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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended June 30, 2004.**

o **Transition report under section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from to .**

Commission file number 000-27941

IMERGENT, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	**87-0591719** (I.R.S. Employer Identification No.)
754 East Technology Avenue, Orem, Utah (Address of principal executive office)	**84097** (Zip Code)

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

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

Securities to be registered under Section 12(g) 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 ☒ No o, and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No o.

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. o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes ☒ No o.

The aggregate market value of the common stock held by nonaffiliates of the registrant as of December 31, 2003 was approximately $87.5 million. The number of shares of the registrant's Common Stock outstanding at August 31, 20004 was 11,645,008

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for its 2004 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, 13 and 14) of this Report.

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PART I

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

Effective July 2, 2002, we effected a 1:10 reverse split of our shares of common stock. All of our historical share amounts stated herein have been adjusted to reflect this reverse stock split.

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 offers eCommerce technology, training and a variety of web-based technology and resources to over 150,000 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 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.

Imergent, Inc., 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, 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 companies and entrepreneurs who are seeking to establish a viable eCommerce presence on the Internet. Also effective July 2, 2002, we effected a 1:10 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.

In June 2000, we acquired all of the outstanding capital stock of Galaxy Enterprises, Inc., a Nevada corporation, in exchange for approximately 390,000 shares of our common stock. 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 fully exited that business during fiscal year 2003. After the relocation of our operations to Utah, we also restructured our CableCommerce operations and during fiscal 2002 we completed the exit of the Internet cable mall business. In January 2001, we sold our IMI subsidiary to Capistrano Partners LLC. 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.

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 July 2004, Nielsen/NetRatings, Inc. estimated yet another increase in USA Internet users to over 202.4 million, and the growth trend continues worldwide as well as reported by InternetWorldStats.com., to over 800.0 million Internet users worldwide as of September 2004.

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 existing businesses often must transform their business to be able to successfully conduct commerce by means of the Internet. A company seeking to effect such a transformation or launch a business on the Internet often needs outside technical expertise to assist in identifying viable Internet tools, and to develop and implement reasonable strategies all within the budget of the company or entrepreneur, especially if the company or entrepreneur believes that rapid transformation or launch 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), each offering specialized solutions, such as order processing, transaction reporting, helpdesk, training, consulting, security, Website design and hosting. According to the U.S. Department of Commerce there are 24 million small businesses and entrepreneurs in the U.S. and one million new businesses start up each year. Furthermore, a Verizon study shows less then 30% of small business have a web presence and only 25% of those are eCommerce enabled. We believe that there is a very large, fragmented and under-served market for over 70% 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. We believe this market requires an easy to adopt platform of product and services offerings that assists in a coordinated transformation or launch of a business in a way that embraces the opportunities presented by the Internet. Accordingly, we believe these organizations are increasingly searching for a firm such as ours who 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 our target market will increasingly look to Internet solutions providers who leverage industry and client practices, increase predictability of success of their Internet initiative and decrease implementation risks by providing low-cost, scalable solutions with minimal lead-time.

Our Business

Offering services to Small Businesses and Entrepreneurs

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 conduct 30-45 sessions each week across the United States and internationally. 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, and explain in general terms how to develop an effective marketing and advertising strategy and how to transform an existing "brick and mortar" company into a successful eCommerce 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 the small business owners and entrepreneurs who attended the preview session. At the Internet training workshop, attendees learn more 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 eCommerce tools, specific details and tips on how to promote and drive traffic to a website and techniques to increase sales to a website.

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

The integrated package 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 resource center of Internet marketing information
- Helpdesk technical support via on-line chat, email, and telephone
- 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. Alternatively, if the client prefers, as part of their setup and first year hosting fee, the client can use our development team of employees and contractors to assist with the design and setup of the website. The client can choose to create either a static, standalone site hosted by a third party, or a dynamic website hosted by us for an additional fee. The dynamic websites hosted by us allow the client to take advantage of the dynamic website updating capabilities of the StoresOnline platform and 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 to enhance websites with features such as streaming audio and video content, pages powered by Macromedia® Flash and Director programming techniques. We also offer commitments to deliver page view traffic to clients' websites 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 continue the international expansion of our business, initially into selected English-speaking countries in the Asia Pacific region, South Africa, Canada and Europe and possibly thereafter to additional countries in Asia. Our experience indicates lower customer acquisition costs in these markets than we currently experience in the United States and our turnkey product and service offering for small businesses and entrepreneurs enjoys a first mover advantage in these markets. We are continuing to test, and grow our international market strategies based on our initial experiences.

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 June 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. We believe that 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 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 40,000 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 integration of UPS shipping tools, updated order tracking and abandoned order analysis, in addition to enhancements to existing features.

The integration of the UPS shipping tools allow our merchants to access real-time shipping rates directly from UPS to ensure the most accurate and cost effective rates are calculated for each order. The UPS integration also allows the merchant to create shipping documents from the computer with minimal re-entry of information for a shipment. These shipping documents contain all the barcodes and other information required to be processed directly by UPS. These tools significantly reduce the amount of time the merchant needs to spend to prepare their products for shipping.

Our Dynamic Image 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, drop shadows, 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, ties, sport coats, and slacks before purchase. The Dynamic Image Server allows for quick and easy creation of graphical and professional looking storefronts.

Sales and Marketing

Because most of our products are sold at the end of our workshop sessions and to persons who have attended our 90-minute preview sessions previously, we must make a significant investment before any sales are made to get the customers to workshops. 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 mailing lists we use are obtained from list brokers. The direct mail and e-mail pieces are sent several weeks prior to the date of the preview session. 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

During the year ended June 30, 2004, we invested, on a consolidated basis, approximately $358,000 in the research and development of our technology almost all of which relates to our StoresOnline platform. Our research and development costs in fiscal 2004 focused on refinement and enhancement of Version 4.0 of our StoresOnline product, which was released in fiscal 2001. Our specific accomplishments during fiscal year 2004 were the addition of new features to our StoresOnline platform, including the support of additional credit card processing gateways, integration of the UPS Shipping Tools, and updated order tracking and processing. We have also implemented our largest upgrade in our infrastructure and data center to provide even high levels of service and security for our merchants. In general, our research and development efforts during fiscal years 2004 were:

- 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
- updated our internal database that integrates all the information from each division within the organization
- implemented even greater security measures to comply with all of the security requirements demanded by VISA and MasterCard
- digitally scanned Company documents and records for greater customer support and security
- integrated our internal database system with our accounting system to reduce the manual efforts of double entry of customer information and orders
- provided limited access to our internal database to a number of our suppliers, thus lowering our cost of procurement
- updated all our desktop systems to ensure greater security of information within the organization
- integrated UPS Shipping tools to allow real-time shipping rates to be added to our merchants' order forms
- added the ability to create UPS Shipping documents directly from our merchants' computer over the Internet
- updated our order tracking system to allow our merchants to identify orders that were abandoned or otherwise incomplete
- updated all of the components within our data center for increased redundancy and speed

Competition

Our markets are becoming increasingly competitive. Our competitors include a few companies that sell through a workshop format like ours which have historically had varying rates of success and longevity, as well as portals, 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 the full range of Internet professional services we believe our target market requires, but many are currently offering some of these services. 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 and our ongoing efforts to improve our offerings and sales and marketing techniques 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 August 31 2004, we had 149 full-time employees, including 5 executive personnel, 57 in sales and marketing, 8 in the development of our e-Commerce solutions, 10 in web site production, 31 in customer support and 38 in general administration and finance. We also draw from a pool of 21 independent contractors who speak at our preview and/or workshop training sessions, as required by our schedule of events.

Governmental Regulation

We are subject to regulations applicable to businesses generally. In addition, because of our workshop sales format, we are subject to laws and regulations concerning sales and marketing practices, and particularly those with regard to business opportunities, franchises and selling practices. We believe that we do not offer our customers a "business opportunity" or a "franchise" as those terms are defined in applicable statutes of the states in which we operate. We believe that we operate in compliance with laws concerning sales practices, which laws in some jurisdictions require us to offer the customer a three-day right of rescission (i.e. to cancel the sale) for workshop purchases. Although we do not believe we are required to offer such a right in most states, we voluntarily provide such a right in the United States.. The effect of such right could be that, our sales could decrease if a significant number of customers who purchase at our workshop elected to exercise that right.

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. In particular, our initial contact with many of our customers is through e-mail. The use of e-mail for this purpose has become the subject of a number of recently adopted and proposed laws and regulations. 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 the risks that we currently believe are material to our business. However, additional risks not presently known to us, or risks that we currently believe are not material, may also impair our business operations. You should also refer to the other information set forth in 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.

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

Our operating results for any given quarter or fiscal year should not be relied upon as an indication of future performance. Quarter to quarter comparisons of our results of operations may not be meaningful as a result of (i) our limited operating history and (ii) the emerging nature of the markets in which we compete. Our fiscal year ended June 30, 2002 was our first-ever profitable year. Our 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 should we seek to do so. Factors that could cause our quarterly results to fluctuate include 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
- changes to our business model resulting from regulatory requirements
- our ability to control our costs
- our ability to attract, train and retain skilled management, strategic, technical and creative professionals
- technical, legal and regulatory difficulties with respect to our workshop distribution channel and Internet use generally
- the availability of working capital and the amount and timing of costs relating to our expansion, and general economic conditions and economic conditions specific to Internet technology usage and eCommerce.

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

Our net operating loss carryforward ("NOL"), which is approximately $23 million as of June 30, 2004 is subject to certain limitations. Section 382 of the Internal Revenue Code ("Section 382") imposes limitations on a corporation's ability to utilize its NOLs if it experiences an "ownership change". In general terms, an ownership change results from transactions increasing the ownership of certain stockholders in the stock of a corporation by more than 50 percentage points over a three-year period. Since our formation, we have issued a significant number of shares, and purchasers of those shares have sold some of them, with the result that two changes of control, as defined by Section 382, have occurred. As a result of the most recent ownership change, utilization of our NOLs is subject to an annual limitation under Section 382 determined by multiplying the value of our stock at the time of the ownership change by the applicable long-term tax-exempt rate resulting in an annual limitation amount of approximately $127,000. Any unused annual limitation may be carried over to later years, and the amount of the limitation may under certain circumstances be increased by the "recognized built-in gains" that occur during the five-year period after the ownership change (the "recognition period"). Based on an independent valuation of our company as of April 3, 2002, we have approximately $15 million of recognized built-in gains. Additionally, based on a valuation of our company as of June 25, 2000, which evaluation was completed during the quarter ended March 31, 2004, we also determined the earlier ownership change resulted in built-in gains that allow us to utilize our entire NOL.

Future changes in ownership of more than 50% may 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.

From time to time we are and have been the subject to Governmental inquiries and investigations as well as lawsuits that could require us to change our sales and marketing practices or pay damages or fines which could negatively impact our financial results.

Throughout our history we have received inquiries from and have been made aware of investigations by the Federal Trade Commission and government officials and agencies in many of the states in which we operate. We have also received inquiries from counsel representing and have been sued by customers who are dissatisfied with our product. We believe that, to date, we have generally been successful in addressing the concerns raised by these matters through one or more of the following: the provision of a more complete explanation of our business, minor modifications of our sales and marketing practices, and direct dialogue with customers to resolve the customer's concerns on a mutually satisfactory basis. Nevertheless, there can be no assurance that the ultimate resolution of the currently pending or possible future lawsuits, inquiries or investigations will not have a material adverse effect on our business or operations.

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 but not limited to 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. 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 continue to successfully execute our strategic plan, particularly if we are successful in expanding our operations internationally. Competition for the limited number of qualified personnel in our industry is intense. At times, we have experienced difficulties in hiring personnel with the necessary training or experience.

We may 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 may need to monetize a substantial portion of the customer receivables generated by our workshop business. If we are unable to do so it 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 either sold to one of several third party finance companies, with partial or full recourse, or are retained by the Company and the collection activity is serviced by a third party. Thereafter we sometimes seek to sell the serviced contracts to the servicer and other third parties. We have in the past experienced difficulties selling these installment contracts at levels that provide adequate cash flow for our business. Although we have not recently experienced difficulties selling our installment contracts at the levels our cash requirements dictate, 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. Beginning in May 2004, the Company no longer sells installment contracts with any recourse provision. All of our present installment contract sales arrangements are subject to termination at any time by notice to us.

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, 2004 approximately $30 million, or 37%, 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. Although this had not recently been the case, 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, among other reasons. 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, 2004 we derived approximately $9.3 million, or 12% 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 an unrelated third party. Prior to October 1, 2002, this product was obtained from Electronic Commerce International, Inc. ("ECI") which was owned by John J. Poelman, our former chief executive officer who, effective that date, sold certain of ECI's assets and liabilities, including the use of its corporate name and its contractual relationship with us, to the third party. Our contract with the third party may be terminated by it at any time after August 1, 2005 on 120 days written notice to us. Were we to lose our access to this product or if its cost increased our business could be negatively impacted, and if we are 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.

We might require additional capital to support business growth, and such capital might not be available.

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

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 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 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. A change in economic conditions may adversely effect our business.

Our operations could be hurt by terrorist attacks, fear of disease and other activity and events that make air travel difficult or reduce the willingness of customers to attend our 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 potential customers were to become fearful of attending large public meetings in large hotels.

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

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

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

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 stronger brand recognition, longer operating histories, larger customer bases, longer relationships with clients and significantly greater financial, technical, marketing and public relations resources than we do. We believe our competitors may be able to adapt more quickly to new technologies and customer needs, devote greater resources to the promotion or sale of their products and services, initiate or withstand substantial price competition, take advantage of acquisition or other opportunities more readily or develop and expand their product and service offerings more quickly.

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

We are continuing to expand our operations into selected international markets. Although we continue to expand into these markets cautiously there are difficulties inherent in doing business in international markets such as:

- cultural, language and other differences between the markets with which we are familiar and these international markets that could result in lower than anticipated attendance at our preview 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 sales and marketing practices, intellectual property, privacy and distribution of potentially offensive or unlawful content over the Internet, and

- fluctuations in currency exchange rates.

Management beneficially owns approximately 13% of our common stock and their interests could conflict with other stockholders.

Our current directors and executive officers beneficially own approximately 13% 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 sustained significant demand for our products and services as sold through our workshop format will exist and whether our distribution channel to our target markets will establish itself as the preferred channel. If we are not successful in responding to the evolution of the Internet and in tailoring our product and service offerings to respond to this evolution, our business will be materially and adversely affected.

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

As eCommerce continues to evolve it is subject to increasing regulation by federal, state, or foreign agencies. Areas subject to regulation include but may not be limited to the use of e-mail, user privacy, pricing, content, quality of products and services, taxation, advertising, intellectual property rights, and information security. In particular, our initial contact with many of our customers is through e-mail. The use of e-mail for this purpose has become the subject of a number of recently adopted and proposed laws and regulations. In addition, laws and regulations applying to the solicitation, collection, or processing of personal or consumer information could negatively affect our activities. The perception of security and privacy concerns, whether or not valid, may indirectly inhibit market acceptance of our products. In addition, legislative or regulatory requirements may heighten these concerns if businesses must notify 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 eCommerce. Any new legislation or regulation, or the application or interpretation of existing laws or regulations, may decrease the growth in the use of the Internet, may impose additional burdens on eCommerce or may require us to alter how we conduct our business. This could decrease the demand for our products and services, increase our cost of doing business, increase the costs of products sold through the Internet or otherwise have a negative effect on our business, results of operations and financial condition.

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

Security and privacy concerns may inhibit the growth of the Internet and other online services generally, especially as a means of conducting commercial transactions. 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 currently have any patents or registered trademarks, and effective trademark, copyright and trade secret protection may not be available in every country in which our products are distributed or made available through the Internet. In addition, there can be no assurance that a patent will issue or a trademark will be referred based on our pending applications.

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

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

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

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

We have no patented, 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 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.

Investors will incur immediate and substantial dilution.

Significant additional dilution will result if outstanding options and warrants are exercised. As of June 30, 2004, we had outstanding stock options to purchase approximately 1.2 million shares of common stock and warrants to purchase approximately 325,000 shares of common stock. To the extent that such options and warrants are exercised, there will be further dilution. In addition, in the event future financings should be in the form of, convertible into, or exchangeable for our equity securities, investors may experience additional dilution.

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

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

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

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

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

Our stock being listed on the American Stock Exchange may limit the scope of potential investors. We withdrew an application for listing on the NASDAQ Small Cap Market as we believed a listing on the American Stock Exchange was in the best interest of our shareholders and would be more expeditious; the withdrawal may be perceived as negative which could affect the value of our common stock. In addition, the market for our common stock may not always 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 August 31, 2004, we had outstanding 11,645,008 shares of common stock. 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 lock-up agreements.

Item 2. Properties.

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. The lease terminates on May 31, 2005. The annual rent during our fiscal year ending June 30, 2005 will be approximately $271,250. 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.

From time to time, we receive inquiries from, including subpoenas requesting documents and/or have been made aware of investigations by government officials in many of the states in which we operate. These inquiries and investigations generally concern compliance with various cities, county, state and/or federal regulations involving sales and marketing practices. We have and do respond to these inquiries and have generally been successful in addressing the concerns of these persons and entities, without a formal complaint or charge being made although there is often no formal closing of the inquiry or investigation. There can be no assurance that the ultimate resolution of these or other inquiries and investigations will not have a material adverse effect on our business or operations, or that a formal complaint will not be initiated. We also receive complaints and inquiries in the ordinary course of our business from both customers and governmental and non-governmental bodies on behalf of customers, and in some cases these customer complaints have risen to the level of litigation. To date we have been able to resolve these matters on a mutually satisfactory basis and we believe that we will be successful in resolving the currently pending matters but there can be no assurance that the ultimate resolution of these matters will not have a material adverse affect on our business or operations.

We are not currently involved in any material litigation; however, we are subject to various claims and legal proceedings covering matters that arise in the ordinary course of business. We believe that the resolution of these cases will not have a material adverse effect on our business, financial position, or future results of operations.

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

Not applicable.

PART II

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

Market Information

Our common stock began trading on the American Stock Exchange on August 16, 2004 under the symbol "IIG." From July 3, 2002 to August 13, 2004, our common stock has traded on the Nasdaq OTC Bulletin Board 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 reflect the 1:10 reverse stock split effected on July 2, 2002.

	High	Low
Fiscal 2004		
Fourth Quarter	$ 11.40	$ 6.43
Third Quarter	12.95	8.25
Second Quarter	9.10	5.73
First Quarter	7.10	4.00
Fiscal 2003		
Fourth Quarter	$ 4.45	$ 1.55
Third Quarter	2.31	1.50
Second Quarter	2.30	1.00
First Quarter	1.45	1.10
Fiscal 2002		
Fourth Quarter	$ 1.80	$ 0.85
Third Quarter	3.70	0.90
Second Quarter	5.50	2.70
First Quarter	7.20	2.60

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 499 holders of record of our shares of common stock as of August 31, 2004.

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. Therefore, we do not anticipate paying any cash dividends on our shares for the foreseeable future.

Equity Compensation Plan Information

The following table presents information about the Company's common stock that may be issued upon the exercise of options, warrants and rights under existing equity compensation plans at June 30, 2004.

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	1,231,613	$ 7.57	1,768,387
Equity compensation plans not approved by security holders	—	—	—
Total	1,231,613	$ 7.57	1,768,387

Recent Sales of Unregistered Securities

None.

Item 6. Selected Financial Data

The following selected financial data should be read in conjunction with the Financial Statements and the Notes thereto included in this Form 10-K. The statement of earnings data for each of the years in the three-year period ended June 30, 2004, and the consolidated balance sheet data at June 30, 2004 and 2003 are derived from our consolidated financial statements and are included elsewhere in this document. SFAS No. 145 relating to the accounting treatment for extinguishment of debt became effective for the Company during FY 2003. As a result a change in the reporting of our operations for FY 2001 became necessary. During the fiscal year ended June 30, 2001 the Company had originally reported an extraordinary item related to gain on extinguishment of debt in its Statement of Operations of $1,688,956. Based on SFAS No. 145 the Company has reclassified $1,688,956 to income before discontinued operations in its statement of operations included in this annual report. Historical results are not necessarily indicative of the results to be expected in the future.

	Year ended				
	June 30, 2004	June 30, 2003	June 30, 2002	June 30, 2001	June 30, 2000
	(in thousands except per share amounts)				
Consolidated Statement of Earnings Data:					
Revenue	$ 81,028	$ 46,471	$ 33,188	$ 35,655	$ 18,356
Income (loss) from continuing operations	21,893	5,034	2,199	(2,626)	(42,790)
Income (loss) from discontinued operations	—	—	—	(286)	(1,319)
Extraordinary items	—	—	—	(727)	—
Net income (loss)	21,893	5,034	2,199	(3,639)	(44,109)
Basic income (loss) per share					
Income (loss) from continuing operations	1.93	0.46	0.37	(1.18)	(23.12)
Loss from discontinued operations	—	—	—	(0.12)	(0.71)
Extraordinary items	—	—	—	(0.33)	—
Net income (loss) per common share	1.93	0.46	0.37	(1.63)	(23.83)
Diluted income (loss) per share					
Income (loss) from continuing operations	1.80	0.44	0.37	(1.18)	(23.12)
Loss from discontinued operations	—	—	—	(0.12)	(0.71)
Extraordinary items	—	—	—	(0.33)	—
Net income (loss) per common share	1.80	0.44	0.37	(1.63)	(23.83)
Weighted average common shares outstanding					
Basic	11,330	11,019	5,874	2,228	1,851
Diluted	12,181	11,553	5,878	2,228	1,851

	As of June 30				
	2004	2003	2002	2001	2000
Consolidated Balance Sheet Data:					
Cash	$ 4,957	$ 2,320	$ 520	$ 149	$ 2,607
Working capital (deficit)	13,825	5,527	289	(11,352)	(14,845)
Total assets	40,426	12,037	7,377	6,055	11,851
Short-term debt	—	121	242	3,759	409
Long-term debt	400	436	421	442	—
Capital lease obligations	258	28	109	38	135
Stockholders' equity (accumulated deficit)	30,738	8,103	2,469	(9,307)	(10,776)

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

Our fiscal year ended June 30, 2004 ("FY 2004") was only the third year since the inception of the Company that we were profitable and the second year that we enjoyed positive cash flow from operating activities. As explained in previous annual reports we closed our Internet Commerce Center and the Cable Commerce division in order to concentrate on our StoresOnline business that services the small business and individual entrepreneur markets. We raised approximately $7.2 million in equity capital through the sale of our convertible notes and common stock in three private placements during the fiscal years ended June 30, 2001 and 2002. Using this cash to retire debt and promote our StoresOnline business has enabled us to increase revenues significantly, remain profitable and have positive cash flow from operations. The following discussion 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 had 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 a letter of comments pointing out areas of concern and requested we answer their questions and provide additional information. 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. On October 31, 2002 we responded to other comments from the staff in their letter dated August 5, 2002. On November 6, 2002 in a telephone conversation with the SEC staff we resolved the remaining issues without amending our previously filed financial statements. However, certain reclassifications of financial information and additional financial statement disclosures have been reflected in the accompanying financial statements.

Fluctuations in Quarterly Results and Seasonality

In view of the rapidly evolving nature of our business and the market we serve, we believe that period-to- period comparisons of our operating results, including our gross profit and operating expenses as a percentage of revenues and cash flow, are not necessarily meaningful and should not be relied upon as an indication of future performance. Our fiscal year ends each June 30 and we experience seasonality in our business. Revenues from our core business during the first and second fiscal quarters tend to be lower than revenues in our third and fourth quarters. We believe this to be attributable to summer vacations and the Thanksgiving and December holiday seasons that occur during our first and second quarters.

The financial statements for the years ended June 30, 2003 and 2002 have been reclassified to conform to fiscal year 2004 presentation.

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 ("US GAAP") and form the basis for the following discussion and analysis on critical accounting policies and estimates. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On a regular basis we evaluate our estimates and assumptions. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Senior management has discussed the development, selection and disclosure of these estimates with the Board of Directors and its Audit Committee. There are currently five members of the Board of Directors, three of whom make up the Audit Committee. The Board of Directors has determined that each member of the Audit Committee qualifies as an independent director and that the chairman of the Audit Committee qualifies as an "audit committee financial expert" as defined under the rules adopted by the SEC.

A summary of our significant accounting policies is set out in Note 2 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

On October 1, 2000, the Company started selling a license to use a new product called the StoresOnline Software ("SOS"). The SOS is a web based software product that enables the customer to develop their Internet website without additional assistance from the Company. When a customer purchases a SOS license at one of the Company's 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 the Company's website where all the necessary tools are located 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 to host with the Company there is an additional setup and hosting fee (currently $150) for publishing and 12 months of hosting. This fee is deferred at the time it is paid and recognized during the subsequent 12 months. A separate file is available and can be used if the customer decides to create their website on their own completely without access to the Company website and host their site with another hosting service.

The revenue from the sale of the SOS license is recognized when the product is delivered to the customer and the three-day rescission period expires. The Company accepts cash and credit cards as methods of payment and the Company offers 24-month installment contracts to customers who prefer an Extended Payment Term Arrangement (EPTA). 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 permission for the Company to independently check their credit and are willing to make an appropriate down payment. EPTAs are either sold to third party financial institutions, generally with recourse, for cash on a discounted basis, or carried on the Company's books as a receivable. Beginning in May 2004 the Company no longer sells EPTA's with any recourse provisions.

The EPTAs generally have a twenty-four month term. For more than five years the Company has offered its customers the payment option of a long-term installment contract and has a history of successfully collecting under the original payment terms without making concessions. During fiscal years ended June 30, 1999 through 2004, the Company has collected or is collecting approximately 70% 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 reasonable efforts, approximately 47% of all EPTAs not sold to third party financial institutions become uncollectible during the life of the contract. All uncollectible EPTAs are written off against an allowance for doubtful accounts. The allowance is established at the time of sale based on our five-year history of extending EPTAs and revised periodically based on current experience and information. The revenue generated by sales to EPTA customers is recognized when the product is delivered to the customer, the contract is signed and any rescission period lapses. At that same time an allowance for doubtful accounts is established. This procedure has been in effect for all of fiscal years 2004 and 2003.

The American Institute of Certified Public Accountants Statement of Position 97-2 ("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 and the three-day rescission period expires. The customer signs one of the Company's order forms, and a receipt acknowledging receipt and acceptance of the product. As is noted on the order and acceptance forms the customer has three days to rescind the order. Once the rescission period expires, all sales are final and all fees are fixed and determinable.

The Company also offers its customers, through telemarketing sales following the workshop, certain products intended to assist the customer in being successful with their business. These products include a live chat capability for the customer's own website and web traffic building services. Revenues from these products are recognized when delivery of the product has occurred. The Company receives a commission and recognizes this revenue net of the selling and marketing costs.

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 $9.0 million and $6.6 million as of June 30, 2004 and June 30, 2003, 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.

Valuation of Long-Lived Assets Including Goodwill and Purchased Assets

We review property, equipment, goodwill and purchased intangible assets for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. This review is conducted as of December 31st of each year or more frequently if necessary. Our asset impairment review assesses the fair value of the assets based on the future cash flows the assets are expected to generate. An impairment loss is recognized when estimated undiscounted future cash flows expected to result from the use of the asset plus net proceeds expected from the disposition of the asset (if any) are less than the carrying value of the asset. This approach uses our estimates of future market growth, forecasted revenue and costs, expected period the assets will be utilized and appropriate discount rates. When an impairment is identified, the carrying amount of the asset is reduced to its estimated fair value.

Income Taxes

In preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating current tax liabilities together with assessing temporary differences resulting from differing treatment of items for tax and financial reporting purposes. These differences result in deferred tax assets and liabilities. Our deferred tax assets consist primarily of the future benefit of net operating losses carried forward. We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. We have considered historical operations and current earnings trends, future market growth, forecasted earnings, estimated future taxable income, the mix of earnings in the jurisdictions in which we operate and prudent and feasible tax planning strategies in determining the need for a valuation allowance. In the event we were to determine that we would not be able to realize all or part of our net deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to earnings in the period such determination is made. Likewise, if we later determine that it is more likely than not that the net deferred tax assets would be realized, the previously provided valuation allowance, if any, would be reversed.

At June 30, 2003 we had recognized a tax valuation allowance of $19.3 million against our deferred tax assets. As of March 31, 2004, we determined that it was more likely than not that $16.7 million, or all but approximately $2.6 million of the deferred tax assets would be realized. This determination was based on current projections of future taxable income when taking into consideration limitations on the utilization of net operating loss carry forwards ("NOL") imposed by Section 382 of the Internal Revenue Code ("Section 382"). Section 382 imposes limitations on a corporation's ability to utilize its NOLs if it experiences an "ownership change". In general terms, an ownership change results from transactions increasing the ownership of certain stockholders in the stock of a corporation by more than 50 percentage points over a three-year period. Since our formation, we have issued a significant number of shares, and purchasers of those shares have sold some of them, with the result that two changes of control, as defined by Section 382, have occurred. As a result of the most recent ownership change, utilization of our NOLs is subject to an annual limitation under Section 382 determined by multiplying the value of our stock at the time of the ownership change by the applicable long-term tax-exempt rate resulting in an annual limitation amount of approximately $127,000. Any unused annual limitation may be carried over to later years, and the amount of the limitation may under certain circumstances be increased by the "recognized built-in gains" that occur during the five-year period after the ownership change (the "recognition period"). Based on an independent valuation of our company as of April 3, 2002, we have approximately $15 million of recognized built-in gains. Additionally, based on a valuation of our company as of June 25, 2000, which evaluation was completed during the quarter ended March 31, 2004, we also determined the earlier ownership change resulted in built-in gains that allow us to utilize our entire NOL.

Related Party Transactions

On July 1, 2003 John J. (Jay) Poelman, retired and in connection therewith resigned as the Company's Chief Executive Officer and as a Director of the Company. Transactions with Electronic Commerce International, Inc. ("ECI"), Electronic Marketing Services, LLC. ("EMS") and Simply

Splendid, LLC ("Simply Splendid") which prior to July 1, 2003 were considered related party transactions, but are not considered related party transactions for the fiscal year ended June 30, 2004 since Mr. Poelman was not an affiliate of the Company after July 1, 2003.

John J. Poelman was the sole owner of ECI during the fiscal year ended June 30, 2002 and during the three months ended September 30, 2002. During this period, the Company purchased a merchant account solutions product from ECI that provided on-line, real-time processing of credit card transactions and resold this product to its customers. The Company also formerly utilized the services of ECI to provide a leasing opportunity to customers who purchased its products at its Internet training workshops. Effective October 1, 2002, Mr. Poelman sold certain assets and liabilities of ECI, including ECI's corporate name and its relationship with the Company, to an unrelated third party. Total revenue generated by the Company from the sale of ECI's merchant account solutions product, while ECI's business was owned by Mr. Poelman, was $1,453,612 and $5,106,494 for the years ended June 30, 2003 and 2002, respectively. The cost to the Company for these products and services totaled $223,716 and $994,043 for the years ended June 30, 2003 and 2002, respectively. During the years ended June 30, 2003 and 2002 the Company processed leasing transactions for its customers through ECI in the amounts of $0 and $1,090,520, respectively. As of June 30, 2004 and 2003 the Company had no receivable balance due from ECI for leases in process. In addition, the Company had no payable balance due to ECI as of June 30, 2003 for the purchase of the merchant account software while owned by Mr. Poelman.

The Company offers its customers at its Internet training workshops, and through telemarketing sales following the workshop certain products intended to assist its customers to become successful with their business. These products include a live chat capability for the customer's own website and web traffic building services. The Company purchases some of these services from EMS. In addition, EMS provides us telemarketing services, selling some of the Company's products and services to contacts provided to EMS by us. Ryan Poelman, owner of EMS, is the son of John J. Poelman our former Chief Executive Officer and a former director who retired effective July 1, 2003 and, in connection therewith, resigned as an officer and director of the Company. The Company's revenues generated from the above products and services were $6,330,343 and $4,806,497 for the fiscal years ended June 30, 2003 and 2002, respectively. The Company paid EMS $994,827 and $479,984 to purchase these services during the fiscal years ended June 30, 2003 and 2002, respectively. In addition, the Company had $92,094 as of June 30, 2003 recorded in accounts payable relating to the amounts owed to EMS for products and services.

The Company sends complimentary gift packages to its customers who register for the Company's Workshop training sessions. An additional gift is sent to Workshop attendees who purchase our products at the conclusion of the Workshop. The Company utilizes Simply Splendid, LLC ("Simply Splendid") to provide some of these gift packages to the Company's customers. Aftyn Morrison, owner of Simply Splendid, is the daughter of John J. Poelman our former Chief Executive Officer and a former director. We paid Simply Splendid $421,265 and $0 to fulfill these services during the fiscal years ended June 30, 2003 and 2002, respectively. In addition, the Company had $22,831 as of June 30, 2003 recorded in accounts payable relating to the amounts owed to Simply Splendid for gift packages.

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 our Board of Directors, was a principal of vFinance at the time of the private placement. During the year ended June 30, 2002 we paid vFinance $61,500 in fees and commissions for their services. The offering was successful with adjusted gross proceeds to us 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 our 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.

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 $2,898,455.

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.

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

Fiscal year ended June 30, 2004 compared to fiscal year ended June 30, 2003

Revenue

Our fiscal year ends on June 30 of each year. Revenues for the fiscal year ended June 30, 2004 ("FY 2004") increased to $81,027,517 from $46,470,678 for the fiscal year ended June 30, 2003 ("FY 2003"), an increase of 74%. Revenues generated at our Internet training workshops in both fiscal years were from the sale of the SOS product as described in Critical Accounting Policies and Estimates above. Revenues also 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 revenues to be generated principally following a business model similar to the one used in fiscal year 2004. 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. We also intend to expand our product offerings to locations outside the United States of America.

The increase in revenues from FY 2004 compared to FY 2003 can be attributed to various factors. There was an increase in the number of Internet training workshops conducted during the current fiscal years. The number increased to 544 including 58 that were held outside the United States of America, for the current fiscal year from 336 in FY 2003, 11 of which were held outside the United States. In addition, the average number of persons attending each workshop increased and the average number of "buying units" in attendance at our workshops during the period increased to 89, compared to 84 in the prior fiscal year. Persons who pay an enrollment fee to attend our workshops are allowed to bring a guest at no additional charge, and that individual and his/her guest constitute one buying unit. If the person attends alone that single person also counts as one buying unit. Approximately 35% of the buying units made a purchase at the workshop in FY 2004 compared to 32% FY 2003. The average revenue per workshop purchase decreased in the current fiscal year ended June 30, 2004 to approximately $4,300 compared to approximately $4,500 in the fiscal year ended June 30, 2003. We contact all persons who attend our workshops beginning approximately two weeks after the event was held in an attempt to sell them a mentoring program and products that will drive traffic to their web site. These contacts are made through telemarketing companies that we engage as subcontractors. The Company receives a commission and recognizes this revenue net of the selling and marketing costs.

Telemarketing sales, included in total revenue described above, increased during FY 2004 to approximately $6.5 million from $3.7 million in FY 2003, an increase of 73%.

Gross Profit

Gross profit is calculated as revenue less the cost of revenue, which consists of the cost to conduct Internet training workshops, to provide customer technical support, credit card fees and the cost of tangible products sold. Gross profit for FY 2004 increased to $62,281,247 from $35,568,308 during FY 2003. The increase in gross profit primarily reflects the increased revenue during the period. Gross profit as a percent of revenue for FY 2004 was 76.9% compared to 76.5% for FY 2003.

Cost of revenues includes related party transactions of $1,118,002 in FY 2003. These are more fully described in the notes to the consolidated financial statements as Note 13. 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 these related parties is at least as favorable to us as would be available from an independent third party.

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, related expenses for personnel engaged in sales and marketing activities, and commissions paid to telemarketing companies. Selling and marketing expenses for FY 2004 increased to $20,964,701 from $11,632,209 in FY 2003. The increase in selling and marketing expenses is primarily attributable to the increase in the number of workshops held during FY 2004. Expenses were higher because of the greater number of attendees at our preview sessions and the associated expenses including advertising and promotional expenses necessary to attract the attendees. Total selling and marketing expenses as a percentage of revenues were 25.9% for FY 2004 and 25.0% FY 2003.

Selling and marketing expenses include related party transactions of $349,680 in the fiscal year ended June 30, 2003. These are more fully described in note 13 to the consolidated financial statements. 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 this related party 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, finance company discounts and service fees and other general corporate expenses. General and administrative expenses in FY 2004 increased to $8,855,459 from $5,081,353 in FY 2003. The general increase in sales volume contributed to an increase in salaries and wages to $2.9 million in FY 2004 from $2.1 million in FY 2003. The increase in salaries and wages occurred primarily in customer service as a result of the execution of several customer service initiatives.

Finance company discounts and service fees increased to $2.3 million in FY 2004 compared to $1.6 million in FY 2003 as a result of the general increase in sales volume. We accept twenty-four month installment contracts from our customers as one of several methods of payment. Some of these contracts are subsequently sold to finance companies at a discount. The discounts range between 15% and 25% depending upon the credit worthiness of our customer. Contracts that are not sold are carried by the Company and the servicing and collection activity is outsourced to independent collection companies. Fees for servicing are approximately 8% of the funds collected and fees for collection are approximately 33% of the funds collected. These discounts and service fees are included in general and administrative expenses.

Legal expenses increased to $1.5 million during FY 2004 as a result of the resolution of various legal proceedings during the year as more fully described in Legal Proceedings in Part I, Item 3 of this Form 10-K. The change in legal expenses during the year is also the result of a settlement agreement with Category 5 Technologies, Inc. ("Cat 5") during FY 2003. In April 2002 Cat 5 demanded that we reimburse them for $260,000 of their expenses associated with merger negotiations between our companies. As a result we accrued that amount as a contingent liability during FY 2002. A settlement agreement was signed and the lawsuit dismissed eliminating the contingent liability and therefore the accrual was reversed during FY 2003, reducing legal expenses for the year. We anticipate that legal expenses will decrease in future periods as various legal proceedings have been resolved during fiscal year 2004.

Accounting and other professional fees increased $653,000 during FY 2004 as a result of consulting and legal services incurred as a result of our international expansion and consulting fees incurred for compliance with the rules and regulations of Sarbanes-Oxley.consulting. The Audit fees also increased as a result of a general increase in sales volume.

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 for our customers, 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 of from 5% to 10% of the purchase price. These installment contracts are sometimes sold to finance companies, with partial or full recourse, if our customer has a credit history that meets the finance company's criteria. Beginning in May 2004, we no longer sell installment contracts with any recourse provisions. 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 low marginal cost associated with these sales and that the down payment received by us at the time the contract is entered into exceeds the cost of the delivered products. Since all other expenses relating to the sale, such as salaries, advertising, meeting room expense, travel, etc., have already been incurred, we believe there is a good business reason for extending credit on these terms.

Bad debt expense was $24,144,800 in FY 2004 compared to $14,255,877 in the prior fiscal year. The increase is due to an increase in the number of installment contracts entered into, an increase in the number of contracts carried by us and our recent collection experience. We have begun to have access to much more detailed information from the finance companies that service the installment contracts, and we have also had more historical data with which to estimate the appropriate bad debt reserve. We believe that bad debt expense in future years will decline as a percentage of revenues since we have resolved all known contract losses during FY 2004. We believe the allowance for doubtful accounts of approximately $9.0 million at June 30, 2004 is adequate to cover all future losses associated with the contracts in our accounts receivable as of June 30, 2004.

During FY 2004 workshop sales financed by installment contracts were approximately $44.1 million compared to $22.6 million in the prior fiscal year. As a percentage of workshop sales, installment contracts were 61% in FY 2004 compared to 55% in FY 2003. The table below shows the activity in our total allowance for doubtful accounts during the fiscal year ended June 30, 2004.

Allowance balance June 30, 2003	$	6,603,260
Plus provision for doubtful accounts		24,144,800
Less accounts written off		(21,796,731)
Allowance balance June 30, 2004	$	8,951,329

Interest Income

Interest income is derived from the installment contracts. Our contracts have an 18% simple interest rate and interest income for FY 2004 was $1,725,776 compared to $813,136 in FY 2003. In the future as our cash position strengthens we may be able to carry more installment contracts rather than selling them at a discount to finance companies. If we were able to carry more of these contracts it would increase interest income and reduce these discounts which are recorded as administrative expenses.

Income Taxes

At June 30, 2003 we had recognized a tax valuation allowance of $19.3 million against our deferred tax assets. As of March 31, 2004, we determined that it was more likely than not that $16.7 million, or all but $2.6 million of the deferred tax assets would be realized. This determination was based on current projections of future taxable income when taking into consideration limitations on the utilization of net operating loss carry forwards ("NOL") imposed by Section 382 of the Internal Revenue Code ("Section 382"). Section 382 imposes limitations on a corporation's ability to utilize its NOLs if it experiences an "ownership change". In general terms, an ownership change results from transactions increasing the ownership of certain stockholders in the stock of a corporation by more than 50 percentage points over a three-year period. Since our formation, we have issued a significant number of shares, and purchasers of those shares have sold some of them, with the result that two changes of control, as defined by Section 382, have occurred. As a result of the most recent ownership change, utilization of our NOLs is subject to an annual limitation under Section 382 determined by multiplying the value of our stock at the time of the ownership change by the applicable long-term tax-exempt rate resulting in an annual limitation amount of approximately $127,000. Any unused annual limitation may be carried over to later years, and the amount of the limitation may under certain circumstances be increased by the "recognized built-in gains" that occur during the five-year period after the ownership change (the "recognition period"). Based on an independent valuation of our company as of April 3, 2002, we have approximately $15 million of recognized built-in gains. Additionally, based on a valuation of our company as of June 25, 2000, which evaluation was completed during the quarter ended March 31, 2004, we also determined the earlier ownership change resulted in built-in gains that allow us to utilize our entire NOL.

The $16.7 million benefit recorded upon the removal of the valuation allowance during FY 2004 was offset by the utilization of $4.6 million of the NOL during the period and by approximately $200,000 in effective tax rate changes and income tax true-ups as a result of the expansion of international operations, resulting in an overall tax benefit of $12.3 million for the year. We have recorded deferred tax assets of approximately $13.1 million as of June 30, 2004. As the Company continues to realize earnings and generate deferred tax provision, the tax asset will decrease in amount.

Fiscal year ended June 30, 2003 compared to fiscal year ended June 30, 2002

Revenue

Our fiscal year ends on June 30 of each year. Revenues for the fiscal year ended June 30, 2003 ("FY 2003") increased to $46,470,678 from $33,188,263 for the fiscal year ended June 30, 2002 ("FY 2002"), an increase of 40%. Revenues generated at our Internet training workshops in both fiscal years were from the sale of the SOS product as described in Critical Accounting Policies and Estimates above. Revenues also 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 revenues to be generated principally following a business model similar to the one used in fiscal year 2003. 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.

The increase in revenues from FY 2003 compared to FY 2002 can be attributed to various factors. There was an increase in the number of Internet training workshops conducted during the current fiscal years. The number increased to 336 including 11 that were held outside the United States of America, for FY 2003 from 253 in FY 2002, nine of which were held outside the United States. In addition, the average number of persons attending each workshop increased and the average number of "buying units" in attendance at our workshops during the period increased to 84, compared to 80 in the prior fiscal year. Persons who pay an enrollment fee to attend our workshops are allowed to bring a guest at no additional charge, and that individual and his/her guest constitute one buying unit. If the person attends alone that single person also counts as one buying unit. Approximately 32% of the buying units made a purchase at the workshop in FY 2003 compared to 29% FY 2002. The average revenue per workshop purchase also increased in the current fiscal year ended June 30, 2003 to approximately $4,500 compared to approximately $4,100 in the fiscal year ended June 30, 2002. We will seek to continue to hold workshops with a larger number of attendees in future periods and we will seek to increase the number of these larger workshops as well.

Revenue during FY 2003 compared to FY 2002 was higher in spite of the loss of a benefit relating to the recognition of revenue deferred from historical workshop sales at rates greater than the level at which revenue is required to be deferred from the current period. During FY 2003, we recognized only $248,150 in net revenue from sales made in prior periods compared to $5,328,034 recognized from sales made in prior periods during FY 2002. This benefit experienced during FY 2002 resulted from a change in the business model and product offering at the workshops. This benefit has now been fully realized and we do not expect it to reoccur. We anticipate that in the future the amount of revenue recognized from earlier periods will be approximately equal to that deferred into future periods.

Effective October 1, 2000, 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 the marketing principles taught by us are equally effective for stand-alone websites and websites hosted on an Internet "mall." Although Galaxy Mall remains an active website, all new customers are sold the SOS through our StoresOnline previews and workshops.

We contact all persons who attend our workshops beginning approximately two weeks after the event was held in an attempt to sell them a mentoring program and products that will drive traffic to their web site. These contacts are made through telemarketing companies that we engage as subcontractors. Revenues from these products are recognized when delivery of the product has occurred. The Company receives a commission and recognizes this revenue net of the selling and marketing costs. Telemarketing sales, included in total revenue described above, decreased during FY 2003 to approximately $3.7 million from $5.0 million in FY 2003, an decrease of 26%.

Gross Profit

Gross profit is calculated as revenue less the cost of revenue, which consists of the cost to conduct Internet training workshops, to provide customer technical support, credit card fees and the cost of tangible products sold. Gross profit for FY 2003 increased to $35,568,308 from $26,662,463 during FY 2002. The increase in gross profit primarily reflects the increased revenue during the period.

Gross profit as a percent of revenue for FY 2003 was 77% compared to 80% for FY 2002. The reduction in the gross margin percentage was primarily attributable to the recognition of $5,328,034 in deferred revenue during the fiscal year ended June 30, 2002, as compared to only $398,912 in deferred revenue that was recognized during FY 2003. These deferred revenue amounts had no costs associated with them because those costs were recognized at the time the sales were made and the products delivered in the relevant prior periods.

Cost of revenues includes related party transactions of $1,118,002 in FY 2003 and $994,043 in the prior fiscal year. These are more fully described in the notes to the consolidated financial statements as Note 13. 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 these related parties is at least as favorable to us as would be available from an independent third party.

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, related expenses for personnel engaged in sales and marketing activities, and commissions paid to telemarketing companies. Selling and marketing expenses for FY 2003 increased to $11,632,209 from $9,474,733 in FY 2002. The increase in selling and marketing expenses is primarily attributable to the increase in the number of workshops held during FY 2003. Expenses were higher because of the greater number of attendees at our preview sessions and the associated expenses including advertising and promotional expenses necessary to attract the attendees. Advertising expenses for the fiscal year ended June 30, 2003 were approximately $7.6 million compared to $5.3 million in the prior fiscal year. Total selling and marketing expenses as a percentage of revenues were 25% for FY 2003 and, including the non-recurring benefit of deferred revenue mentioned above in total revenue, selling and marketing expenses were 30% of total revenue for FY 2002.

Selling and marketing expenses include related party transactions of $349,680 and $355,106 in the fiscal years ended June 30, 2003 and 2002, respectively. These are more fully described in Note 13 to the consolidated financial statements. 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 this related party 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, finance company discounts and other general corporate expenses. We accept twenty-four month installment contracts from our customers as one of several methods of payment. Some of these contracts are subsequently sold to finance companies at a discount. The discounts range between 15% and 25% depending upon the credit worthiness of our customer. These discounts, which amounted to approximately $1.6 million in FY 2003 and $1.5 in FY 2002, are included in general and administrative expenses.

General and administrative expenses in FY 2003 decreased to $5,081,353 from $6,388,309 in FY 2002. This decrease is partially attributable to the fact that during FY 2002 we incurred $555,201 in debt issuance costs associated with a convertible debenture owned by King William, LLC. Since King William converted the debenture into common stock, the debt issuance costs were written off rather than being amortized over the life of the debenture. Other items contributing to the reduction were a decrease in the FY 2003 payroll and related expenses that resulted from reducing the size of our workforce which was partially offset by increases in compensation to our executive officers, elimination of certain consulting fees associated with financial public relations firms, and a reduction in legal and other professional expenses. In addition, during FY 2003 we resolved a lawsuit brought by Category 5 Technologies, Inc. ("Cat 5").

In April 2002 Cat 5 demanded that we reimburse them for $260,000 of their expenses associated with merger negotiations between our companies. As a result we accrued that amount as a contingent liability during FY 2002. A settlement agreement was signed and the lawsuit dismissed in fiscal year 2003 eliminating the contingent liability and therefore the accrual was reversed during FY 2003, reducing general and administrative expenses for the year. Further reductions in general and administrative expenses from current revenue levels are unlikely and we anticipate that general and administrative expenses will increase in future years as our business grows, as we work to improve the quality and effectiveness of our customer support and we resolve the litigation and administrative proceedings brought against us.

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 for our customers, 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 of from 5% to 10% of the purchase price. These installment contracts are sometimes sold to 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 low marginal cost associated with theses sales and that the down payment received by us at the time the contract is entered into exceeds the cost of the delivered products. Since all other expenses relating to the sale, such as salaries, advertising, meeting room expense, travel, etc., have already been incurred, we believe there is a good business reason for extending credit on these terms.

Bad debt expense was $14,225,877 in FY 2003 compared to $6,675,238 in the prior fiscal year. The increase is due to an increase in the number of installment contracts entered into, an increase in the number of contracts carried by us and our recent collection experience. During FY 2003 we wrote off approximately $2.4 million of installment contracts that originated in FY 2002 and 2001. We provided for bad debts as of June 30, 2002 based on the best information available at the time, including historical write-off patterns. We have begun to have access to much more detailed information from the finance companies that service the installment contracts, and we have also had more historical data with which to estimate the appropriate bad debt reserve.

During FY 2003 workshop sales financed by installment contracts were approximately $22.6 million compared to $12.3 million in the prior fiscal year. As a percentage of workshop sales, installment contracts were 55% in FY 2003 compared to 47% in FY 2002. During FY 2003 contracts carried by us, before any adjustment for an allowance for doubtful accounts, increased by approximately $5.7 million to approximately $12.9 million. The balance carried at June 30, 2002 net of the allowance for doubtful accounts was approximately $7.2 million. The allowance for doubtful accounts as of June 30, 2003 related to installment contracts was 45% of gross accounts receivable compared to 46% at June 30, 2002, reflecting a modest improvement in the credit quality of our customers electing this method of payment. These factors and other non-installment contract receivables required us to increase our total allowance for doubtful accounts by approximately $3.4 million.

Interest Income

Interest income is derived from the installment contracts. Our contracts have an 18% simple interest rate and interest income for FY 2003 was $813,136 compared to $390,371 in FY 2002.

Interest Expense

Interest expenses for the fiscal year ended June 30, 2003 decreased to $40,611 from $1,950,687 in FY 2002. Included in interest expense in FY 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 FY 2002 instead of being amortized over the life of the notes.

Income Taxes

Fiscal year 2002 was our first profitable year since our inception. However, differences in generally accepted accounting principals ("US GAAP") and accounting for tax purposes caused us to have a tax loss for the fiscal year ended June 30, 2002. For the fiscal year ended June 30, 2003 we have estimated our taxable income to be approximately $8.2 million.

Liquidity and Capital Resources

At June 30, 2004 we had working capital of $13,825,075 compared to $5,526,926 at June 30, 2003. Our shareholders equity was $30,737,883 at June 30, 2004 compared to $8,103,047 at June 30, 2003. We generated revenues of $81.0 million during FY 2004 compared to $46.5 million during FY 2003. For the year ended June 30, 2004 we generated earnings before taxes of $9.6 million compared to $5.0 million for the prior year.

Although we had historically incurred losses during our first several years of operations, we became profitable in fiscal year 2002 and continued our profitability through fiscal year 2004. Our historical losses, however, have resulted in a cumulative net loss of $42,593,240 through June 30, 2004. We have historically relied upon private placements of our stock and the issuance of debt to generate funds to meet our operating needs. We may in the future seek to raise additional debt or equity capital to further increase our growth potential and take advantage of strategic opportunities. However, there can be no assurance that additional financing will be available on acceptable terms, if at all.

Capital Requirements—Contractual Obligations

	Payments Due by Period(1)			
	Total	Less than 1 year	2-3 years	4 years and after
Contractual Obligations as of June 30, 2004				
Operating Leases(2)	$ 269,404	$ 247,724	$ 21,680	$ —
Long-term debt(3)	400,000	—	—	400,000
Capital lease obligations(4)	257,735	95,572	162,163	—
Line of credit(5)	1,377,715	1,377,715	—	—
Total contractual cash obligations	$ 2,304,854	$ 1,721,011	$ 183,843	$ 400,000

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

(2) Represents our commitments associated with operating leases and includes contracts that expire in various years through 2007. Payments due reflect fixed rent expense.

(3) Amounts are equal to the annual maturities of our long-term debt outstanding. See Note 6 to our Consolidated Financial Statements.

(4) Represents our obligation associated with various capital leases. See Note 10 to our Consolidated Financial Statements.

(5) Amount represents our obligation on the line of credit with Zion's First National Bank. See Note 7 to our Consolidated Financial Statements.

Cash

At June 30, 2004, we had $4,956,512 cash on hand compared to $2,319,618 at June 30, 2003. During FY 2004, we recorded positive cash flows from operating activities of $1,304,519 compared to positive cash flows of $2,080,778 in the prior fiscal year. Net cash provided by operations resulted mainly from net earnings of $21,893,149 and a provision for bad debts of $23,489,924 but partially offset by an increase in trade receivables of $35,016,413 and the establishment of deferred tax assets of $13,121,255. The increase in trade receivables occurred because our increase in revenues generated additional installment contracts. See the discussion of Bad Debt Expense in the Results of Operations above for a detailed discussion.

Trade Receivables

Trade receivables, carried as a current asset, net of allowance for doubtful accounts, were $12,427,366 at June 30, 2004 compared to $5,161,010 at June 30, 2003. Trade receivables, carried as a long-term asset, net of allowance for doubtful accounts, were $6,515,102 at June 30, 2004 compared to $2,254,969 at June 30, 2003. We offer our customers a 24-month installment contract as one of several payment options. The payments that become due more than 12 months after the end of the fiscal period are carried as long-term trade receivables. During FY 2004 workshop sales financed by installment contracts were approximately $44.1 million compared to approximately $22.8 million in prior year.

Historically we have sold, on a discounted basis, generally with recourse, a portion of these installment contracts to third party financial institutions for cash. These installment contracts were sold to various separate financial institutions with different recourse rights. When contracts are sold the discount varies between 15% and 25% depending on the credit quality of the customer involved. Beginning in May 2004, we no longer sell installment contracts with recourse rights. During FY 2004 our cash position was strong enough to retain some of the contracts we otherwise would have sold. Contracts with customers whose credit rating would have allowed us to sell them and having an original principal balance of approximately $2,723,378 were retained by the Company. The savings in discount by not selling the contracts was approximately $545,000. We expect to retain additional contracts in the future.

Accounts Payable

Accounts payable at June 30, 2004, totaled $2,849,632, compared to $1,528,037 at June 30, 2003. Our accounts payable as of June 30, 2004 were generally within our vendor's terms of payment.

Stockholders' Equity

Stockholders' equity at March 31, 2004 was $30,737,883 compared to $8,103,047 at June 30, 2003. The increase was mainly due to profitable operations for fiscal year 2004. Net earnings during the year were $21,893,149.

Financing Arrangements

We accept payment for the sales made at our Internet training workshops by cash, credit card, or installment contract. As part of our cash flow management and in order to generate liquidity, we have historically sold on a discounted basis, generally with recourse, a portion of the installment contracts generated by us to third party financial institutions for cash. See "Liquidity and Capital Resources—Trade Receivables," for further information.

Additional Sources of Liquidity

In April 2004, we opened a $3 million revolving loan agreement with Zions First National Bank. The agreement allows us to borrow up to 80% of qualifying receivables up to $3 million at prime plus 3% for a term of three years. We entered into the revolving loan agreement to provide additional liquidity so that we would not be required to sell all of our installment contracts to third party financial institutions at the discounts described above.

In August 2004, we opened a $5 million line of credit agreement with Bank One and closed the $3 million revolving loan agreement with Zions First National Bank. The agreement with Bank One allows us to borrow funds for a term of two years at LIBOR plus 2%. The Bank One agreement provides additional liquidity at more favorable terms than the Zions First National Bank agreement and will be used for the same purposes described above.

American Stock Exchange Listing

On August 16, 2004 the American Stock Exchange listed our common stock under the ticker symbol IIG.

Impact of Recent Accounting Pronouncements

In December 2003, the SEC issued Staff Accounting Bulletin No. 104 ("SAB 104"), "Revenue Recognition", which supercedes Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements." The primary purpose of SAB 104 is to rescind accounting guidance contained in SAB 101 related to multiple element revenue arrangements, which was superceded as a result of the issuance of Emerging Issues Task Force 00-21 ("EITF 00-21"), "Accounting for Revenue Recognition in Financial Statements—Frequently Asked Questions and Answers" document. While the wording of SAB 104 has changed to reflect the issuance of EITF 00-21, the revenue recognition principles of SAB

101 remain largely unchanged by the issuance of SAB 104. The adoption of SAB 104 did not have a material impact on our consolidated financial position, results of operations or cash flows.

Item 7A. Quantitative and Qualitative Disclosures About Market Risks

We are exposed to market risk from changes in interest and foreign exchange rates. We have minimal fair value exposure related to interest rate changes associated with our long-term, fixed-rate debt. We do not believe we have material market risk exposure and have not entered into any market risk sensitive instruments to mitigate these risks or for trading or speculative purposes.

We currently have outstanding $3.4 million of extended payment term arrangements denominated in foreign currencies with maturity dates between 2004 and 2006. These extended payment term arrangements are translated into U.S. dollars at the exchange rates as of each balance sheet date and the resulting gains or losses are recorded in other income (expense). During the year ended June 30, 2004 we recognized approximately $40,000 in related foreign exchange losses. The fluctuations of exchange rates may adversely affect our results of operations, financial position and cash flows.

Item 8. Financial Statements and Supplementary Data

See Item 15(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

None

Item 9A. Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer, after conducting an evaluation, together with other members of the Company's management, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this report, have concluded that the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in its reports filed or submitted under the Securities Exchange Act of 1934 (the "Exchange Act") is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC. There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to that evaluation, and there were no significant deficiencies or material weaknesses in such controls requiring corrective actions.

Item 9B. Other Information

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information required by this Item 10 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 11 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.

Item 14. Principle Accounting Fees and Services

The information required by this item is incorporated by reference to the sections of the Company's Proxy Statement filed in connections with its 2004 Annual Meeting of the Stockholders entitled "Audit Fees."

PART IV

Item 15. 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:

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.

Schedule II—Valuation and Qualifying Accounts

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 2004

On May 5, 2004, we filed a Current Report on Form 8-K with respect to our earnings release concerning the fiscal quarter ended March 31, 2004.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Imergent, Inc.

We have audited the accompanying consolidated balance sheets of Imergent, Inc. and Subsidiaries (the Company) as of June 30, 2004 and 2003, and the related consolidated statements of earnings, stockholders' equity (accumulated deficit), and cash flows for each of the three years in the period ended June 30, 2004. In connection with our audits of the consolidated financial statements, we have audited the financial statement schedule for the years ended June 30, 2004, 2003 and 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 audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the 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 audits provide 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, 2004 and 2003, and the consolidated results of their operations and their consolidated cash flows for each of the three years in the period ended June 30, 2004, 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 for the years ended June 30, 2003 and 2002 have been restated as discussed in Note 2.

/s/ GRANT THORNTON LLP

Salt Lake City, Utah
August 27, 2004

IMERGENT, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2004 and 2003

	2004	2003
Assets		
Current assets		
Cash	$ 4,956,512	$ 2,319,618
Trade receivables, net of allowance for doubtful accounts of $5,784,113 at June 30, 2004 and $4,471,667 at June 30, 2003	12,427,366	5,161,010
Inventories	71,416	34,194
Prepaid expenses and other current assets	1,145,632	737,983
Deferred tax assets—current	3,714,732	—
Credit card reserves	596,556	770,011
Total current assets	22,912,214	9,022,816
Property and equipment, net	524,427	200,174
Goodwill, net	455,177	455,177
Trade receivables, net of allowance for doubtful accounts of $3,167,216 at June 30, 2004 and $2,131,593 at June 30, 2003	6,515,102	2,254,969
Deferred tax assets	9,406,523	—
Other assets, net of allowance for doubtful accounts of $0 at June 30, 2004, and $100,783 at June 30, 2003	612,632	103,460
Total Assets	$ 40,426,075	$ 12,036,596
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 2,849,632	$ 1,413,112
Accounts payable—related party	—	114,925
Accrued expenses and other current liabilities	3,367,799	1,166,648
Income taxes payable	873,235	—
Deferred revenue	562,076	653,463
Line of credit	1,377,715	—
Current portion of capital lease obligations	56,682	26,536
Current portion of notes payable	—	121,206
Total current liabilities	9,087,139	3,495,890
Capital lease obligations, net of current portion	201,053	1,802
Notes payable, net of current portion	400,000	435,857
Total liabilities	9,688,192	3,933,549
Commitments and contingencies	—	—
Stockholders' equity		
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 11,536,258 and 11,062,290 shares, at June 30, 2004 and June 30, 2003, respectively	11,537	11,063
Additional paid-in capital	73,330,600	72,605,749
Deferred compensation	(6,112)	(22,474)
Accumulated other comprehensive loss	(4,902)	(4,902)
Accumulated deficit	(42,593,240)	(64,486,389)
Total stockholders' equity	30,737,883	8,103,047
Total Liabilities and Stockholders' Equity	$ 40,426,075	$ 12,036,596

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

IMERGENT, INC. AND SUBSIDIARIES

Consolidated Statements of Earnings

Years Ended June 30, 2004, 2003, and 2002

	2004	2003	2002
		(restated)	(restated)
Revenue	$ 81,027,517	$ 46,470,678	$ 33,188,263
Cost of revenue	(18,746,270)	(9,784,368)	(5,531,757)
Cost of revenue—related party	—	(1,118,002)	(994,043)
Total cost of revenue	(18,746,270)	(10,902,370)	(6,525,800)
Gross profit	62,281,247	35,568,308	26,662,463
Operating expenses			
Research and development	358,391	—	51,805
Selling and marketing	20,964,701	11,632,209	9,474,733
Selling and marketing—related party	—	349,680	355,106
General and administrative	8,855,459	5,081,353	6,388,309
Bad debt expense	24,144,800	14,255,877	6,675,238
Total operating expenses	54,323,351	31,319,119	22,945,191
Operating earnings before income taxes	7,957,896	4,249,189	3,717,272
Other income (expense), net			
Other income (expense)	(40,035)	12,358	41,813
Interest income	1,725,776	813,136	390,371
Interest expense	(43,359)	(40,611)	(1,950,687)
Total other income (expense)	1,642,382	784,883	(1,518,503)
Earnings before income taxes	9,600,278	5,034,072	2,198,769
Income tax benefit	12,292,871	—	—
Net earnings	$ 21,893,149	$ 5,034,072	$ 2,198,769
Earnings per share			
Basic	$ 1.93	$ 0.46	$ 0.37
Diluted	$ 1.80	$ 0.44	$ 0.37
Weighted average shares outstanding			
Basic	11,329,699	11,019,094	5,873,654
Diluted	12,180,714	11,552,621	5,878,404

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

IMERGENT, INC. AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity (Accumulated Deficit)

Years Ended June 30, 2004, 2003, and 2002

	Common Stock		Additional Paid-in Capital	Common Stock Subscribed	Accumulated Other Deferred Compensation	Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity/ (Accumulated Deficit)
	Shares	Amount						
Balance July 1, 2001	2,446,018	$ 2,446	$ 62,069,306	$ 398,200	$ (52,649)	$ (4,902)	$ (71,719,230)	$ (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 issued for outstanding liabilities	83,192	83	449,148	—	—	—	—	449,231
Common stock issued for services	132,500	133	15,468	—	—	—	—	15,601
Common stock issued for settlement agreements	20,000	20	85,980	—	—	—	—	86,000
Net earnings	—	—	—	—	—	—	2,198,769	2,198,769
Balance June 30, 2002	10,995,774	10,996	72,017,928	—	(34,987)	(4,902)	(69,520,461)	2,468,574
Amortization of deferred compensation	—	—	—	—	12,513	—	—	12,513
Private placement of common stock	5,000	5	14,995	—	—	—	—	15,000
Reconciliation of common stock following reverse stock split	(1,254)	(1)	1	—	—	—	—	—
Common stock issued pursuant to finder's agreement	26,675	27	25,315	—	—	—	—	25,342
Conversion of exchangeable shares	9,472	9	355,150	—	—	—	—	355,159
Expense for options and warrants granted to consultants	—	—	140,200	—	—	—	—	140,200
Common stock issued upon exercise of options and warrants	26,623	27	52,160	—	—	—	—	52,187
Net earnings	—	—	—	—	—	—	5,034,072	5,034,072
Balance June 30, 2003	11,062,290	11,063	72,605,749	—	(22,474)	(4,902)	(64,486,389)	8,103,047
Amortization of deferred compensation	—	—	—	—	16,362	—	—	16,362
Expense for options and warrants granted to consultants	—	—	336,546	—	—	—	—	336,546
Common stock issued for payment of interest	9,853	10	61,272	—	—	—	—	61,282
Common stock issued upon exercise of options and warrants	464,115	464	327,033	—	—	—	—	327,497
Net earnings	—	—	—	—	—	—	21,893,149	21,893,149
Balance June 30, 2004	11,536,258	$ 11,537	$ 73,330,600	$ —	$ (6,112)	$ (4,902)	$ (42,593,240)	$ 30,737,883

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

IMERGENT, INC AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years Ended June 30, 2004, 2003, and 2002

Increase (decrease) in cash	**2004**	**2003**	**2002**
CASH FLOWS FROM OPERATING ACTIVITIES			
Net earnings	$ 21,893,149	$ 5,034,072	$ 2,198,769
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities			
Depreciation and amortization	120,918	338,285	668,730
Amortization of deferred compensation	16,362	12,513	16,145
Common stock issued for services	—	25,342	15,601
Expense for stock options and warrants issued to consultants	336,546	140,200	6,400
Provision for bad debts	23,489,924	14,255,877	6,675,238
Imputed interest expense on notes payable	—	—	12,639
Loss on issue of common stock below market value	—	—	199,657
Common stock issued for loan restructuring	—	—	13,000
Amortization of debt issue costs	—	—	437,478
Amortization of beneficial conversion feature & debt discount	—	—	1,956,600
Changes in assets and liabilities			
Increase in accounts receivables	(35,016,413)	(16,662,707)	(8,250,722)
Increase/Decrease in inventories	(37,222)	(10,778)	21,310
Increase in prepaid expenses	(407,649)	(39,050)	(381,702)
Increase in deferred tax asset	(13,121,255)	—	—
Increase/Decrease in other assets	(335,717)	313,924	(65,415)
Decrease in deferred revenue	(91,387)	(52,095)	(5,328,034)
Increase/Decrease in accounts payable—related party	(114,925)	3,223	(405,156)
Increase/Decrease in accounts payable, accrued expenses & other liabilities	3,698,953	(1,278,028)	(1,339,469)
Increase/Decrease in income taxes payable	873,235	—	—
Net cash provided by (used in) operating activities	1,304,519	2,080,778	(3,548,931)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of equipment	(173,037)	(129,000)	(99,579)
Proceeds from disposition of equipment	—	—	660
Net cash used in investing activities	(173,037)	(129,000)	(98,919)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net borrowings under line-of-credit agreements	1,377,715	—	—
Proceeds from exercise of options and warrants	327,497	67,187	4,714,439
Repayment of capital lease obligations	(42,737)	(80,506)	—
Repayment of notes payable	(157,063)	(163,868)	(118,121)
Repayment of note to related party	—	—	(380,000)
Bank overdraft borrowings	—	(135,651)	(516,347)
Repayment of convertible debenture	—	—	(100,000)
Proceeds from issuance of convertible long-term notes	—	—	273,976
Proceeds from financing of insurance premium	—	160,930	144,486
Net cash provided by (used in) financing activities	1,505,412	(151,908)	4,018,433
NET INCREASE IN CASH	2,636,894	1,799,870	370,583
CASH AT THE BEGINNING OF THE YEAR	2,319,618	519,748	149,165
CASH AT THE END OF THE YEAR	$ 4,956,512	$ 2,319,618	$ 519,748
Supplemental disclosures of non-cash transactions			
Common stock issued for outstanding liabilities	$ 61,282	$ —	$ 449,231
Accrued interest added to note payable balance	—	—	30,087
Conversion of exchangeable shares for minority interest	—	355,159	—
Property and equipment acquired through capital lease	272,134	—	71,042
Subscribed stock issued	—	—	398,200
Conversion of debenture to common stock	—	—	2,115,884
Conversion of long term notes to common stock	—	—	2,147,295
Common stock issued for settlement agreements	—	—	86,000
Convertible debenture settled for note payable	—	—	400,000
Supplemental Disclosure of Cash Flow Information			
Cash Paid during the year for			

Interest	43,359	—	3,359
Income Taxes	318,593	—	—

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

(1) Description of Business

Imergent, Inc. (the "Company", "Imergent" or "our"), 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. from Netgateway, Inc. Imergent is an e-Services company that provides eCommerce technology, training and a variety of web-based technology and resources to nearly 150,000 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.

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) and pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) for annual financial statements. These consolidated financial statements, in the opinion of management, include all adjustments necessary for a fair presentation of the consolidated results of operations, financial position, and cash flows for each period presented. These consolidated financial statements reflect the results of operations, financial position, changes in shareholders' equity, and cash flows of Imergent, Inc. and its subsidiaries.

(2) Summary of Significant Accounting Policies

(a) Principles of Consolidation

The consolidated financial statements include the accounts and operations of the Company and its wholly-owned subsidiaries, which include Galaxy Enterprises, Inc., Galaxy Mall, Inc., StoresOnline.com Ltd., StoresOnline Inc., and StoresOnline International, Inc. All significant intercomany 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, which became effective July 3, 2002. All data for common stock, options and warrants have been adjusted to reflect the one-for-ten reverse split for all periods presented. In addition, all common stock prices and per share data for all periods presented have been adjusted to reflect the one-for-ten reverse stock split.

(c) Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments, which have an original maturity not greater than three months at the time of purchase.

(d) Accounts Receivables and Allowances

The Company offers to its customers the option to finance, through Extended Payment Term Arrangements (EPTAs), purchases made at the Internet training workshops. A portion of these EPTAs, are then sold, on a discounted basis, to third party financial institutions for cash. The remainder of the EPTAs (those not sold to third parties) is retained as short term and long term Accounts Receivable on the Company's Balance Sheet.

The Company records an allowance for doubtful accounts, at the time the EPTA contract is perfected, for all EPTA contracts. The allowances represent estimated losses resulting from the customers' failure to make required payments. The allowances for doubtful accounts for EPTAs retained by the Company are netted against the current and long-term accounts receivable balances on the consolidated balance sheets, and the associated expense is recorded as a bad debt expense in operating expenses.

EPTAs retained by the Company are charged off against the allowance when the customers involved are no longer making required payments and the EPTAs are determined to be uncollectible. Interest accrued is discontinued when an EPTA becomes delinquent.

EPTAs sold to third party financial institutions are generally subject to recourse to the purchasing finance company after an EPTA is determined to be uncollectible. The Company also provides an allowance for EPTAs estimated to be recoursed back to the Company. Beginning in May 2004, the Company no longer sells EPTAs subject to recourse.

All allowance 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 allowances become inadequate, additional allowances may be required.

The Company determines its allowance by considering a number of factors, including the length of time trade accounts receivable are past due, the Company's previous loss history, the customer's current ability to pay its obligation to the Company, and the condition of the general economy and the industry as a whole. The Company writes-off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts.

Interest income is derived from the installment contracts. Contracts and have an 18% simple interest rate. Interest income is subsequently recognized on these accounts only to the extent cash is received, or when the future collection of interest and the receivable balance is considered probable by management.

(e) Transfers of Financial Assets

Transfers of financial assets are accounted for as having been transferred, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of the right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

(f) 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.

(g) Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation expense is computed 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 earnings for the period. The Company capitalizes assets with a cost in excess of $1,000 dollars

(h) Goodwill and Intangible Assets

As required by Statement of Financial Accounting Standards ("SFAS") 142, beginning on July 1, 2002 goodwill is no longer amortized but is 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.

(i) Product 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.

(j) 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.

(k) Financial Instruments

The carrying values of cash, trade-receivables, accounts payable, accrued liabilities, capital lease obligations, and notes payable approximated fair value due to either the short maturity of the instruments or the recent date of the initial transaction.

(l) Income Taxes

The Company utilizes the liability method of accounting for income taxes. Under the liability method, deferred income tax assets and liabilities are provided based on the difference between the financial statement and tax bases of assets and liabilities as measured by the currently enacted tax rates in effect for the years in which these differences are expected to reverse. Deferred tax expense or benefit is the result of changes in deferred tax assets and liabilities. An allowance against deferred tax assets is recorded in whole or in part when it is more likely than not that such tax benefits will not be realized.

Deferred tax assets are 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. Deferred tax assets consist primarily of net operating losses carried forward. The Company has released its valuation allowance against its net deferred tax assets as of June 30, 2004. As of June 30, 2003, the Company had provided a full valuation allowance against all of its net deferred tax assets. Fiscal year 2002 was the first profitable year for the Company since its inception. However, differences between accounting principles generally accepted in the United States of America ("US GAAP") and accounting for tax purposes caused the Company to have a tax loss for the fiscal year ended June 30, 2002. For the year ended June 30, 2004 and 2003 the Company had taxable income of approximately $9.6 million and $5.0 million, respectively.

(m) Accounting for Stock Options and Warrants

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. The Company had options outstanding of 1,231,613 and 1,193,528 as of June 30, 2004 and 2003, respectively, with varying exercise prices between $1.50 and $113.10. (Note 11).

The Company had 325,336 and 631,460 warrants outstanding as of June 30, 2004 and 2003, respectively, with varying strike prices between $.40 and $115.50 and expiration dates between September 24, 2004 and April 9, 2008.

(n) Stock-Based Compensation

The Company has applied the disclosure provisions of Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure—An Amendment of FASB Statement No. 123," for the years ended 2004, 2003 and 2002. Issued in December 2002, SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation" to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based compensation. In addition, this Statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. As permitted by SFAS No. 148, the Company continues to account for stock options under APB Opinion No. 25, under which no compensation has been recognized. The following table illustrates the effect on net earnings and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123, as amended by SFAS No. 148 to stock-based compensation:

	Year Ended June 30,		
	2004	2003	2002
Net earnings as reported	$ 21,893,149	$ 5,034,072	$ 2,198,769
Stock-based compensation expense	(468,642)	(106,042)	(359,760)
Net earnings—proforma	$ 21,424,507	$ 4,928,030	$ 1,839,009
Net earnings per share as reported:			
Basic	$ 1.93	$ 0.46	$ 0.37
Diluted	$ 1.80	$ 0.44	$ 0.37
Net earnings per share—proforma:			
Basic	$ 1.89	$ 0.45	$ 0.31
Diluted	$ 1.76	$ 0.43	$ 0.31

The Company estimates the fair value of each option granted on the date of grant using the Black-Scholes option-pricing model. Option pricing models require the input of highly subjective assumptions including the expected stock price volatility. Also, the Company's employee stock options have characteristics significantly different from those of traded options including long-vesting schedules and changes in the subjective input assumptions that can materially affect the fair value estimate. The Company used the historical volatility of common stock, as well as other relevant factors in accordance with SFAS 123, to estimate the expected volatility assumptions. Management believes the best assumptions available were used to value the options and the resulting option values were reasonable as of the date of the grant. Pro forma information should be read in conjunction with the related historical information and is not necessarily indicative of the results that would have been attained had the transaction actually taken place.

(o) Revenue Recognition

On October 1, 2000, the Company started selling a license to use a new product called the StoresOnline Software ("SOS"). The SOS is a web based software product that enables the customer to develop their Internet website without additional assistance from the Company. When a customer purchases a SOS license at one of the Company's 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 the Company's website where all the necessary tools are located 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 to host with the Company there is an additional setup and hosting fee (currently $150) for publishing and 12 months of hosting. This fee is deferred at the time it is paid and recognized during the subsequent 12 months. A separate file is available and can be used if the customer decides to create their website on their own completely without access to the Company website and host their site with another hosting service.

The revenue from the sale of the SOS license is recognized when the product is delivered to the customer and the three-day rescission period expires. The Company accepts cash and credit cards as methods of payment and the Company offers 24-month installment contracts to customers who prefer an Extended Payment Term Arrangement (EPTA). 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 permission for the Company to independently check their credit and are willing to make an appropriate down payment. EPTAs were either sold to third party financial institutions, generally with recourse, for cash on a discounted basis, or carried on the Company's books as a receivable. Beginning in May 2004, the Company no longer sells EPTAs with recourse.

The EPTAs generally have a twenty-four month term. For more than five years the Company has offered its customers the payment option of a long-term installment contract and has a history of successfully collecting under the original payment terms without making concessions. During fiscal years ended June 30, 1999 through 2004, the Company has collected or is collecting approximately 70% 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 reasonable efforts, approximately 47% of all EPTAs not sold to third party financial institutions become uncollectible during the life of the contract. All uncollectible EPTAs are written off against an allowance for doubtful accounts. The allowance is established at the time of sale based on our five-year history of extending EPTAs and revised periodically based on current experience and information. The revenue generated by sales to EPTA customers is recognized when the product is delivered to the customer, the contract is signed and the rescission period expires. At that same time an allowance for doubtful accounts is established. This procedure has been in effect for all years presented.

The American Institute of Certified Public Accountants Statement of Position 97-2 ("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 and the three-day rescission period expires. The customer signs one of the Company's order forms and a receipt acknowledging receipt and acceptance of the product. As is noted on the order and acceptance forms the customer has three days to rescind the order. Once the rescission period expires, all sales are final and all fees are fixed and final.

The Company also offers its customers, through telemarketing sales following a workshop, certain products intended to assist the customer in being successful with their business. These products include a live chat capability for the customer's own website and web traffic building services. Revenues from these products are recognized when delivery of the product has occurred. The Company receives a commission and recognizes this revenue net of the selling and marketing costs.

During the quarter ended March 31, 2004, the Company implemented EITF 99-19, *"Reporting Revenue Gross as a Principal versus Net as an Agent"*. The Company has restated certain items within its statements of earnings for each quarter since the quarter ended June 30, 2001. The change required the Company to net certain sales and marketing expenses against revenue. The change had no effect on the Company's net earnings, earnings per share, financial position or cash flows for any period. The impact to revenue and sales and marketing expense for each period is reflected in the reported results herein and is reconciled within the following financial tables:

IMERGENT, INC. AND SUBSIDIARIES

Reconciliation of EITF 99-19 Reclassification

	Three Months Ended			
Fiscal Year Ended June 30, 2004	**September 30, 2003**	**December 31, 2003**	**March 31, 2004**	**June 30, 2004**
Revenue before adjustment	$ 20,545,136	$ 19,827,058	$ 19,564,954	$ 24,966,966
Reclassification adjustment	(1,705,453)	(2,171,144)	—	—
Revenue as adjusted	$ 18,839,683	$ 17,655,914	$ 19,564,954	$ 24,966,966
Selling and marketing before adjustment	$ 6,146,437	$ 6,704,292	$ 5,580,894	$ 6,409,675
Reclassification adjustment	(1,705,453)	(2,171,144)	—	—
Selling and marketing as adjusted	$ 4,440,984	$ 4,533,148	$ 5,580,894	$ 6,409,675
Fiscal Year Ended June 30, 2003	**September 30, 2002**	**December 31, 2002**	**March 31, 2003**	**June 30, 2003**
Revenue before adjustment	$ 11,283,849	$ 10,588,681	$ 15,786,458	$ 15,566,095
Reclassification adjustment	(2,070,240)	(1,397,131)	(1,458,419)	(1,828,615)
Revenue as adjusted	$ 9,213,609	$ 9,191,550	$ 14,328,039	$ 13,737,480
Selling and marketing before adjustment	$ 4,331,945	$ 3,666,949	$ 4,856,941	$ 5,530,779
Reclassification adjustment	(2,070,240)	(1,397,131)	(1,458,419)	(1,828,615)
Selling and marketing as adjusted	$ 2,261,705	$ 2,269,818	$ 3,398,522	$ 3,702,164
Fiscal Year Ended June 30, 2002	**September 30, 2001**	**December 31, 2001**	**March 31, 2002**	**June 30, 2002**
Revenue before adjustment	$ 11,634,043	$ 7,455,746	$ 7,296,696	$ 10,964,365
Reclassification adjustment	(938,742)	(790,785)	(971,417)	(1,461,643)
Revenue as adjusted	$ 10,695,301	$ 6,664,961	$ 6,325,279	$ 9,502,722
Selling and marketing before adjustment	$ 3,611,796	$ 2,764,178	$ 3,105,078	$ 4,511,374
Reclassification adjustment	(938,742)	(790,785)	(971,417)	(1,461,643)
Selling and marketing as adjusted	$ 2,673,054	$ 1,973,393	$ 2,133,661	$ 3,049,731

(p) 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 balance sheet. The Company's only item of comprehensive income (loss) was foreign currency translation adjustments related to its Canadian subsidiary, StoresOnline.com, Ltd.

(q) 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 currently operates in only one business segment.

(r) 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 (accumulated deficit) and comprehensive income (loss). There were no significant 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, 2004, 2003 and 2002.

(s) Per Share Data

Basic earnings (loss) per share is computed by dividing net earnings (loss) available to common shareholders by the weighted average number of common shares outstanding during each period. Diluted net earnings (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. The following table sets forth the computation of basic and diluted earnings per share for each of the past three fiscal years:

Year Ended June 30,	**2004**	**2003**	**2002**
Numerator:			
Net earnings	$ 21,893,149	$ 5,034,072	$ 2,198,769
Denominator:			
Weighted average shares outstanding			
Basic	11,329,699	11,019,094	5,873,654
Employee stock options and other	851,015	533,527	4,750
Diluted	12,180,714	11,552,621	5,878,404
Earnings per common share			
Basic	$ 1.93	$ 0.46	$ 0.37
Diluted	$ 1.80	$ 0.44	$ 0.37

(t) Use of Estimates

In the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, estimates and assumptions must be made that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities, at the date of the balance sheet, and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Company has estimated that allowances for doubtful accounts for trade receivables should be $8,951,329 as of June 30, 2004 and $6,603,260 as of June 30, 2003. In addition, the Company has recorded a liability of $450,481 as of June 30, 2004 and $319,812 as of June 30, 2003, for estimated credit card charge-backs and customer returns within accrued liabilities.

(u) Reclassifications

Certain amounts reported in 2003 and 2002 have been reclassified to conform to the 2004 presentation.

(v) 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, 2004, 2003 and 2002 were approximately $9.8 million, $7.6 million and $5.3 million, respectively. As of June 30, 2004 the Company recorded $767,935 of direct response advertising related to future workshops as a prepaid expense as compared to $434,886 as of June 30, 2003.

(w) Recently Issued Accounting Pronouncements

In December 2003, the SEC issued Staff Accounting Bulletin No. 104 ("SAB 104"), "Revenue Recognition", which supercedes Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements." The primary purpose of SAB 104 is to rescind accounting guidance contained in SAB 101 related to multiple element revenue arrangements, which was superceded as a result of the issuance of Emerging Issues Task Force 00-21 ("EITF 00-21"), "Accounting for Revenue Recognition in Financial Statements—Frequently Asked Questions and Answers" document. While the wording of SAB 104 has changed to reflect the issuance of EITF 00-21, the revenue recognition principles of SAB 101 remain largely unchanged by the issuance of SAB 104. The adoption of SAB 104 did not have a material impact on our consolidated financial position, results of operations or cash flows.

(x) Self Insurance

The Company is self-insured for health and dental costs during the year. The Company has purchased stop-loss coverage in order to limit the exposure to any significant levels of medical benefit liability claims. Self-insurance losses are accrued based upon claims filed and the Company's estimate of the aggregate liability for uninsured claims incurred but not reported using the Company's historical experience.

(3) Selling of Accounts Receivable With Recourse—Direct Guarantee

The Company offers to customers the option to finance, through Extended Payment Term Arrangements (EPTAs), purchases made at the Internet training workshops. A portion of these EPTAs, are then sold, on a discounted basis, to third party financial institutions for cash. The Company has guaranteed contracts sold to some of its finance companies in connection with certain sales of the

EPTAs. The Company allocates the total proceeds received in these transactions between sales and the estimated loss under the guarantees at their inception. At June 30, 2004, these contracts had an aggregate principal amount of approximately $3.5 million and an average remaining term of approximately two years or less. Should the customers fail to pay amounts required under these contracts, the maximum future payments the Company could be required to make under the guarantees is approximately 80% of the outstanding aggregate principal balance of the contracts. The Company has recognized a liability of $525,000 at June 30, 2004 for the estimated liability under the guarantees. Beginning in May 2004 the Company no longer sells EPTAs with recourse or any guarantee.

(4) Property and Equipment

Property and equipment balances at June 30, 2004 and 2003 are summarized as follows:

	2004	2003
Computers and office equipment	$ 1,366,446	$ 1,281,191
Furniture and fixtures	11,552	10,406
Leasehold improvements	51,555	49,316
Software	1,218,314	861,783
Automobiles	31,000	31,000
Less accumulated depreciation	(2,154,440)	(2,033,522)
	$ 524,427	$ 200,174

Amounts included in property and equipment for assets capitalized under capital lease obligations as of June 30, 2004 and 2003 are $472,651 and $179,469 respectively. Capital leases at June 30, 2004 are at interest rates between 7% and 10%, and mature through January 2007. Accumulated depreciation for the items under capitalized leases was $214,916 and $151,131 as of June 30, 2004 and 2003, respectively.

(5) Goodwill and Intangible Assets

As required by Statement of Financial Accounting Standards ("SFAS") 142, beginning on July 1, 2002 goodwill is no longer amortized but is 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. Prior to July 1, 2002 goodwill was being amortized over a ten-year period. During the quarter ended December 31, 2002 the Company engaged an independent consulting firm to test the Company's goodwill for impairment. Based on the appraisal made by the independent consulting firm management has concluded that the fair market value of the Company's assets exceeded the carrying value at July 1, 2002 and determined that there was no goodwill impairment as of that date. As a result, no change to the carrying value of the goodwill was necessary as of July 1, 2002. As of June 30, 2004 management continues to believe that the fair market value of the Company's assets exceeded the carrying value and therefore have determined that there is no goodwill impairment as of that date. There have been no transactions impacting goodwill for the period from June 30, 2003 to June 30, 2004.

SFAS 142 requires disclosure of what reported income before extraordinary items and net income would have been exclusive of amortization expense recognized in periods presented relating to goodwill and intangible assets that are no longer being amortized. The amortization expense and net earnings for the years ending 2004 and 2003 (the year of initial application) and the prior year follow:

	2004	2003	2002
Reported net earnings	$ 21,893,149	$ 5,034,072	$ 2,198,769
Add back: goodwill amortization			133,368
Adjusted net earnings	$ 21,893,149	$ 5,034,072	$ 2,332,137
Basic earnings per share:			
Reported net earnings	$ 1.93	$ 0.46	$ 0.37
Goodwill amortization	—	—	0.02
Adjusted net earnings	$ 1.93	$ 0.46	$ 0.39
Diluted earnings per share:			
Reported net earnings	$ 1.80	$ 0.44	$ 0.37
Goodwill amortization	—	—	0.02
Adjusted net earnings	$ 1.80	$ 0.44	$ 0.39

(6) Notes Payable

Uncollateralized notes payable at June 30, 2004 consist of $400,000 of principal to King William LLC. Interest on the note payable to King William is recorded at an annual interest rate of 8.0%. Notes payable at June 30, 2003 consist of $435,857of principal and interest payable to King William (and $121,206 due to Imperial Premium Finance Company.) Maturities of the notes payable are as follows:

Year ending June 30,	
2005	$ —
2006	—
2007	—
2008	400,000
Thereafter	—
	$ 400,000

(7) Line of Credit

In April 2004 the Company entered into a $3.0 million revolving loan agreement with a bank. The agreement allows the Company to borrow up to 80% of qualifying receivables up to $3.0 million at prime plus 3% for a term of three years, (7% at June 30, 2004) At June 30, 2004 the Company had drawn $1,377,715 on the line of credit. The assets of the Company secure the line of credit. The line of credit covenants restrict the declaration or payment of dividends on any capital sock, capital expenditures to $1,000,000, and debt with another lender to $1,000,000 and operating lease obligations to $600,000. The line of credit requires the Company to maintain certain financial ratios. At June 30, 2004 the Company was in compliance with the bank covenants.

(8) Self Insurance

Beginning January 1, 2004 the Company has elected to self-insure employee medical benefits. The Company is liable for claims up to an individual maximum of $30,000 per covered participant, per claim year. The Company also maintains a stop loss policy to cover medical claims in excess of 100 percent of budgeted premiums ($153 per employee per month and $436 per family per month for

2004). Accruals for claims are recorded on a claim-incurred basis. The estimated liability for claims incurred but not reported included in accrued liabilities at June 30, 2004 was $33,342. The Company's portion of claims charged to operations totaled approximately $65,199 in 2004.

(9) Income Taxes

Income taxes (benefit) attributable to earnings before taxes for the years ended June 30, 2004, 2003 and 2002 differed from the amounts computed by applying the U.S. federal income tax rate of 34 percent as a result of the following:

	2004	2003	2002
Computed "expected" tax (benefit) expense	$ 3,294,160	$ 1,711,585	$ 747,580
Increase (decrease) in income tax resulting from:			
State and local income tax benefit, net of federal effect	383,673	163,532	101,583
Change in the valuation allowance for deferred tax assets	(16,055,951)	(1,236,581)	(5,634,171)
All other, net	85,247	(638,536)	4,785,008
Income tax benefit	$ (12,292,871)	$ —	$ —

	2004	2003	2002
Provision for income taxes current:			
Federal	$ 218,106	$ —	$ —
State and local	295,261	—	—
Foreign	315,017	—	—
	828,384	—	—
Deferred:			
Federal	(12,068,253)	—	—
State and local	(1,053,002)	—	—
	(13,121,255)	—	—
Provision benefit for income taxes	$ (12,292,871)	$ —	$ —

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at June 30, 2004 and 2003 are presented below:

	2004	2003
Deferred tax assets:		
Net operating loss carryforwards	$ 8,166,033	$ 13,434,568
Stock option expense	—	2,131,625
Deferred compensation	—	468,406
Accounts receivable principally due to allowance for doubtful accounts and other bad debts	3,873,836	2,619,897
Accrued expenses	375,345	101,278
Other	47,204	—
Deferred revenue	224,831	243,742
Legal fees	460,524	429,439
Property and equipment	25,613	52,475
Foreign tax credit	315,017	—
AMT Credit	389,992	—
Debt issuance costs	—	22,787
Total gross deferred tax assets	13,878,395	19,504,217
Less valuation allowance	—	(19,269,470)
Deferred tax liability:		
Capitalized expenses and other	(757,140)	(234,747)
Net deferred tax assets	$ 13,121,255	$ —

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.

The Company's net operating loss ("NOL") carry forward, which is approximately $23 million, represents the losses reported for income tax purposes from the inception of the Company through June 30, 2004. FY 2003 was the first year in the Company's history that generated taxable income.

At June 30, 2003 the Company had recognized a tax valuation allowance of $19.3 million against its net deferred tax assets. As of March 31, 2004, the Company determined that it was more likely than not that $16.7 million, or all but approximately $2.6 million of the deferred tax assets would be realized. This determination was based on current projections of future taxable income when taking into consideration limitations on the utilization of NOL carry forwards imposed by Section 382 of the Internal Revenue Code ("Section 382"). Section 382 imposes limitations on a corporation's ability to utilize its NOLs if it experiences an "ownership change". In general terms, an ownership change results from transactions increasing the ownership of certain stockholders in the stock of a corporation by more than 50 percentage points over a three-year period. Since our formation, we have issued a significant number of shares, and purchasers of those shares have sold some of them, with the result that two changes of control, as defined by Section 382, have occurred. As a result of the most recent ownership change, utilization of our NOLs is subject to an annual limitation under Section 382 determined by multiplying the value of the Company at the time of the ownership change by the applicable long-term tax-exempt rate resulting in an annual limitation amount of approximately $127,000. Any unused annual limitation may be carried over to later years, and the amount of the limitation may under certain circumstances be increased by the "recognized built-in gains" that occur during the five-year period after the ownership change (the "recognition period"). Based on an independent valuation of our company as of April 3, 2002, we have approximately $15 million of recognized built-in gains. Additionally, based on a valuation of the Company as of June 25, 2000, which valuation was completed during the quarter ended March 31, 2004, it was also determined that the earlier ownership change resulted in built-in gains that would allow us to utilize our entire NOL carryforwards.

The NOL carryforwards expire in various years through 2022.

(10) 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 2006. Future aggregate minimum obligations under operating leases as of June 30, 2004, exclusive of taxes and insurance, are as follows:

Year ending June 30,		
2005	$	247,724
2006		21,680
Thereafter		—
Total	$	269,404

Capital Lease obligations

The Company purchases certain fixed assets under capital lease agreements with obligations expiring at various dates through 2007. The aggregate minimum obligations under the capital leases as of June 30, 2004, are as follows:

Year ending June 30,		
2005	$	95,572
2006		89,630
2007		72,533
Thereafter		—
Total	$	257,735

Rental expense for the years ended June 30, 2004, 2003 and 2002 was approximately $300,000, $260,000, and $270,000, respectively.

Legal Proceedings

From time to time, we receive inquiries from, including subpoenas requesting documents and/or have been made aware of investigations by government officials in many of the states in which we operate. These inquiries and investigations generally concern compliance with various cities, county, state and/or federal regulations involving sales and marketing practices. We have and do respond to these inquiries and have generally been successful in addressing the concerns of these persons and entities, without a formal complaint or charge being made although there is often no formal closing of the inquiry or investigation. There can be no assurance that the ultimate resolution of these or other inquiries and investigations will not have a material adverse effect on our business or operations, or that a formal complaint will not be initiated. We also receive complaints and inquiries in the ordinary course of our business from both customers and governmental and non-governmental bodies on behalf of customers, and in some cases these customer complaints have risen to the level of litigation. To date we have been able to resolve these matters on a mutually satisfactory basis and we believe that we will be successful in resolving the currently pending matters but there can be no assurance that the ultimate resolution of these matters will not have a material adverse affect on our business or operations.

We are not currently involved in any material litigation; however, we are subject to various claims and legal proceedings covering matters that arise in the ordinary course of business. We believe that the resolution of these cases will not have a material adverse effect on our business, financial position, or future results of operations.

(11) Stock Option Plan

At June 30, 2004 the Company had the following stock incentive plans; the 1998 Stock Compensation Plan for Senior Executives, the 1999 Stock Option Plan for Non-Executives, and the 2003 Equity Incentive Plan for employees, directors, and consultants. The Company authorized and reserved 1,000,000 shares of common stock for issuance under each of the plans respectively. The purchase price for the shares under the Plans is equal to the fair value of the common stock at the date the options are granted as determined by the closing price listed on the American Stock Exchange. A table of stock option activity is shown below:

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

	Number of Shares	Weighted average exercise price
Balance at July 1, 2001	374,038	$ 21.10
Granted	6,000	5.20
Exercised	(691)	2.50
Canceled or expired	(66,082)	8.70
Balance at June 30, 2002	313,265	23.30
Granted	913,000	1.70
Exercised	(25,375)	2.04
Canceled or expired	(7,362)	52.87
Balance at June 30, 2003	1,193,528	7.04
Granted	363,000	5.14
Exercised	(97,755)	2.41
Canceled or expired	(227,160)	3.15
Balance at June 30, 2004	1,231,613	$ 7.57

Options exercisable at June 30, 2004, 2003 and 2002 were 689,586, 415,476, and 219,052, respectively. Options vest over a one to ten year period and are generally exercisable over ten-years.

The following table summarizes the combined information about shares under option incentive plans as of June 30, 2004:

	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	882,798	5.92	$	2.42	463,911	$	2.41
$5.00 - $7.49	165,404	4.09		5.98	48,467		5.59
$7.50 - $10.00	60,750	6.51		8.82	60,625		8.81
$10.01 - $29.99	60,270	4.58		18.89	54,192		18.28
$30.00 - $59.99	16,329	5.57		37.73	16,329		37.73
$60.00 - $89.99	32,753	5.05		76.55	32,753		76.55
$90.00 - $113.10	13,309	5.14		105.26	13,309		105.26
	1,231,613	5.60	$	7.57	689,586	$	10.78

The fair value of each option grant is estimated on the date of grant using the Black-Sholes options-pricing model with the following weighted-average assumptions used for grants. Over the past three years the expected volatility and risk free interest rates have ranged from 74% to 181% and 0.97% to 4.0% respectively for the Company. The weighted average fair value per share of options outstanding during the years ended June 30, 2004, 2003, and 2002 were $7.57, $7.04 and $23.26 respectively. The weighted average fair value per share of options exercisable during the years ended June 30, 2004, 2003 and 2002 were $10.78, $16.37, and $27.74, respectively.

(12) Stockholders' Equity

During the year ended June 30, 2004 the Company issued 464,115 shares of common stock, upon the exercise of options and warrants for $327,497. The Company also issued 9,853 shares as payment of $61,282 of interest due King William LLC, a note holder.

During the year ended June 30, 2004 the Company recorded an expense totaling $336,546 related to options granted to consultants that became exercisable during the year.

On December 6, 2002, the Company issued 26,675 shares of common stock at a price of $1.75 per share, in settlement of a finder's fee earned in connection with our private placement of common stock that closed in May 2002.

On February 14, 2003 the Company issued 9,472 shares of common stock in exchange for 9,472 Exchangeable Shares of StoresOnline.com, Ltd. held by a former employee. The shares of common stock were issued pursuant to the provisions of a Stock Purchase Agreement dated November 1, 1998, which was entered into in connection with our acquisition of StoresOnline.com Ltd

(13) Related Party Transactions

On July 1, 2003 John J. (Jay) Poelman, retired and in connection therewith resigned as the Company's Chief Executive Officer and as a Director of the Company. The Company had transactions with Electronic Commerce International, Inc. ("ECI"), Electronic Marketing Services, LLC. ("EMS") and Simply Splendid, LLC ("Simply Splendid") which prior to July 1, 2003 were considered related party transactions, but are not considered related party transactions for the year ended June 30, 2004 since Mr. Poelman was no longer an affiliate of the Company after July 1, 2003.

Mr. Poelman was the sole owner of ECI during the fiscal year ended June 30, 2002 and through September 30, 2002. During this period, the Company purchased a merchant account solutions product from ECI that provided on-line, real-time processing of credit card transactions and resold this product to its customers. The Company also formerly utilized the services of ECI to provide a leasing opportunity to customers who purchased its products at its Internet training workshops. Effective October 1, 2002, Mr. Poelman sold certain assets and liabilities of ECI, including ECI's corporate name and its relationship with the Company, to an unrelated third party. Total revenue generated by the Company from the sale of ECI's merchant account solutions product, while ECI's business was owned by Mr. Poelman, was $1,453,612 and $5,106,494 for the years ended June 30, 2003 and 2002, respectively. The cost to the Company for these products and services totaled $223,716 and $994,043 for the years ended June 30, 2003 and 2002, respectively. During the years ended June 30, 2003 and 2002 the Company processed leasing transactions for its customers through ECI in the amounts of $0 and $1,090,520, respectively. As of June 30, 2004 and 2003 the Company had no receivable balance due from ECI for leases in process. In addition, the Company had no payable balance due to ECI as of June 30, 2003 for the purchase of the merchant account software while owned by Mr. Poelman.

The Company offers its customers at its Internet training workshops, and through telemarketing sales following the workshop certain products intended to assist its customers to become successful with their business. These products include a live chat capability for the customer's own website and web traffic building services. The Company purchases some of these services from EMS. In addition, EMS provides us telemarketing services, selling some of the Company's products and services to contacts provided to EMS by us. Ryan Poelman, owner of EMS, is the son of John J. Poelman our former Chief Executive Officer and a former director. The Company's revenues generated from the above products and services were $6,330,343 and $4,806,497 for the fiscal years ended June 30, 2003 and 2002, respectively. The Company paid EMS $994,827 and $479,984 to purchase these services during the fiscal years ended June 30, 2003 and 2002, respectively. In addition, the Company had $92,094 as of June 30, 2003 recorded in accounts payable relating to the amounts owed to EMS for products and services.

The Company sends complimentary gift packages to its customers who register for the Company's Workshop training sessions. An additional gift is sent to Workshop attendees who purchase our products at the conclusion of the Workshop. The Company utilizes Simply Splendid to provide some of these gift packages to the Company's customers. Aftyn Morrison, owner of Simply Splendid, is the daughter of John J. Poelman our former Chief Executive Officer and a former director. We paid Simply Splendid $421,265 and $0 to fulfill these services during the fiscal years ended June 30, 2003 and 2002, respectively. In addition, the Company had $22,831as of June 30, 2003 recorded in accounts payable relating to the amounts owed to Simply Splendid for gift packages.

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 our Board of Directors, was a principal of vFinance at the time of the private placement. During the year ended June 30, 2002 we paid vFinance $61,500 in fees and commissions for their services. The offering was successful with adjusted gross proceeds to us 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 our 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.

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 $2,898,455.

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.

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.

(14) 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 in the accompanying consolidated statements of operations. As a result, the Company now operates in one business segment. Reportable segment data includes international sales of $4.0 million in Australia and New Zealand, $1.8 million in Canada and $1.6 million in the United Kingdom.

(15) Subsequent Event

On August 19, 2004, the Company entered into a two year, $5.0 million line of credit with Bank One. The new line of credit replaces the Company's previous $3 million credit facility with Zions First National Bank. The agreement allows the Company to borrow up to $5 million at LIBOR plus 2 percent.

(16) Quarterly Financial Information (unaudited)

	Year ended June 30, 2004 Quarter Ended			
	09/30/03	12/31/03	03/31/04	06/30/04
Revenue	$ 18,839,683	$ 17,655,914	$ 19,564,954	$ 24,966,966
Gross profit	14,477,981	13,110,134	15,505,664	19,187,468
Operating earnings before income taxes	1,877,679	1,066,661	1,840,553	3,173,003
Net earnings	$ 2,152,084	$ 1,465,737	$ 15,822,219	2,453,109
Basic earnings per share:				
Income (loss) from continuing operations	$ 0.19	$ 0.13	$ 1.39	$ 0.21
Net earnings	$ 0.19	$ 0.13	$ 1.39	$ 0.21
Diluted earnings per share:				
Income (loss) from continuing operations	$ 0.18	$ 0.12	$ 1.28	$ 0.20
Net earnings	$ 0.18	$ 0.12	$ 1.28	$ 0.20
Weighted average Common shares outstanding				
Basic	11,152,998	11,306,384	11,368,868	11,493,258
Diluted(1)	11,966,483	12,275,356	12,353,626	12,398,913

	Year ended June 30, 2003 Quarter Ended			
	09/30/02	12/31/02	03/31/03	06/30/03
Revenue	$ 9,213,609	$ 9,191,550	$ 14,328,039	$ 13,737,480
Gross profit	6,755,177	6,888,593	11,265,810	10,658,728
Operating earnings before income taxes	933,501	573,726	1,840,556	901,406
Net earnings	$ 1,083,150	$ 740,340	$ 1,596,941	$ 1,613,642
Basic earnings per share:				
Income (loss) from continuing operations	$ 0.10	$ 0.07	$ 0.14	$ 0.15
Net earnings	$ 0.10	$ 0.07	$ 0.14	$ 0.15
Diluted earnings per share:				
Income (loss) from continuing operations	$ 0.11	$ 0.07	$ 0.14	$ 0.14
Net earnings	$ 0.11	$ 0.07	$ 0.14	$ 0.14
Weighted average Common shares outstanding				
Basic	10,999,478	11,007,226	11,030,931	11,043,340
Diluted(1)	10,035,459	11,208,171	11,290,240	11,943,142

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

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, 2004, 2003 and 2002

	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions/ Write-offs Net of Recoveries	Balance at End of Period
Year ended June 30, 2004				
Deducted from accounts receivable:				
Allowance for doubtful accounts sales returns, credit card chargebacks, and other assets	$ 7,023,855	$ 23,489,924	$ 20,949,570	$ 9,564,209
Year ended June 30, 2003				
Deducted from accounts receivable:				
Allowance for doubtful accounts sales returns, credit card chargebacks, and other assets	$ 3,413,981	$ 14,255,877	$ 10,646,003	$ 7,023,855
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	$ 6,940274	$ 3,413,981

EXHIBIT INDEX

Exhibit No.	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	Date	Number	
2.1	Agreement and Plan of Merger dated March 10, 2000 by and among Netgateway, Inc., Galaxy Acquisition Corp. and Galaxy Enterprises, Inc.	8-K	3/21/00	10.1	
3.1	Certificate of Incorporation	S-1	6/1/99	3.1	
3.2	Certificate of Amendment to Certificate of Incorporation	S-1	9/7/00	3.1	
3.3	Certificate of Amendment to Certificate of Incorporation	10-K	10/15/02	3.3	
3.4	Amended and Restated Bylaws	10-Q	11/20/01	3.2	
3.5	Certificate of Ownership and Merger (4)	S-1/A	11/12/99	3.3	
3.6	Articles of Merger	S-1/A	11/12/99	3.4	
4.1	Form of Common Stock Certificate	10-K	10/15/02	4.1	
4.2	Form of Representatives' Warrant	S-1	6/1/99	4.1	
10.1	1998 Stock Compensation Program	S-1	6/1/99	10.6	
10.2	Amended and Restated 1998 Stock Option Plan for Senior Executives	10-K	9/29/03		
10.3	Amended and Restated 1999 Stock Option Plan for Non-Executives	10-K	9/29/03		
10.4	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	
10.5	Engagement Agreement dated October 10, 2001 between Netgateway, Inc. and SBI E2-Capital (USA) Ltd.	10-Q	11/20/01	10.124	
10.6	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	
10.7	Rescission Agreement dated February 1, 2002 between Netgateway, Inc and SBI-E2 Capital (USA) Ltd. et al.	10-Q	2/14/02	10.125	
10.8	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	
10.9	Agreement dated February 15, 2002 between SBI E2-Capital (USA) Ltd. and Netgateway, Inc.	10-K	10/15/02	10.36	
10.10	Agreement dated March 22, 2002 between vFinance Investments, Inc. and Netgateway, Inc.	10-K	10/15/02	10.37	
10.11	2003 Equity Incentive Plan				X
18.1	Letter dated February 9, 2000 from KPMG LLP	10-Q	2/15/00	18.1	
21.1	Subsidiaries of Netgateway	10-K	10/15/02	21.1	
23.1	Consent of Grant Thornton LLP				X
31.1	Certification of Chief Executive Officer				X
31.2	Certification of Chief Financial Officer				X
32.1	Certification of Chief Executive Officer				X
32.2	Certification of Chief Financial Officer				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.
September 9, 2004	By:	/s/ Donald L. Danks
		Donald L. Danks Chief Executive Officer
September 9, 2004		/s/ Robert M. Lewis
		Robert M. Lewis Chief Financial 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.

September 9, 2004	/s/ Donald L. Danks
	Donald L. Danks Chairman of the Board of Directors and Chief Executive Officer
September 9, 2004	/s/ Robert M. Lewis
	Robert M. Lewis Chief Financial Officer
September 9, 2004	/s/ Brandon Lewis
	Brandon Lewis President, Chief Operating Officer and Director
September 9, 2004	/s/ Peter Fredericks
	Peter Fredericks Director
September 9, 2004	/s/ Thomas Scheiner
	Thomas Scheiner Director
September 9, 2004	/s/ Gary Gladstein
	Gary Gladstein Director

EXHIBIT 10.11

IMERGENT, INC.

2003 EQUITY INCENTIVE PLAN

1. *Purpose*.

Imergent, Inc. (the "Company") has adopted this 2003 Equity Incentive Plan (the "Plan") as of October 21, 2003, subject to the approval of the Plan by the Company's stockholders. The purposes of the Plan are to advance the interests of the Company, further the long-term growth of the Company by providing incentives to those directors, officers and other employees and consultants of the Company and its Affiliates (as defined below) who are or will be responsible for such interests and growth, thereby increasing the identity of their interest with those of the Company's stockholders; and to assist the Company in attracting and retaining directors, officers, employees and consultants with experience and ability.

2. *Definitions*. As used in the Plan, the following terms shall have the meanings set forth below:

"Affiliate" shall mean (1) any entity that, directly or indirectly, is controlled by the Company and (2) any entity in which the Company has a significant equity interest, in either case as determined by the Committee.

"Award" shall mean any Option or Other Stock-Based Award granted under the Plan.

"Board" shall mean the Board of Directors of the Company.

"Change in Control" shall mean, except as otherwise provided in an Award, the happening of any of the following:

(i) the acquisition, by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934) of 50% or more of either (A) the then outstanding shares of Common Stock of the Company or (B) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors; or

(ii) approval by the shareholders of the Company of a complete liquidation or dissolution of the Company or the sale or other disposition of all or substantially all of the assets of the Company.

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Committee" shall mean the Compensation Committee of the Board or any successor committee or the entire Board if there shall be no such committee.

"Common Stock" shall mean the common stock of the Company, par value $.001 per share.

"Company" shall mean Imergent, Inc., a Delaware corporation, including any successor thereto.

"Effective Date" shall mean October 21, 2003.

"Employee" shall mean any employee of the Company or an Affiliate (whether or not incorporated) of the Company.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

"Fair Market Value" of a share of Common Stock as of a particular date shall mean (i) the closing sales price per share of Common Stock on such date on the national securities exchange on which the Common Stock is principally traded or, if there were no sales of such Common Stock on such exchange on such date, on the last preceding date on which there was a sale of such Common Stock on such exchange, (ii) if the shares of Common Stock are not then listed on a national securities exchange, but are traded in an over-the-counter market, the average of the closing bid and asked prices for the shares of Common Stock in such over-the-counter market for the last preceding date on which there was a sale of such Common Stock in such market or (iii) if the shares of Common Stock are not then listed on a national securities exchange or traded on an over-the-counter market, such value as the Committee, in its sole discretion, shall determine.

"Incentive Stock Option" shall mean an Option intended to qualify as an "incentive stock option" under Section 422 of the Code.

"Nonqualified Stock Option" shall mean an Option not intended to be an Incentive Stock Option.

"Option" shall mean an Incentive Stock Option or a Nonqualified Stock Option.

"Other Stock-Based Award" shall have the meaning set forth in Section 7.

"Participant" shall mean an individual who has been granted an Award under the Plan.

"Performance Goal" shall mean one or more of the following pre-established criteria, determined in accordance with generally accepted accounting principles, where applicable: (1) net earnings; (2) earnings per share; (3) net sales growth; (4) net income (before taxes); (5) net operating profit; (6) return measures (including, but not limited to, return on assets, capital, equity or sales); (7) cash flow (including, but not limited to, operating cash flow and free cash flow); (8) earnings before or after taxes, interest, depreciation, and/or amortization; (9) productivity ratios; (10) share price (including, but not limited to, growth measures and total stockholder return); (11) expense targets; (12) operating efficiency; (13) customer satisfaction; (14) working capital targets; (15) any combination of, or a specified increase in, any of the foregoing; or (16) the formation of joint ventures, or the completion of other corporate transactions. Without limiting the generality of the foregoing, the Committee shall have the authority to make equitable adjustments in the Performance Goals in recognition of unusual or non-recurring events affecting the Company, in response to changes in applicable laws or regulations, or to account for items of gain, loss or expense determined to be extraordinary or unusual in nature or infrequent occurrence or related to the disposal of a segment of a business or related to a change in accounting principles.

"Plan" shall mean the Imergent 2003 Equity Incentive Plan.

"Subsidiary" shall mean any company of which the Company owns, directly or indirectly, fifty percent (50%) or more of the stock.

3. *Administration*.

The Plan shall be administered and interpreted by the Committee, as designated by the Board, of not less than two members of the Board as appointed from time to time by the Board. Unless otherwise determined by the Board, the Committee shall consist solely of members who are "nonemployee directors" within the meaning of Rule 16b-3, as from time to time amended, promulgated under Section 16 of the Exchange Act and "outside directors" within the meaning of Section 162(m) of the Code and shall be constituted to satisfy any applicable corporate governance or national securities exchange requirements or regulations, the rules and regulations of any governing governmental agencies and any other applicable law. The Committee may delegate its authority to make grants under the Plan, subject to conditions determined by the Committee, to such person(s) as the Committee shall determine, provided that in no event shall the Committee delegate the authority to make or approve Awards to Employees who are officers of the Company.

Subject to the express provisions of the Plan, the Committee shall have the authority to (1) designate Participants; (2) determine the type or types of Awards to be granted to a Participant; (3) determine the number of shares of Common Stock to be covered by Awards; (4) determine the terms and conditions of any Award, including but not limited to whether the vesting or payment of all or any portion of any Award may be made subject to one or more Performance Goals; (5) determine whether, to what extent, and under what circumstances Awards may be settled or exercised in cash, Common Stock, other securities, other Awards or other property, or cancelled, forfeited, or suspended and the method or methods by which Awards may be settled, exercised, cancelled, forfeited, or suspended; (6) interpret and administer the Plan and any instrument or agreement relating to, or Award made under, the Plan; (7) establish, amend, suspend, or waive such guidelines, rules and regulations and appoint such agents as it shall deem appropriate for the proper administration of the Plan; and (8) make any other determination and take any other action that the Committee deems necessary or desirable for the administration of the Plan. Notwithstanding the foregoing, neither the Committee nor its delegate shall have the authority to price (or cancel and regrant) any Option or, if applicable, other Award at a lower exercise, base or purchase price without first obtaining the approval of the Company's stockholders. The terms of Awards need not be consistent with one another. The granting of Awards by the Committee shall be entirely discretionary and nothing in this Plan shall be deemed to give any Employee any right to receive awards. The Committee's determinations with respect to the Plan and any Award shall be binding and conclusive on all parties.

The Committee is also specifically authorized, in the event of a public solicitation, by any person, firm or corporation other than the Company, of tenders of 50% or more of the then outstanding Common Stock (known conventionally as a "tender offer"), to accelerate exercisability of and lift any restrictions with respect to some or all Awards held by Participants so that such Award will immediately become exercisable, vested, and transferable in full; provided that such accelerated exercisability and lifting of restrictions shall continue in effect only until expiration, termination or withdrawal of such tender offer, whereupon such Awards will be (and continue thereafter to be) exercisable, vested, and transferable only to the extent that they would have been if no such acceleration of exercisability and lifting of restrictions had been authorized.

4. *Eligibility*.

Any Employee, consultant to the Company or member of the Board who is determined by the Committee to be making or to be expected to make a contribution to the success of the Company shall be eligible to receive Awards under the Plan.

5. *Stock*.

Authorized Shares. A maximum of 1,000,000 shares of Common Stock shall be reserved for issuance in accordance with the terms of the Plan. Such reserved shares may be authorized but unissued shares or any issued shares which have been acquired by the Company and are held in its treasury, as the Board may from time to time determine.

Individual Limits. No Employee may be granted Awards covering more than 300,000 shares of Common Stock during any fiscal year of the Company.

Adjustments. In the event that the Committee determines that any dividend or other distribution (whether in the form of cash, Common Stock, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Common Stock or other securities of the Company, issuance of warrants or other rights to purchase Common Stock or other securities of the Company, or other similar corporate transaction or event affects the Common Stock such that an adjustment is determined by the Committee to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, then the Committee shall, in such manner as it may deem equitable, adjust the number and kind of shares reserved for Awards, the individual limit set forth above, the number and kind of shares subject to outstanding Awards and the exercise, base or purchase price, as appropriate, of such shares, or, if deemed appropriate, make provision for a cash payment to the holder of an outstanding Award.

Reuse of Shares. Unless the Committee determines otherwise, if an Award granted under the Plan is forfeited, expires, lapses or for any other reason ceases to be vested or exercisable in whole or in part, the shares which were subject to any such Award, but as to which the Award ceases to be vested or exercisable, shall again be available for the purposes of this Plan.

6. *Options*. The Committee may grant Options as follows:

General. Subject to the provisions of the Plan, the Committee shall have sole and complete authority to determine the persons to whom and the time or times at which Options shall be granted, the number of shares of Common Stock to be subject to such Options and all other conditions of such Awards, including whether the vesting of such Options may be based on the attainment of one or more Performance Goals. Notwithstanding the generality of the foregoing, unless otherwise determined by the Committee, the exercise price per share for each Option granted shall not be less than the Fair Market Value of the shares on the date the Option is granted. No shares subject to an Option shall be issued or transferred to a Participant until such Option is exercised in accordance with its terms and such shares have been purchased, and a Participant shall have none of the rights of a stockholder with respect to such shares until the certificates therefor are registered in the name of such Participant upon exercise of the Option. Options shall be exercised by a Participant in accordance with the methods approved by the Committee.

Nonqualified or Incentive Stock Options. With respect to any grant of an Option, the Option agreement entered into by the Participant shall identify the grant as an Incentive Stock Option or a Nonqualified Stock Option. Incentive Stock Options may be granted only to persons who are employed by the Company or one of its Subsidiaries. Incentive Stock Options shall be subject to such additional terms and conditions as are necessary to preserve their status as Incentive Stock Options. To the extent that an Option intended to be an Incentive Stock Option does not comply with the applicable rules of the Code, it shall be treated as a Nonqualified Stock Option.

7. *Other Stock-Based Awards*.

The Committee may, in its discretion, grant other forms of Awards ("Other Stock-Based Awards") valued in whole or in part by reference to, or otherwise based on, Common Stock, either alone or in addition to other Awards under the Plan. Other Stock-Based Awards may include, but are not limited to, restricted shares of Common Stock, Stock Appreciation Rights, unit awards having a value based on the value of Common Stock and any other securities that are payable in, valued in whole or in part by reference to, or otherwise based on Common Stock. Subject to the provisions of the Plan, the Committee shall have sole and complete authority to determine the persons to whom and the time or times at which such Awards shall be granted, the number of shares of Common Stock to be subject to such Awards and all other conditions of such Awards, including whether the vesting and/or payment of such Awards may be based on the attainment of one or more Performance Goals. If the Committee shall designate any Award granted under this Section 7 as an Award intended to qualify as "performance-based compensation" within the meaning of Section 162(m) of the Code, such Award shall be designed and administered by the Committee so to qualify, including, but not limited, to conditioning the vesting and/or payment of such Award upon the achievement of one or more Performance Goals and certifying in writing that such conditions have been satisfied prior to the payment of, or vesting with respect to, such Award.

8. *Termination of Employment or Service*.

The terms and conditions applicable to Awards with respect to the termination for any reason of a Participant's employment or service with the Company and its Affiliates shall be determined by the Committee in its discretion and shall be set forth in the agreement evidencing such Award.

9. *Transferability of Awards*.

Except to the extent permitted by the Committee, no Award shall be transferable other than by will or the laws of descent and distribution, and each Option shall be exercisable during the Participant's lifetime only by the Participant or by the Participant's guardian or legal representative.

10. *Laws and Regulations*.

No shares of Common Stock shall be issued under this Plan unless and until all legal requirements applicable to the issuance of such shares have been complied with to the satisfaction of the Committee. The Committee shall have the right to condition any issuance of shares to any Employee hereunder on such Employee's undertaking in writing to comply with such restrictions on the subsequent disposition of such shares as the Committee shall deem necessary or advisable as a result of any applicable law or regulation.

11. *Withholding*.

The Company or an Affiliate, if applicable, shall have the right to deduct from all Awards hereunder paid in cash any federal, state or local taxes required by law to be withheld with respect to such cash awards. Unless otherwise specified by the Committee in the Award agreement, in the case of Common Stock issued upon the vesting or exercise of an Award payable in shares or in the case of any other applicable tax withholding requirement, the Participant shall be required to pay to the Company or its Affiliate the amount of any such taxes which the Company or its Affiliate is required to withhold with respect to such stock. The Committee may provide, in the Award agreement or otherwise, that in the event that a Participant is required to pay to the Company any amount to be withheld in connection with the vesting or exercise of an Award that is payable in shares of Common Stock, the Participant may satisfy such obligation (in whole or in part) by electing to have the Company withhold a portion of the shares to be received upon the vesting or exercise of the Award equal in value to the minimum amount required to be withheld. The value of the shares to be withheld shall be their Fair Market Value on the date that the amount of tax to be withheld is determined. Any election by a Participant to have shares withheld under this Section 11 shall be subject to such terms and conditions as the Committee may specify.

12. *Amendment or Termination of the Plan*.

The Board may at any time, and from time to time, terminate, modify, amend or interpret the Plan in any respect; *provided*, *however*, that unless otherwise determined by the Board, an amendment that requires stockholder approval in order for the Plan to continue to comply with Section 162(m) or any other law, regulation or stock exchange requirement shall not be effective unless approved by the requisite vote of stockholders.

The termination or any modification or amendment of the Plan shall not, without the consent of a Participant, adversely affect such Participant's rights under an Award previously granted to such Participant.

13. *Miscellaneous*.

Date of Grant. The date on which the Committee approves the granting of any Award, or approves the modification of any Award, shall for purposes of the Plan be deemed the date on which such Award is granted or modified, regardless of the date on which the Agreement evidencing the same is executed.

Governing Law; Interpretation. The Plan and Award agreements issued under the Plan shall be construed, administered, and governed in all respects under the laws of the State of Delaware, without giving effect to the principles of conflicts of laws thereof. The provisions of this Plan shall be interpreted so as to comply with the conditions and requirements of Rule 16b-3 under the Exchange

Act, and, if the Award is an Incentive Stock Option, with Section 422 of the Code, unless the Committee determines otherwise.

Severability. If any provision of the Plan or any Award is or becomes or is deemed to be invalid, illegal or unenforceable in any jurisdiction or as to any Participant or Award, or would disqualify the Plan or any Award under any law deemed applicable by the Committee, such provisions shall be construed or deemed amended to conform to the applicable laws, or if it cannot be construed or deemed amended without, in the determination of the Committee, materially altering the intent of the Plan or the Award, such provisions shall be stricken as to such jurisdiction, Participant or Award and the remainder of the Plan and any such Award shall remain in full force and effect.

No Right to Employment. The grant of an Award shall not be construed as giving a Participant the right to be retained in the employ or service of the Company or any of its Affiliates. Further, the Company or any of its Affiliates may at any time dismiss a Participant from employment or service, free from any liability or any claim under the Plan, unless otherwise expressly provided in the Plan or in any Award agreement.

14. *Change in Control.*

Upon the occurrence of a Change in Control, unless otherwise specifically prohibited under applicable laws, or by the rules and regulations of any governing governmental agencies or national securities exchanges or unless otherwise provided in an Award agreement and except to the extent Awards are assumed by the acquiring or successor corporation (or parent corporation) in connection with such change in control:

(a) Any and all Options granted hereunder shall become immediately vested and exercisable, and shall remain vested and exercisable throughout their entire term; and any Option which is assumed in connection with a Change in Control shall be appropriately adjusted, immediately after such Change in Control, to apply to the number and class of securities which would have been issuable in the consummation of such Change in Control, had the Option been exercised immediately prior to such Change in Control;

(b) Any restriction periods and restrictions imposed on Other Stock-Based Awards that are not performance-based shall lapse;

(c) The target payout opportunities attainable under all outstanding Awards that are performance-based shall be deemed to have been fully earned for the entire applicable performance period(s) as of the effective date of the Change in Control. The vesting of all Awards denominated in shares shall be accelerated as of the effective date of the Change in Control, and there shall be paid out to Participants within thirty (30) days following the effective date of the Change in Control a pro rata number of shares based upon an assumed achievement of all relevant targeted performance goals and upon the length of time within the applicable performance period that has elapsed prior to the Change in Control. Awards denominated in cash shall be paid pro rata to participants in cash within thirty (30) days following the effective date of the Change in Control, with the proration determined as a function of the length of time within the applicable performance period that has elapsed prior to the Change in Control, and based on an assumed achievement of all relevant targeted Performance Goals.

15. *Effectiveness of Plan; Term of the Plan.*

The effectiveness of the Plan is subject to the Company's having obtained stockholder approval of the Plan within 12 months of the Effective Date. No Award shall be granted pursuant to this Plan later than the tenth anniversary of the Effective Date, but Awards theretofore granted may extend beyond that date in accordance with their terms.

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EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANTING FIRM

The Board of Directors
Imergent, Inc.:

We have issued our report dated August 27, 2004, accompanying the consolidated financial statements and schedule included in the Annual Report of Imergent, Inc. on Form 10-K for the year ended June 30, 2004. We hereby consent to the incorporation by reference of said report in the Registration Statement of Imergent, Inc. on Form S-8 (File No. 33395205).

/s/ GRANT THORNTON LLP

Salt Lake City, Utah
September 10, 2004

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EXHIBIT 31.1

I, Donald L. Danks, 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;

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;

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

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

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

    c) disclosed in this report any change in internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

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

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

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

Date: September 9, 2004	By:	/s/ DONALD L. DANKS
		Donald L. Danks Chairman and Chief Executive Officer

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EXHIBIT 31.1

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EXHIBIT 31.2

I, Robert M. Lewis, 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;

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;

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

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

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

    c) disclosed in this report any change in internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

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

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

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

Date: September 9, 2004	By:	/s/ ROBERT M. LEWIS
		Robert M. Lewis Chief Financial Officer

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EXHIBIT 32.1

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

In connection with the Imergent, Inc. (the "Company") Annual Report on Form 10-K for the period ended June 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Donald L. Danks, Chairman and Chief Executive Officer of the Company, do hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

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

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

Date: September 9, 2004

By: /s/ DONALD L. DANKS

Donald L. Danks
Chairman and Chief Executive Officer

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

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EXHIBIT 32.2

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

In connection with the Imergent, Inc. (the "Company") Annual Report on Form 10-K for the period ended June 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert M. Lewis, Chief Financial Officer of the Company, do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

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

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

Date: September 9, 2004

By: /s/ ROBERT M. LEWIS

Robert M. Lewis
Chief Financial Officer

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