	18.1	
21.1	Subsidiaries of Netgateway				X
23.1	Consent of KPMG LLP				X

23.2	Consent of Eisner LLP (formerly known as Richard A. Eisner & Company, LLP)	X
23.3	Consent of Grant Thornton LLP	X
99.1	Certification pursuant to 18 U.S.C. Section 1350	X
99.2	Certification pursuant to 18 U.S.C. Section 1350	X

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Imergent, Inc.

By: /s/ John J. Poelman
October 15, 2002
John J. Poelman
Chief Executive Officer

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

	/s/ Donald L. Danks
October 15, 2002	Donald L. Danks
	Chairman of the Board of Directors
	/s/ John J. Poelman
October 15, 2002	John J. Poelman
	Chief Executive Officer and Director
October 15, 2002	/s/ Frank C. Heyman
	Frank C. Heyman
	Chief Financial Officer
October 15, 2002	/s/ Brandon Lewis
	Brandon Lewis
	President and Director

CERTIFICATION

I, John J. Poelman, certify that:

1. I have reviewed this annual report on Form 10-K of Imergent, Inc.;

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

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

October 15, 2002

/s/ JOHN J. POELMAN
John J. Poelman,
Chief Executive Officer

CERTIFICATION

I, Frank C. Heyman, certify that:

1. I have reviewed this annual report on Form 10-K of Imergent, Inc.;

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

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

October 15, 2002

/s/ FRANK C. HEYMAN
Frank C. Heyman
Chief Financial Officer

CERTIFICATE OF AMENDMENT

TO THE CERTIFICATE OF INCORPORATION

OF NETGATEWAY, INC.

Netgateway, Inc. a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the "Corporation"), DOES HEREBY CERTIFY as follows:

1. That Article FIRST of the Corporation's Certificate of Incorporation is hereby amended to read as follows:

   "FIRST. The name of the corporation is Imergent, Inc. (the "Corporation")."

2. That Article FOURTH of the Corporation's Certificate of Incorporation is hereby amended by adding the following new first paragraph to Article FOURTH, Paragraph A:

   "FOURTH. A. (1) That, effective as of 5:00 p.m., eastern time, on the filing date of this Certificate of Amendment of this Certificate of Incorporation (the "Effective Time"), a one-for-ten reverse stock split of the Corporation's common stock shall become effective, pursuant to which each ten shares of common stock outstanding and held of record by each stockholder of the Corporation (including treasury shares) immediately prior to the Effective Time shall be reclassified and combined into one share of common stock automatically and without any action by the holder thereof upon the Effective Time and shall represent one share of common stock from and after the Effective Time. No fractional shares of common stock shall be issued as a result of such reclassification and combination. In lieu of any fractional shares to which the stockholder would otherwise be entitled, the Corporation shall pay cash equal to such fraction multiplied by the then fair market value of the common stock as determined by the Board of Directors of the Corporation."

3. That the existing paragraph A of Article FOURTH of the Corporation's Certificate of Incorporation hereby becomes the second sub-paragraph of Article FOURTH, Paragraph A and is changed to read as follows:

   "(2) The aggregate number of shares which the Corporation shall have authority to issue is 105,000,000, par value $.001 per share, of which 100,000,000 shall be designated Common Shares and 5,000,000 shares shall be designated Preferred Shares."

4. That the Board of Directors of the Corporation, at a meeting held on May 9, 2002, adopted a resolution proposing and declaring advisable the above amendments to the Certificate of Incorporation of the Corporation and directed the said amendments be submitted for consideration at a special meeting of the Corporation's stockholders.

5. That the aforesaid amendments have been duly adopted in accordance with the applicable provisions of Section 242 of the General Corporation Law of the State of Delaware.

6. That this Certificate of Amendment of the Corporation's Certificate of Incorporation shall be effective at 5:00 p.m., eastern time, on the date of filing with the Secretary of the State of Delaware.

IN WITNESS WHEREOF, Netgateway, Inc. has caused this Certificate to be signed by John J. Poelman, its Chief Executive Officer and a Director, and attested by Frank C. Heyman, its Secretary and Chief Financial Officer, this 28th day of June, 2002.

NETGATEWAY, INC.

By:

John J. Poelman
Director and Chief Executive Officer

Attest:

Frank C. Heyman
Secretary and Chief Financial Officer

SAMPLE ONLY

NUMBER | Imergent, Inc. | SHARES

INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE

COMMON STOCK
PAR VALUE $.001

CUSIP 45247Q 10 0
SEE REVERSE FOR CERTAIN DEFINITIONS

THIS CERTIFIES that

____

is the record holder of ______________________________

FULLY PAID AND NON-ASSESSABLE SHARES OF THE COMMON STOCK, PAR VALUE $.001, OF

IMERGENT, INC.

transferable on the books of the Corporation by the holder hereof in person or by duly authorized attorney upon the surrender of this certificate properly endorsed. This certificate and the shares represented hereby are issued and shall be held subject to the laws of the State of Delaware and all provisions of the Certificate of Incorporation, and the By-laws of the Corporation all as from time to time amended (copies thereof being on file with the Secretary of the Corporation) and the holder hereof, accepting this certificate, expressly assents thereto. This Certificate is not valid unless countersigned and registered by the Transfer Agent and Registrar.

[SEAL] WITNESS the seal of the Corporation and the facsimile signatures of its duly authorized officers.

COUNTERSIGNED AND REGISTERED
COLONIAL STOCK TRANSFER
Salt Lake City, Utah

By
TRANSFER AGENT AND REGISTRAR-
AUTHORIZED SIGNATURE

DATED:

Frank C. Heyman
Chief Financial Officer and Secretary

John J. Poelman
Chief Executive Officer

[LOGO]
SBI
E2-Capital

February 15, 2002

Netgateway, Inc.
754 E. Technology Avenue
Orem, UT 84097

Attention: Don Danks
Chairman of the Board of Directors and
Chief Executive Officer

Gentlemen:

1. We understand that Netgateway, Inc., (the "Company") intends to conduct a private offering of securities at a valuation of $0.03 per common share (the "Offering"):

2. The purpose of this letter is to confirm the agreement (the "Agreement") through which SBI E2-Capital (USA) Ltd. ("SBI") is engaged to serve as a financial advisor ("Advisor") to the Company previous to and during the Offering period.

3. During the term of this Agreement, the Advisor will provide the Company with (1) such regular and customary advice as is reasonably requested by the Company, provided that the Advisor shall not be required to undertake duties not reasonably within the scope of the advisory service contemplated by this Agreement, and (2) a fairness opinion (the "Fairness Opinion") to be provided to the Board of Directors of the Company relative to the proposed offering price. In performance of these duties, the Advisor shall provide the Company with the benefits of its best judgment and efforts. It is understood and acknowledged by the parties that the value of the Advisor's advice is not measurable in any quantitative manner, and that the Advisor shall be obligated to render advice, upon the request of the Company, in good faith, but shall not be obligated to spend any specific amount of time in doing so.

4. In connection with our activities on your behalf, the Company agrees to cooperate with us, to furnish or cause to be furnished to us such information and data as we may reasonably request, and to give us reasonable access to the Company's officers, directors, employees, appraisers, and independent accountants. The Company represents that all information made available to SBI by the Company will be complete and correct in all material respects and will not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein not misleading in light of the circumstances under which such statements are made. The Company further represents and warrants that any projections provided by it to SBI will have been prepared in good faith and will be based on assumption which, in light of the circumstances under which they are made, are reasonable. The Company acknowledges and agrees that in rendering its services hereunder, SBI will be using and relying on the Information (and information available from public sources and other sources deemed reliable by SBI) without independent verification thereof by SBI, and SBI does not assume responsibility for the accuracy or completeness of the information or any other information regarding the Company or the Engagement.

5. For our services in serving as Advisor, the Company shall pay, or cause to be paid, to SBI a fee equal to $45,000 which shall be paid by the issuance of 1,500,000 shares of common stock of the Company to be issued in the name of SBI E2-Capital or its designees upon delivery of the fairness opinion.

6. If (i) the Offering is not consummated within six months of the date of this letter or (ii) the pricing of the Offering is materially changed, SBI's continuation of its engagement hereunder shall be subject to additional compensation to be mutually agreed upon.

7. In addition to the fees described in paragraph 5 above, the Company agrees to promptly reimburse SBI, upon request from time to time, for all out-of-pocket expenses incurred by SBI (including, without limitation, fees and expenses of counsel, and other consultants and advisors retained by SBI) in connection with the matters contemplated by this Agreement.

8. The Company agrees to indemnify SBI in accordance with the indemnification provisions (the "Indemnification Provisions") attached to this Agreement which Indemnification Provisions are incorporated herein and made a part hereof.

9. The benefits of this Agreement shall inure to the respective successors and assigns of the parties hereto and of the indemnified parties hereunder and then successors and assigns and representatives, and the obligations and liabilities assumed in this Agreement by the parties hereto shall be binding upon their respective successors and assigns.

10. Either party hereto may terminate this Agreement at any time upon 30 days prior written notice, without liability or continuing obligation, except as set forth in the following sentence. Neither termination nor completion of this assignment shall effect: (i) any compensation earned by SBI up to the date of termination or completion, as the case may be, (ii) any compensation to be earned after termination pursuant to paragraph 5 hereof, (iii) the reimbursement of expenses incurred by SBI up to the date of termination or completion, as the case may be, (iv) the provisions or paragraphs 5 through 12 of this Agreement and (v) the Indemnification Provisions hereof which are incorporated herein, all of which shall remain operable and in full force and effect.

11. The validity and interpretation of this Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of California applicable to agreements made and to be fully performed therein.

12. For the convenience of the parties, any number of counterparts of this Agreement may be executed by the parties hereto. Each such counterpart shall be, and shall be deemed to be, an original instrument, but all such counterparts taken together shall constitute one and the same Agreement. This Agreement may not be modified or amended, except in writing signed by the parties hereto.

If the above terms are in accordance with your understanding, please sign the enclosed copy of this letter and return it to us.

Very truly yours,

SBI E2-CAPITAL (USA) LTD.

By:
Name: John Wang
Title: Managing Director and Executive Vice President

Confirmed and Agreed to this 19th day of February 2002.

NETGATEWAY, INC.

By:
Name: Don Danks
Title: Chairman and CEO

INDEMNIFICATION PROVISIONS

The Company (as such term is defined below) agrees to indemnify and hold harmless SBI against any and all losses, claims, damages, obligations, penalties, judgments, awards, liabilities, costs, expenses, and disbursements (and any and all actions, suits, proceedings, and investigations in respect thereof and any legal and other costs, expenses, and disbursements in giving testimony or furnishing documents in response to a subpoena or otherwise), including, without limitation, the costs, expenses, and disbursements, as and when incurred, of investigating, preparing, or defending any such action, suit, proceeding, or investigation (whether or not in connection with litigation in which SBI is a party) directly or indirectly caused by, relating to, based upon, arising out of, or in connection with (a) SBI's acting for the Company, including with limitation, any act or omission by SBI in connection with its acceptance of or the performance or nonperformance of its obligations under the agreement, between SBI and Netgateway, Inc., as it may be amended from time to time (the "Agreement"), (b) any untrue statement or alleged untrue statement of a material fact contained in, or omissions or alleged omissions from, any information furnished by the Company to SBI, or (c) any Merger (as such term is defined in the Agreement), however such indemnity agreement shall not apply to any portion of any such loss, claim, damage, obligation, penalty, or judgment by a court of competent jurisdiction (not subject to further appeal) to have resulted primarily and directly from the gross negligence or willful misconduct of SBI. The Company also agrees that SBI shall not have any liability (whether direct or indirect, in contract or tort or otherwise) to the Company for, or in connection with, the engagement of SBI, except to the extent that any such liability is found in a final judgment by a court of competent jurisdiction (not subject to further appeal) to have resulted primarily and directly from SBI's willful misconduct.

These indemnification provisions shall be in addition to any liability which the Company may otherwise have to SBI or the persons indemnified below in this sentence and shall extend to the following: SBI, its affiliated entities, directors, officers, employees, legal counsel, agents, and controlling persons of SBI within the meaning of the federal securities laws. All references to SBI in this Indemnification Agreement shall be understood to include any and all of the foregoing.

If any action, suit, proceeding, or investigation is commenced, as to which SBI proposes to demand indemnification, it shall notify the Company with reasonable promptness; provided, however, that any failure by SBI to notify the Company shall not relieve the Company of its obligations hereunder. SBI shall have the right to retain counsel of its own choice to represent it, and the Company shall have the right to retain counsel of its own choice to represent it, and the Company shall pay the fees, expenses, and disbursements of each such counsel; and such counsel shall to the extent consistent with its professional responsibilities cooperate with the Company and any counsel designated by the Company. The Company shall be liable for any settlement of any claim against SBI made with the Company's written consent, which consent shall not be unreasonably withheld. The Company shall not, without the prior written consent of SBI, settle or compromise any claim, or permit a default or consent to the entry of any judgment in respect thereof, unless such settlement compromise or consent includes, as an unconditional term thereof, the giving by the claimant to SBI of an unconditional release from all liability in respect of such claim in respect of such claim.

In order to provide for just and equitable contribution, if a claim for indemnification pursuant to these indemnification provisions is made, but it is found in a final judgment by a court of competent jurisdiction (not subject to further appeal) that such indemnification may not be enforced in such case, even though the express provisions hereof provide for indemnification in such case, then the Company, on the one hand, and SBI, on the other hand, shall contribute to the losses, claims, damages, obligations, penalties, judgments, awards,

liabilities, costs, expenses, and disbursements to which the indemnified persons may be subject in accordance with the relative benefits received by the Company, on the one hand, and SBI, on the other hand, and also the relative fault of the Company on the one hand, and SBI on the other hand, in connection with the statements, acts, or omissions which resulted in such loss claim, damages, obligations, penalties, judgments, awards, liabilities, costs, expenses, and disbursements relevant equitable considerations shall also be considered. No person found liable for a fraudulent misrepresentation shall be entitled to contribution from any person who is not also found liable for such fraudulent misrepresentation. Notwithstanding the foregoing, SBI shall not be obligated to contribute any amount hereunder that excess the amount of fees previously received by SBI pursuant to the Agreement.

Neither termination nor completion of the engagement of SBI referred to above shall affect these indemnification provisions which shall then remain operative and in full force and effect.

[logo] vFinance
Investments, Inc.

March 22, 2002

Netgateway, Inc.
754 E. Technology Avenue
Orem, UT 84097

Attention: Don Danks
Chairman of the Board of Directors
and Chief Executive Officer

Gentlemen:

Reference is made to the letter dated as of February 18, 2002 (the "Letter of Intent") between vFinance Investments, Inc., ("VFIN" or the "Placement Agent"), and Netgateway, Inc., its successors, subsidiaries, or assigns (collectively, the "Company"). It is hereby understood that the Company wishes to increase the dollar amount of the Private Placement as set forth in this amendment to the Letter of Intent (the "Amendment"). The Amendment will confirm the entire understanding and agreement (the "Agreement") between vFinance Investments, Inc. and Netgateway, Inc., as follows:

1. Dollar Amount of Private Placement: A minimum of $300,000.00 and a maximum of $2,400,000.00

2. Retention of VFIN: The Company hereby engages VFIN, and VFIN accepts such engagement as the Company's exclusive financial advisor, for six months from the date of this letter, in connection with the management of a private placement (the "Private Placement") of equity securities of the Company, which will include shares of common stock (the "Shares") of the Company and may include warrants to purchase common stock (the "Warrants") of the Company (collectively, the "Units"), on a best efforts basis.

3. The Private Placement:

a. The Private Placement shall be structured as a transaction exempt from Section 5 of the Securities Act of 1933, as amended (the "Securities Act"), and shall comply with Section 4(2) of the Securities Act and Regulation D thereunder and state securities law.

b. The Private Placement shall be structured in that there may be multiple closings upon the receipt and acceptance by the Company of irrevocable subscriptions. The feasibility of the Private Placement will depend upon the results of our investigation of the Company, information about the Company that VFIN may receive including, but not limited to, due diligence reports concerning the Company's operations, management, and business plan, and the continuation of the operation of the Company without material adverse change.

c. The Company will use all reasonable efforts to promptly prepare a Confidential Offering Memorandum (the "Memorandum") substantially in a form acceptable to the Placement Agent relating to the offering and sale of the Shares. In connection with the Memorandum and other matters pertaining to the Private Placement, the Company and its officers, accountants, and counsel shall furnish to the Placement Agent and the counsel to the Placement Agent such information and documents as shall be reasonably requested. The Company will also endeavor in good faith, in cooperation with the Placement Agent and counsel to the Placement Agent, whenever requested by the Placement Agent, to qualify the Shares and the securities included therein and issuable upon the conversion thereof, the Placement Agent's Warrants (as hereinafter defined) and the securities issuable upon the exercise of the Placement Agent's Warrants and all underlying securities for offer and sale under the applicable securities laws of such jurisdictions as Placement Agent may reasonably designate, provided, however, that the Company shall not be required thereby to qualify to do business in any jurisdiction in which it is not otherwise engaged in business.

4. Placement Agent's Compensation: The Placement Agent shall be compensated for its services in connection with the proposed offering herein contemplated as follows:

a. For its role as Placement Agent, the Company shall pay or cause to be paid to the Placement Agent a cash fee of $60,000, which shall be payable in two installments: (1) $40,000 upon the first Closing of the Private Placement and (2) $20,000 upon the second Closing of the Private Placement. In addition, the Placement Agent shall be paid a cash commission of five percent (5%) on the gross proceeds sold in the placement. It is hereby understood between the parties that the Placement Agent intends to pay certain finders a portion or all of the above mentioned commission on any sales of the placement sold through the finder. In addition, the Placement Agent shall be entitled at each closing, to reimbursements for the expenses incurred by it in connection with the Private Placement.

b. The Company will authorize, and the Placement Agent or its designees shall be entitled to receive at the Closing, purchase warrants (the "Placement Agent's Warrants") for the purchase of a number of Shares equal to five percent (5%) of the number of shares sold in the Private Placement. The Placement Agent's Warrants will be exercisable at a price per Share equal to the offering price per Share. Such Warrants will contain standard net issuance and anti-dilution provisions.

c. The Placement Agent's Warrants shall not be exercisable for a period of one year from the date of the Initial Closing and shall thereafter be exercisable for a period of four years.

d. The Company agrees, at its expense, to register the shares (the "Underlying Shares") of common stock of the Company (the "Common Stock") issuable upon conversion of the Shares issuable upon the exercise of the Placement Agent's Warrants for resale at any time during the entire period between the first and fifth anniversaries of the date of the Initial Closing. The Company will bear all the costs of such demand registration, except for customary underwriting discounts and commissions. In addition, the Company will take all actions necessary, and bear all expenses required to permit holders of the Underlying Shares, including the holders of the Placement Agent's Warrants and the Shares, to "piggyback" such Underlying Shares on any registration statement filed by the Company under the Securities Act during such four year period. The Company shall not enter into any agreement or take any other step that would impair the registration rights of any such holders granted hereby.

5. Expenses: The Placement Agent shall be entitled to reimbursement of out of pocket expenses incurred in connection with this Private Placement. Reimbursement of expenses shall be duly documented and paid monthly and at each closing, upon submission of a duly documented invoice. In addition, the Company shall pay all of its costs and expenses incident to the purchase, sale and delivery of the Shares and the securities included therein and issuable upon the conversion thereof, including without limitation, all fees and expenses of filings with the Securities and Exchange Commission and the National Association of Securities Dealers, Inc., in each case if applicable; all blue sky fees and expenses; all fees of the counsel to the Placement Agent, fees of counsel and accountants for the Company; printing costs, including costs of printing the Memorandum and any amendments, supplements, or exhibits thereto, any preliminary drafts thereof or amendments thereto, all private placement documents, blue sky memoranda and a reasonable quantity of Memoranda as determined by the Placement agent; the Company's road show costs and expenses; and the cost of preparing four bound volumes of the Private Placement documents for the Placement Agent and counsel to the Placement Agent.

6. <u>Conditions of the Placement Agent's Obligation: Corporate Changes:</u> The financial condition and prospects of the Company shall be reasonably satisfactory to the Placement Agent.

7. <u>Conditions, Representations and Covenants:</u> The Company represents, warrants, and covenants that:

a. There will be included in the Memorandum audited financial statements of the Company for the three fiscal years preceding the date of the Memorandum (reported on by a national accounting firm reasonably acceptable to the Placement Agent) and, if requested by the Placement Agent, current unaudited comparative interim financial statements. The financial statements will present fairly the financial condition of the Company and the results of its operations at the time and for the periods covered by such financial statements, and such statements will be substantially as heretofore represented to the Placement Agent.

b. The Company has prepared and delivered to the Placement Agent its most recent financial statements and, if requested, will deliver projections constituting its best estimate of revenues, earnings and cash flow and shall update such estimates on a monthly basis during the registration period.

c. Except in connection with acquisitions, strategic commercial transactions or pursuant to the exercise of warrants, options, or other securities outstanding prior to Closing, and the Company's right to maintain a stock option plan of Common Stock and the grant of options to, or the issuance of Common Stock upon exercise of options by is officers, employees, directors and consultants under such Plan at an exercise price equal to the fair market value, the Company will not, without the Placement Agent's prior written consent (1) sell any shares of capital stock or issue warrants or options, except pursuant to the Company's employee benefit plans described in the Memorandum, or (2) purchase any shares of capital stock of the Company during the six month period following the Closing of the Private Placement, except pursuant to the Company's employee benefit plans described in the Memorandum.

d. The Company will use its best efforts to cause two persons to be elected to the Company's Board of Directors who are deemed by the Placement Agent to be independent of the Company's management, who are reasonably acceptable to VFIN, as well as make any management changes mutually agreeable to the Company and VFIN.

e. The Company shall secure Director and Officer Liability Insurance (provided that such insurance can be obtained at a reasonable cost as determined by the Company and the Placement Agent) in an amount and from an insurer reasonably satisfactory to the Placement Agent, provided that the amount of coverage shall not exceed that which is customary for companies of comparable size and in the same industry as the Company.

f. For a three-year period from the date of the Initial Closing of the Private Placement, VFIN shall have a right to appoint a designee as an observer to the Board of Directors. Such observer will have the right to attend all meetings of the Board. Such observer shall have no voting rights, but shall be entitled to receive reimbursement for all reasonable out-of-pocket expenses incurred in attending such meetings, including, but not limited to food, lodging and transportation. VFIN shall be given notice of such meetings at the same time and in the same manner as Directors of the Company are informed. VFIN and such observer shall be indemnified to the same extent as the other directors.

g. The Company agrees to indemnify the Placement Agent in accordance with the indemnification provisions (the "Indemnification Provisions") attached to this Agreement as Exhibit A, which Indemnification Provisions are incorporated herein and made a part hereof.

8. Statement of Intent: It is understood that VFIN's undertaking to conduct

the proposed Private Placement is subject to the Memorandum, all amendments, supplements and exhibits thereto or other documentation related thereto, being reasonably satisfactory to the Placement Agent and counsel to the Placement Agent.

The Placement Agent intends to proceed with the Private Placement immediately after availability of the required final documentation and the terms of this letter of Intent have been satisfied; provided, however, that the Placement Agent reserves the right not to proceed with the Private Placement if, in its sole judgment, market conditions are unsuitable for such offering, or information comes to its attention relating to the Company, its management or its position in the industry, which could, in the Placement Agent's sole judgment, preclude a successful offering of the Shares.

9. Legally Binding: As described in Paragraph 9, the Company and the Placement Agent agree that the following provisions shall be legally binding on the Company:

a. If the Company or the Placement Agent decides not to proceed with the Private Placement for any reason whatsoever, all expenses incurred by the Placement Agent in connection with the Private Placement will be paid promptly by the Company in accordance with all provisions described herein.

b. If, after executing this Letter of Intent and prior to final closing of the offering, the Company elects not to expeditiously proceed with the offering even though the Placement Agent is ready, willing and able to conduct the Private Placement, then the Company agrees that (1) it will not sell any of its capital stock through another placement agent for a period of at least six (6) months, or (2) if it does so, then the Company shall pay to the Placement Agent $100,000 in addition to the amounts paid to it pursuant to subparagraph (a) hereof, which the Company and the Placement Agent agree will be fair compensation to the Placement Agent for services performed with respect to the proposed Private Placement.

c. If prior to the final Closing of the Private Placement and within a period of twelve (12) months from the date hereof, the Company is acquired, merges, sells all or substantially all of its assets or otherwise effects a corporate reorganization with any other entity (collectively, a "Transaction") and, as a result, the Private Placement contemplated hereby is abandoned by the Company, then, in addition to any amounts paid to it pursuant to subparagraph (a) hereof, the Company shall pay the Placement Agent a cash fee of 2.0% of the aggregate amount of Consideration given upon the closing of such Transaction, which the Company and the Placement Agent agree is fair compensation to the Placement Agent for services performed with respect to the proposed Private Placement.

For purposes of this Agreement, "Consideration" shall include the aggregate amount of cash, securities, or other assets received by the Company or its shareholders in connection with a Transaction, plus (i) the present value of any payments made or to be made pursuant to installment notes, covenants not-to-compete, or other, similar arrangements (but excluding any future compensation for future employment in an amount consistent with that paid by the Company prior to the Transaction; (ii) the face amount of any debt of the company or the Company's shareholders (but excluding operating leases, trade payables and normal accruals) which is assumed otherwise borne by the purchaser; and (iii) the amount of any dividends or other extraordinary payments or distributions made by the Company to its shareholders, officers, directors, or employees in anticipation of the Transaction. The "present value of any payments made or to be made" shall be determined using the face amount of the payments, and a discount rate equal to the yield of 5-year Treasuries plus 1% at the end of the day immediately preceding the close of this Transaction. Any securities or other non-cash consideration, received as consideration shall have a value equal to the cash equivalent value, as reasonably determined by VFIN. If the Transaction takes the form of a purchase of assets and an assumption of liabilities, then Consideration, shall include the fair market value of the assets purchased from the Company, its shareholders, or their affiliates (but excluding operating leases, trade payables and normal accruals) that is assumed by the purchaser. If all or any portion of the consideration payable in connection with the Transaction includes contingent future payments, then the Company shall pay to VFIN, upon consummation of the Transaction, an additional cash fee determined in accordance with this Paragraph 9(c), when, and if, such contingency payments are received. However, in the event of an installment purchase at a fixed price and a fixed time schedule the Company agrees to pay to VFIN, upon consummation of the Transaction, a cash fee determined in accordance with this Paragraph 2 based upon the present value of such installment payments using a discount rate referenced above.

If the Company's Board of Directors authorizes the Company to pursue a merger/acquisition opportunity involving the sale of all or substantially all of the Company's assets during the period after the Memorandum has been distributed by the Placement Agent, the Placement Agent shall have the right of first refusal to act as the Company's investment banker or financial advisor in connection with any such merger/acquisition, rendering such services as are customary in connection therewith in consideration for a fee which is considered customary for such services.

d. Pending completion of the Private Placement, the Company shall refrain for a period of six (6) months from the date hereof from negotiating with any other placement agent or investment banker or other person regarding a possible public or private offering of any of the Company's securities.

e. The Placement Agent and the Company agree that any controversy arising out of or relating to this letter of intent or proposed offering contemplated hereby, shall be settled by arbitration in accordance with the rules then in effect on the National Association of Securities Dealers, Inc.

f. For the three-year period commencing on the date of the Closing, VFIN

shall have the right of first refusal (on terms at least as favorable as can be obtained from other sources) to act as lead manager, co-manager, placement agent, or investment banker with respect to any proposed underwritten public distribution or private placement of the Company's securities or any merger, acquisition, or disposition of assets of the Company, if the Company uses a lead manager, co-manager, placement agent, investment banker, or other person performing such functions for a fee. VFIN will advise the Company promptly, but in no event later than 15 days following the submission to VFIN writing of any such proposed transaction(s), of VFIN's election to exercise said right. If any such proposal is not accepted by VFIN, but later modified, the Company will re-submit such proposal to VFIN. Should VFIN elect, at any time not to exercise said right this will not affect preferential rights for future financings.

If the foregoing correctly sets forth the understand we have heretofore reached regarding the proposed Private Placement, please sign and return the enclosed copy of this letter by February 29, 2002. If this Letter of Intent is not signed by February 29, 2002, and an extension has not been mutually agreed upon in writing by the Company and the Placement Agent, this Letter of Intent will be considered void. By accepting this letter, the Company agrees to keep this letter and all terms confidential and not to "shop" it with any other placement agents or underwriters.

Very truly yours,

VFINANCE INVESTMENTS, INC.

By: [signature]

Jon Buttles
Principal

ACCEPTED AND AGREED TO
This 27th day of March in, 2002

NETGATEWAY, INC.

By: [signature]

Don Danks
Chairman and Chief Executive Officer

EXHIBIT A

The Placement Agent will be acting on behalf of Netgateway, Inc. (the "Company") in connection with the services or matters that are subject of the Agreement to which this Exhibit A is attached. Accordingly, the Company agrees to indemnify and hold harmless each Placement Agent and their respective affiliates, their respective directors, officers, agents, and employees and affiliates, and each other person, if any, controlling any such Placement Agent or any of their respective affiliates (collectively the "Indemnified Persons"), from and against any losses, claims, damages, liabilities or expenses (or actions, including shareholder actions, in respect thereof) relating to or arising out of such engagement or the Placement Agent's role in connection therewith, and will reimburse the Indemnified Persons for all reasonable expenses (including out-of-pocket expenses and Placement Agent's counsel fees and expenses) as they are incurred by the Indemnified Persons in connection with investigating, preparing or defending any such action or claim, whether or not in connection with pending or threatened litigation in which any Placement Agent or any Indemnified Person is a party. The Company will not, however, be responsible to any particular Placement Agent for any losses, claims, damages, liabilities, or expenses which are finally judicially determined to have resulted primarily from such Placement Agent's willful misconduct or bad faith. The Company also agrees that none of the Indemnified Persons shall have any liability to the Company for or in connection with the services or matters pertaining to the Agreement except for any such liability for losses, claims, damages, liabilities or expenses incurred by the Company that results primarily from any Placement Agent's willful misconduct or bad faith. If the forgoing indemnity is unavailable or insufficient to hold the Indemnified Persons harmless, then the Company shall contribute to the amount paid or payable by the Indemnified Persons, in respect of the Indemnified Persons, for losses, claims, damages, liabilities, or expenses in such proportion as appropriately reflects the relative benefits received by, and fault of, the Company, on the one hand and the Indemnified Persons, on the other, in connection with the matters as to which such looses, claims, damages, liabilities or expenses relate and other equitable consideration; provided, however, the Company agrees that the aggregate contribution of all Indemnified Persons shall in all cases be not more than the amount of fees actually received by the Placement Agents for their services. It is hereby further agreed that the relative benefits to the Company on the one hand and the Indemnified Persons on the other with respect to any transaction contemplated by the Agreement shall be deemed to be in the same proportion as (i) the total value of the transaction bears to (ii) the fees actually paid to the Placement Agents with respect to such transaction. The foregoing Agreement shall be in addition to any rights that any Placement Agent or any Indemnified Person may have at common law or otherwise. The Company hereby consents to personal jurisdiction and service and venue in any court in which any claim which is subject to this Agreement is brought against any Placement Agent or any other Indemnified Person. If any action, proceeding, or investigation is commenced as to which an Indemnified Person demands indemnification, the Indemnified Person shall have the right to retain counsel of its own choice to represent it, the Company shall pay the reasonable fees and expenses of such counsel, and such counsel shall to the extent consistent with its professional responsibilities cooperate with the Company and any counsel

designated by the Company; provided that the Company shall not be responsible for the fees and expenses of more than one counsel.

Subsidiaries of the Registrant

Name of Subsidiary	State or other jurisdiction of incorporation or organization	Other names under which Subsidiary does business
Galaxy Mall, Inc.	Wyoming	None
Galaxy Enterprises, Inc.	Nevada	None
Netgateway	Nevada	None
StoresOnline.com, Inc.	California	None
StoresOnline.com, Ltd.	Canada	None
Storesonline, Inc.	Delaware	None

CONSENT OF INDEPENDENT ACCOUNTANTS

The Board of Directors
Imergent, Inc. (formerly Netgateway, Inc.):

We consent to incorporation by reference in the registration statement (No. 333-95205) on Form S-8 of Imergent Inc. (formerly Netgateway, Inc.) of our report dated August 21, 2000, except as to Note 19, which is as of January 11, 2001 and Note 2(b) which is as of July 3, 2002, relating to the consolidated statements of operations, stockholders' deficit, and cash flows of Imergent Inc. (formerly Netgateway, Inc.) and subsidiaries and related financial statement schedule for the year ended June 30, 2000, which report appears in the June 30, 2002, annual report on Form 10-K of Imergent Inc. (formerly Netgateway, Inc.)

The report of KPMG LLP on the aforementioned consolidated financial statements contains an explanatory paragraph that states that the Company's recurring losses from operations and net capital deficiency raise substantial doubt about the entity's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of that uncertainty.

/s/ KPMG LLP

Los Angeles, California
October 15, 2002

INDEPENDENT AUDITOR'S CONSENT

We consent to the incorporation by reference in the registration statement (No. 333-95205) on Form S-8 of Imergent, Inc. (formerly known as Netgateway, Inc.) of our report dated August 3, 2001, with respect to Notes 10, 13, 14 and 23, September 30, 2001, with respect to Note 2(b), July 3, 2002 relating to our audit of the consolidated balance sheet of Imergent, Inc. (formerly known as Netgateway, Inc.) and subsidiaries as of June 30, 2001, and the related consolidated statements of operations, capital deficit, and cash flows for the year ended June 30, 2001, which report appears in the June 30, 2002 annual report on Form 10-K of Imergent, Inc. (formerly known as Netgateway, Inc.).

Our report on the consolidated financial statements contains an explanatory paragraph that states that Imergent, Inc. (formerly known as Netgateway, Inc.) has suffered recurring net losses and has a net capital deficit that raise substantial doubt about its ability to continue as a going concern and that the financial statements do not include any adjustments that might result from the outcome of that uncertainty.

/s/ Eisner LLP (formerly known as Richard A. Eisner & Company, LLP)

New York, New York
October 11, 2002

CONSENT OF CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors
Imergent, Inc.:

We have issued our report dated September 20, 2002, accompanying the consolidated financial statements and schedule included in the Annual Report of Imergent, Inc. (formerly Netgateway, Inc.) on Form 10-K for the year ended June 30, 2002. We hereby consent to the incorporation by reference of said report in the Registration Statement of Imergent, Inc. on Form S-8 (File No. 333-95205).

The report of Grant Thornton LLP on the aforementioned consolidated financial statements contains an explanatory paragraph that states that the Company's history of losses from operations and accumulated deficit raise substantial doubt about the entity's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of that uncertainty.

/s/ GRANT THORNTON LLP

Salt Lake City, Utah
October 15, 2002

EXHIBIT 99.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Imergent, Inc. (the "Company") Annual Report on Form 10-K for the year ending June 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John J. Poelman, Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

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

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

Date: October 15, 2002

/s/ JOHN J. POELMAN

John J. Poelman
Chief Executive Officer

EXHIBIT 99.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Imergent, Inc. (the "Company") Annual Report on Form 10-K for the year ending June 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Frank C. Heyman, Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

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

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

Date: October 15, 2002

/s/ FRANK C. HEYMAN

Frank C. Heyman
Chief Financial Officer