IMERGENT INC
Form 10-Q
May 04, 2010

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2010

OR

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

For the transition period from ________ to ________.

Commission file number 001-32277

iMergent, Inc.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	87-0591719 (I.R.S. Employer Identification No.)
10201 South 51st Street, Suite A-265 Phoenix, AZ (Address of Principal Executive Offices)	85044 (Zip Code)

(623) 242-5959
(Registrant’s telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

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

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	þ

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

The number of shares outstanding of the registrant’s common stock as of April 30, 2010 was 11,448,847.

INDEX

PART I – FINANCIAL INFORMATION

PART II – OTHER INFORMATION

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

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

	March 31, 2010	December 31, 2009
Assets		
Current Assets:		
Cash and cash equivalents	$20,220	$21,549
Restricted cash	1,088	1,088
Trade receivables, net of allowance for doubtful accounts of $11,407 as of March 31, 2010 and $11,827 as of December 31, 2009	13,005	14,162
Inventories	372	243
Income taxes receivable	857	387
Deferred income tax assets, net	243	1,009
Prepaid expenses and other	2,978	2,988
Total Current Assets	38,763	41,426
Certificate of deposit	500	500
Long-term trade receivables, net of allowance for doubtful accounts of $6,832 as of March 31, 2010 and $5,882 as of December 31, 2009	6,988	6,264
Property and equipment, net	1,663	1,446
Deferred income tax assets, net	5,808	5,298
Intangible assets, net	1,315	1,206
Goodwill	616	-
Merchant account deposits and other	284	302
Total Assets	$55,937	$56,442
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	$3,339	$3,154
Accrued expenses and other	4,421	4,588
Dividend payable	229	229
Income taxes payable	-	24
Deferred revenue, current portion	14,208	15,827
Total Current Liabilities	22,197	23,822
Deferred revenue, net of current portion	7,100	6,447
Other long-term liabilities	434	191
Total Liabilities	29,731	30,460
Commitments and contingencies		

Stockholders' Equity:		
Preferred stock, par value $0.001 per share - authorized 5,000,000 shares; none issued	-	-
Common stock, par value $0.001 per share - authorized 100,000,000 shares; 11,457,147 shares outstanding as of March 31, 2010 and 11,446,320 shares outstanding as of December 31, 2009	11	11
Additional paid-in capital	53,134	53,033
Accumulated deficit	(26,939)	(27,062)
Total Stockholders' Equity	26,206	25,982
Total Liabilities and Stockholders' Equity	$55,937	$56,442

See accompanying notes.

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

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
Revenue	$17,094	$20,921
Operating expenses:		
Cost of revenue	5,097	5,802
Selling and marketing	8,874	9,336
General and administrative	3,466	4,051
Research and development	538	515
Total operating expenses	17,975	19,704
Income (Loss) from operations	(881)	1,217
Other income (expense):		
Interest income	1,188	1,627
Interest expense	(1)	(3)
Other expense, net	(58)	(63)
Total other income, net	1,129	1,561
Income before income tax provision	248	2,778
Income tax provision	(125)	(1,226)
Net income	$123	$1,552
Net income per common share:		
Basic	$0.01	$0.14
Diluted	$0.01	$0.14
Dividends per common share:	$0.02	$0.02
Weighted average common shares outstanding:		
Basic	11,423,649	11,366,853
Diluted	11,495,901	11,426,307

See accompanying notes.

iMERGENT, INC. AND SUBSIDIARIES
Condensed Consolidated Statement of Stockholders' Equity
Three Months Ended March 31, 2010
(In thousands, except share data)
(unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
Balance, December 31, 2009	11,446,320	$11	$53,033	$ (27,062)	$ 25,982
Expense for stock options granted to employees	-	-	267	-	267
Stock issued under stock award plans (net of forfeitures) and related income tax benefit of $3	827	-	13	-	13
Stock issued for acquisition	20,000		117		117
Dividends declared	-	-	(229)	-	(229)
Repurchase of common stock	(10,000)	-	(67)	-	(67)
Net income	-	-	-	123	123
Balance, March 31, 2010	11,457,147	$11	$53,134	$ (26,939)	$ 26,206

See accompanying notes.

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

	Three Months Ended March 31, 2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 123	$ 1,552
Adjustments to reconcile net income to net cash used for operating activities:		
Depreciation and amortization	343	369
Expense for stock options issued to employees	267	379
Tax benefit upon issuance of common stock	(3)	-
Deferred income tax provision	256	1,016
Changes in assets and liabilities net of effects from acquisition:		
Restricted cash	-	(1,600)
Trade receivables	434	4,313
Inventories	(129)	32
Income taxes receivable	(470)	-
Prepaid expenses and other	10	(155)
Merchant account deposits and other	20	14
Accounts payable, accrued expenses and other	(355)	(1,546)
Income taxes payable	(21)	44
Deferred revenue	(966)	(4,542)
Other long-term liabilities	(2)	48
Net cash used for operating activities	(493)	(76)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(370)	(52)
Acquisition of company	(250)	-
Proceeds from sale of available-for-sale securities	-	2,900
Net cash provided by (used for) investing activities	(620)	2,848
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from exercise of stock options and related income tax benefit	13	269
Principal payments on note payable	-	(48)
Dividend payments	(229)	(227)
Net cash used for financing activities	(216)	(6)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,329)	2,766
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	21,549	18,762
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 20,220	$ 21,528

Supplemental disclosure of cash flow information:		
Cash paid during the period:		
Interest	1	3
Income taxes	355	31

See accompanying notes.

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

	Three Months Ended March 31, 2010	2009
Supplemental disclosure of non-cash investing and financing information:		
Dividends declared	$ 229	$ 228
Repurchase of common stock included in accrued liabilities	67	-
Purchase of property and equipment with accounts payable	74	-
Acquisition of company with stock	117	-
Contingent consideration related to acquisition	479	-

During 2010, iMergent, Inc. entered into an asset purchase agreement with CastleWave, LLC to purchase their assets for total consideration of $846,000. The total consideration included a contingent consideration of approximately $479,000 based upon revenue generated through CastleWave's sales channels, restricted stock of $117,000, and cash of $250,000. The purchase price was preliminarily allocated to a non-compete agreement for $60,000, technical know-how for $60,000, customer list for $98,000, other assets for $12,000 and goodwill for $616,000. See summary below (in thousands):

Fair value of assets acquired (including goodwill of $616,000)	$ 846
Cash paid	(250)
Stock issued	(117)
Estimated value of contingent consideration	(479)
Liabilities assumed	None

See accompanying notes.

iMERGENT, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(unaudited)

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

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

Basis of Presentation – These unaudited condensed consolidated financial statements include the financial statements of iMergent, Inc. and its wholly owned subsidiaries. We have eliminated all intercompany balances and transactions in consolidation. In February 2010 we acquired the assets of Castlewave LLC for total consideration of approximately $846,000. Accordingly, we have included the results of operations for Castlewave as of the date of acquisition (Note 6). We have included all adjustments, consisting only of normal recurring items, which we considered necessary for a fair presentation of our financial results for interim periods presented. These unaudited condensed consolidated financial statements and accompanying notes should be read together with the audited consolidated financial statements included in our Annual Report on Form 10-KT for the period ended December 31, 2009. Results of the three months ended March 31, 2010 do not necessarily indicate the results we expect for the period ending December 31, 2010 or any other future period. In view of our revenue recognition policies and the rapidly evolving nature of our business and the markets it serves, we believe period-to-period comparisons of our operating results, including operating expenses as a percentage of revenue and cash flows, are not necessarily meaningful and should not be relied upon as an indication of future performance.

Seasonality - Our revenue is subject to seasonal fluctuations. Responses to our marketing for Preview Training Sessions and Internet Training Workshops are historically lower during the period from June through Labor Day, and during the holiday season from Thanksgiving Day through the middle of January.

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

Recently Adopted Accounting Pronouncements – On January 1, 2010, the Company adopted new accounting guidance on Fair Value Measurements and Disclosures. This guidance requires the Company to disclose the amount of significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for these transfers and the reasons for any transfers in or out of Level 3 of the fair value hierarchy. In addition, the guidance clarifies certain existing disclosure requirements. This standard did not have a material impact on the Company's disclosures in its unaudited condensed consolidated financial statements at March 31, 2010.

On January 1, 2010, the Company adopted new accounting guidance on the consolidation of variable interest entities. This guidance requires revised evaluations of whether entities represent variable interest entities, ongoing assessments of control over such entities, and additional disclosures for variable interests. This standard will not have an impact on the Company's financial condition and results of operations at March 31, 2010.

Recent Accounting Pronouncements Not Yet Adopted - In October 2009, the FASB issued authoritative guidance on revenue recognition that will become effective for us beginning January 1, 2011, with earlier adoption permitted. Under the new guidance on arrangements that include software elements, tangible products that have software components that are essential to the functionality of the tangible product will no longer be within the scope of the software revenue recognition guidance, and software-enabled products will now be subject to other relevant revenue recognition guidance. Additionally, the FASB issued authoritative guidance on revenue arrangements with multiple deliverables that are outside the scope of the software revenue recognition guidance. Under the new guidance, when vendor specific objective evidence or third party evidence for deliverables in an arrangement cannot be determined, a best estimate of the selling price is required to separate deliverables and allocate arrangement consideration using the relative selling price method. The new guidance includes new disclosure requirements on how the application of the relative selling price method affects the timing and amount of revenue recognition. We believe adoption of this new guidance will not have a material impact on our financial statements.

iMERGENT, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(unaudited)

Other Comprehensive Income - There are no components of other comprehensive income other than net income for the three months ending March 31, 2010 and 2009.

Significant Customers – No customer accounted for 10% or more of total net revenue or total accounts receivable in the three months ended March 31, 2010 or 2009.

(2) Dividends

During the three months ended March 31, 2010 and 2009, the Company's board of directors declared the following cash dividends:

Declaration Date	Per Share Dividend	Record Date	Total Amount	Payment Date
March 29, 2010	$ 0.02	April 5, 2010	$ 229,000	April 12, 2010
March 25, 2009	$ 0.02	April 6, 2009	$ 228,000	April 20, 2009

(3)Computation of Net Income Per Common Share

We compute basic net income or loss per share using the weighted average number of common shares outstanding during the period. We compute diluted net income per share using the weighted average number of common shares and dilutive potential common shares outstanding during the period. Dilutive common shares include shares issuable upon the exercise of stock options and restricted shares.

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

In loss periods, basic net loss per share and diluted net loss per share are identical since the effect of potential common shares is anti-dilutive and therefore excluded.

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

iMERGENT, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(unaudited)

	Three Months Ended March 31,	
	2010	2009
Net income (in thousands)	$123	$1,552
Weighted-average share reconciliation:		
Weighted-average shares outstanding	11,456,445	11,366,853
Weighted-average restricted shares held in escrow	(32,796)	-
Weighted-average basic shares outstanding	11,423,649	