IMERGENT INC
Form 10-Q
November 03, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2010

OR

¨ 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.)
1615 South 52nd Street, Tempe, AZ (Address of Principal Executive Offices)	85281 (Zip Code)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes 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 November 1, 2010 was 11,402,341.

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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)

	September 30, 2010	December 31, 2009
Assets		
Current Assets:		
Cash and cash equivalents	$17,470	$21,549
Restricted cash	1,088	1,088
Trade receivables, net of allowance for doubtful accounts of $10,242 as of September 30, 2010 and $11,827 as of December 31, 2009	10,182	14,162
Inventories	963	243
Income taxes receivable	906	387
Deferred income tax assets, net	168	1,009
Prepaid expenses and other	2,273	2,988
Total Current Assets	33,050	41,426
Certificate of deposit	500	500
Long-term trade receivables, net of allowance for doubtful accounts of $6,150 as of September 30, 2010 and $5,882 as of December 31, 2009	7,344	6,264
Property and equipment, net	3,185	1,446
Deferred income tax assets, net	6,848	5,298
Intangible assets, net	1,093	1,206
Goodwill	265	-
Other	251	302
Total Assets	$52,536	$56,442
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	$2,901	$3,154
Accrued expenses and other	3,396	4,588
Dividend payable	228	229
Income taxes payable	26	24
Deferred revenue, current portion	11,448	15,827
Total Current Liabilities	17,999	23,822
Deferred revenue, net of current portion	7,443	6,447
Other long-term liabilities	1,041	191
Total Liabilities	26,483	30,460

Commitments and contingencies (Note 8)		
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; 11,402,341 shares outstanding as of September 30, 2010 and 11,446,320 shares outstanding as of December 31, 2009	11	11
Additional paid-in capital	53,009	53,033
Accumulated deficit	(26,967)	(27,062)
Total Stockholders' Equity	26,053	25,982
Total Liabilities and Stockholders' Equity	$52,536	$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 September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Revenue	$14,284	$17,378	$48,826	$57,669
Operating expenses:				
Cost of revenue	4,707	5,583	15,032	16,917
Selling and marketing	7,232	7,904	25,019	25,692
General and administrative	3,295	3,601	10,395	11,363
Research and development	957	503	2,210	1,600
Total operating expenses	16,191	17,591	52,656	55,572
Income (Loss) from operations	(1,907)	(213)	(3,830)	2,097
Other income (expense):				
Interest income	1,137	1,343	3,571	4,461
Interest expense	(1)	(3)	(3)	(9)
Other income (expense), net	316	(27)	182	(12)
Total other income, net	1,452	1,313	3,750	4,440
Income (loss) before income tax benefit (provision)	(455)	1,100	(80)	6,537
Income tax benefit (provision)	376	(382)	175	4,267
Net income (loss)	$(79)	$718	$95	$10,804
Net income (loss) per common share:				
Basic	$(0.01)	$0.06	$0.01	$0.95
Diluted	$(0.01)	$0.06	$0.01	$0.95
Dividends per common share:	$0.02	$0.02	$0.06	$0.06
Weighted average common shares outstanding:				
Basic	11,383,464	11,398,115	11,403,148	11,366,341
Diluted	11,383,464	11,525,148	11,422,471	11,384,107

See accompanying notes.

iMERGENT, INC. AND SUBSIDIARIES
Condensed Consolidated Statement of Stockholders' Equity
Nine Months Ended September 30, 2010
(In thousands, except share data)
(unaudited)

	Common Stock Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
Balance, January 1, 2010	11,446,320	$ 11	$ 53,033	$ (27,062)	$ 25,982
Expense for stock options granted to employees			855		855
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			(686)		(686)
Repurchase of common stock	(64,806)		(323)		(323)
Net loss				95	95
Balance, September 30, 2010	11,402,341	$ 11	$ 53,009	$ (26,967)	$ 26,053

See accompanying notes.

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iMERGENT, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows
(In thousands)
(unaudited)

	Nine Months Ended September 30, 2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$95	$10,804
Adjustments to reconcile net income to net		
cash provided by (used for) operating activities:		
Depreciation and amortization	1,030	1,100
Expense for stock options issued to employees	855	1,163
Tax benefit upon issuance of common stock	(3)	-
Deferred income tax provision (benefit)	(709)	823
Changes in assets and liabilities net of effects from acquisition:		
Restricted cash	-	(576)
Trade receivables	2,900	9,813
Inventories	(720)	281
Income taxes receivable	(519)	649
Prepaid expenses and other	505	(2,339)
Other	51	65
Accounts payable, accrued expenses and other	(1,575)	(1,881)
Income taxes payable	5	160
Deferred revenue	(3,383)	(10,897)
Other long-term liabilities	842	(9,104)
Net cash provided by (used for) operating activities	(626)	61
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(2,356)	(496)
Acquisition of company (Note 7)	(250)	-
Acquisition of property held for sale	-	(296)
Proceeds from sale of property held for sale (Note 12)	210	
Proceeds from sale of available-for-sale securities	-	2,900
Net cash provided by (used for) investing activities	(2,396)	2,108
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from exercise of stock options and related income tax benefit	13	371
Purchase of common stock	(323)	-
Payments made on contingent consideration	(61)	-
Principal payments on note payable	-	(80)
Dividend payments	(686)	(913)
Net cash used for financing activities	(1,057)	(622)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,079)	1,547
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	21,549	18,762

CASH AND CASH EQUIVALENTS, END OF PERIOD	$17,470	$20,309
Supplemental disclosure of cash flow information:		
Cash paid during the period:		
Interest	1	4
Income taxes	190	6,115

See accompanying notes.

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

	Nine Months Ended September 30,	
	2010	2009
Supplemental disclosure of non-cash investing and financing information:		
Dividends declared and not paid	$228	$-
Purchase of property and equipment included in accounts payable	82	50
Acquisition of company with stock	117	-
Contingent consideration related to acquisition	128	-

In February 2010, iMergent, Inc. entered into an asset purchase agreement with CastleWave, LLC to purchase their assets for total consideration of $495,000 (Note 7). The total consideration included a contingent consideration of approximately $128,000 based upon estimated future revenue generated through CastleWave's sales channels, restricted stock of $117,000, and cash of $250,000. The purchase price was 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 $265,000. See summary below (in thousands):

Fair value of assets acquired (including goodwill of $265,000)	$495
Cash paid	(250)
Stock issued	(117)
Estimated value of contingent consideration	(128)
Liabilities assumed	None

See accompanying notes.

(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 Quarterly Report on Form 10-Q to “iMergent,” the “Company,” “we,” “our,” and “us,” we mean iMergent, Inc., together with its wholly-owned subsidiaries. We are a managed business services company that provides eCommerce technology, training, services and a variety of cost-effective cloud-based technologies and resources to entrepreneurs and small, medium, and large enterprises. Our services are designed to help decrease the risks associated with managing an entity’s online presence 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 (“CastleWave”) for total consideration of approximately $495,000. Accordingly, we have included the results of operations for CastleWave as of the date of acquisition (Note 7). 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 Transition Report on Form 10-KT for the period ended December 31, 2009. Results of the nine months ended September 30, 2010 do not necessarily indicate the results we expect for the period ending December 31, 2010 or any other period. In view of our revenue recognition policies and the rapidly evolving nature of our business and the markets we serve, 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 StoresOnline 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 described our significant accounting policies in Note 1 to the financial statements in Item 8 of our Transition 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. In addition to the change in the Avail 24/7 contract, this product will not be included in the bundle of items sold at the workshop. Avail 24/7 will continue to be sold as a standalone product and customers will pay the $34.95 activation fee and these fees will be amortized over the customer life.

Recently Adopted Accounting Guidance – On January 1, 2010, we adopted new accounting guidance on Fair Value Measurements and Disclosures. This authoritative guidance requires us to disclose the amount of significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for these transfers, as well as 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 new guidance did not have a material impact on our disclosures in our unaudited condensed consolidated financial statements at September 30, 2010.

On January 1, 2010, we 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 new authoritative guidance had no impact on our financial condition and results of operations at September 30, 2010.

Recent Accounting Guidance Not Yet Adopted - In October 2009, the Financial Accounting Standards Board (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.

Other Comprehensive Income – Our unaudited condensed consolidated financial statements for the three and nine months ended September 30, 2010 and 2009 did not reflect any components of other comprehensive income other than net income.

Significant Customers – No customer accounted for 10% or more of our total net revenue or total accounts receivable for the three and nine months ended September 30, 2010 or 2009.

(2) Dividends

During the three and nine months ended September 30, 2010 and 2009, our Board of Directors declared the following cash dividends:

Declaration Date	Per Share Dividend	Record Date	Total Amount	Payment Date
(Fiscal year 2010)				
September 28, 2010	$0.02	October 7, 2010	$ 228,000	October 14, 2010
June 22, 2010	$0.02	June 29, 2010	$ 229,000	July 7, 2010
March 29, 2010	$0.02	April 5, 2010	$ 229,000	April 12, 2010
(Fiscal year 2009)				
September 14, 2009	$0.02	September 22, 2009	$ 229,000	September 29, 2009
June 30, 2009	$0.02	July 15, 2009	$ 229,000	July 31, 2009
March 25, 2009	$0.02	April 6, 2009	$ 228,000	April 20, 2009

(3) Computation of Net Income (Loss) 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. Dilutive net loss per common share for the three months ended September 30, 2010 is the same as basic net loss per common share because the common share equivalents were anti-dilutive.

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.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net income (loss) (in thousands)	$(79)			