

ORIGINAL

NEW APPLICATION



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RECEIVED

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ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

April 12, 2010

VIA OVERNIGHT DELIVERY

Docket Control Center
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, Arizona 85007
(602) 542-2237

T-20737A-10-0144

Re: Crexendo Business Solutions, Inc.

Dear Sir/Madam:

Enclosed please find for filing an original and thirteen (13) copies of Crexendo Business Solutions, Inc.'s Application and Petition for Certificate of Convenience and Necessity to Provide Intrastate Telecommunications Services.

I have also enclosed an extra copy of this letter to be date stamped and returned to me in the enclosed, self-addressed, postage prepaid envelope.

If you have any questions or if I may provide you with any additional information, please do not hesitate to contact me. Thank you for your attention to this matter.

Respectfully submitted,

Lance J.M. Steinhart
Attorney for Crexendo Business Solutions, Inc.

Enclosures

cc: Jeff Korn

Arizona Corporation Commission

DOCKETED

APR 13 2010

DOCKETED BY	<i>nr</i>
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ARIZONA CORPORATION COMMISSION

**Application and Petition for Certificate of Convenience and Necessity to Provide
Intrastate Telecommunications Services**

Mail original plus 13 copies of completed application to: For Docket Control Only:
(Please Stamp Here)

Docket Control Center
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007-2927

Please indicate if you have current applications pending
in Arizona as an Interexchange reseller, AOS provider,
or as the provider of other telecommunication services.

Type of Service: _____

Docket No.: _____ Date: _____ Date Docketed: _____

Type of Service: _____

Docket No.: _____ Date: _____ Date Docketed: _____

A. COMPANY AND TELECOMMUNICATION SERVICE INFORMATION

(A-1) Please indicate the type of telecommunications services that you want to provide in Arizona and mark the appropriate box(s).

- Resold Long Distance Telecommunications Services (Answer Sections A, B).
- Resold Local Exchange Telecommunications Services (Answer Sections A, B, C).
- Facilities-Based Long Distance Telecommunications Services (Answer Sections A, B, D).
- Facilities-Based Local Exchange Telecommunications Services (Answer Sections A, B, C, D, E)
- Alternative Operator Services Telecommunications Services (Answer Sections A, B)
- Other _____ (Please attach complete description)

(A-2) The name, address, telephone number (including area code), facsimile number (including area code), e-mail address, and World Wide Web address (if one is available for consumer access) of the Applicant:

Crexendo Business Solutions, Inc.
10201 South 51st Street
Phoenix, Arizona 85044
Telephone: (801) 227-0004
Fax: (801) 426-6712
E-Mail Address: sales@crexendo.com
Web Address: www.crexendo.com

(A-3) The d/b/a ("Doing Business As") name if the Applicant is doing business under a name different from that listed in Item (A-2):

Not Applicable

(A-4) The name, address, telephone number (including area code), facsimile number (including area code), and E-mail address of the Applicant's Management Contact:

Jeff Korn, Chief Legal Officer
10201 South 51st Street
Phoenix, Arizona 85044
Telephone: (801) 227-0004
Fax: (801) 426-6712
E-Mail Address: jkorn@storesonline.com

(A-5) The name, address, telephone number (including area code), facsimile number (including area code), and E-mail address of the Applicant's Attorney and/or Consultant:

Lance J.M. Steinhart, Esq.
Lance J.M. Steinhart, P.C.
1720 Windward Concourse, Suite 115
Alpharetta, Georgia 30005
Telephone: (770) 232-9200
Fax: (770) 232-9208
E-Mail Address: lsteinhart@telecomcounsel.com

(A-6) The name, address, telephone number (including area code), facsimile number (including area code), E-mail address of the Applicant's Complaint Contact Person:

Jeff Korn, Chief Legal Officer
10201 South 51st Street
Phoenix, Arizona 85044
Telephone: (866) 621-6111
Fax: (801) 426-6712
E-Mail Address: crexendo@myquickresponse.com

(A-7) What type of legal entity is the Applicant? Mark the appropriate box(s) and category.

- Sole proprietorship
- Partnership: ___ Limited, ___ General, ___ Arizona, ___ Foreign
- Limited Liability Company: ___ Arizona, ___ Foreign
- Corporation: ___ "S", ___ X "C", ___ Non-profit
- Other, specify: _____

(A-8) Please include "Attachment A":

Attachment "A" must include the following information:

1. A copy of the Applicant's Certificate of Good Standing as a domestic or foreign corporation, LLC, or other entity in Arizona.
2. A list of the names of all owners, partners, limited liability company managers (or if a member managed LLC, all members), or corporation officers and directors (specify).
3. Indicate percentages of ownership of each person listed in A-8.2.

(A-9) Include your Tariff as "Attachment B".

Your Tariff must include the following information:

1. Proposed Rates and Charges for each service offered (reference by Tariff page number).
See Sheets 51-104 of the Company's Tariff.
2. Tariff Maximum Rate and Prices to be charged (reference by Tariff page number).
See Sheets 58 - 104 of the Company's Tariff.
3. Terms and Conditions Applicable to provision of Service (reference by Tariff page number).
See Sheets 11 – 49 of the Company's Tariff.
4. Deposits, Advances, and/or Prepayments Applicable to provision of Service (reference by Tariff page number).
See Sheets 32 and 33 of the Company's Tariff.
5. The proposed fee that will be charged for returned checks (reference by Tariff page number).
See Sheet 129 of the Company's Tariff.

(A-10) Indicate the geographic market to be served:

- Statewide. (Applicant adopts statewide map of Arizona provided with this application).
 Other. Describe and provide a detailed map depicting the area.

(A-11) Indicate if the Applicant or any of its officers, directors, partners, or managers has been or are currently involved in any formal or informal complaint proceedings pending before any state or federal regulatory commission, administrative agency, or law enforcement agency.

Describe in detail any such involvement. Please make sure you provide the following information:

1. States in which the Applicant has been or is involved in proceedings.
2. Detailed explanations of the Substance of the Complaints.
3. Commission Orders that resolved any and all Complaints.
4. Actions taken by the Applicant to remedy and/or prevent the Complaints from re-occurring.

Neither Applicant nor any of its officers, directors, partners, or managers has been or are currently involved in any formal or informal complaint proceedings pending before any state or federal regulatory commission, administrative agency, or law enforcement agency.

(A-12) Indicate if the Applicant or any of its officers, directors, partners, or managers has been or are currently involved in any civil or criminal investigation, or had judgments entered in any civil matter, judgments levied by any administrative or regulatory agency, or been convicted of any criminal acts within the last ten (10) years.

Describe in detail any such judgments or convictions. Please make sure you provide the following information:

1. States involved in the judgments and/or convictions.
2. Reasons for the investigation and/or judgment.
3. Copy of the Court order, if applicable.

Neither Applicant nor any of its officers, directors, partners, or managers has been or are currently involved in any civil or criminal investigation, or had judgments entered in any civil matter, judgments levied by any administrative or regulatory agency, or been convicted of any criminal acts within the last ten (10) years.

(A-13) Indicate if the Applicant's customers will be able to access alternative toll service providers or resellers via 1+101XXXX access.

Yes

No

(A-14) Is applicant willing to post a Performance Bond? Please check appropriate box(s).

For Long Distance Resellers, a \$10,000 bond will be recommended for those resellers who collect advances, prepayments or deposits.

Yes

No

If "No", continue to question (A-15).

For Local Exchange Resellers, a \$25,000 bond will be recommended.

Yes

No

If "No", continue to question (A-15).

For Facilities-Based Providers of Long Distance, a \$100,000 bond will be recommended.

Yes

No

If "No", continue to question (A-15).

For Facilities-Based Providers of Local Exchange, a \$100,000 bond will be recommended.

Yes

No

If any box in (A-14) is marked "No", continue to question (A-15).

Note: Amounts are cumulative if the Applicant is applying for more than one type of service.

(A-15) If any box in (A-14) is marked "No", provide the following information. Clarify and explain the Applicant's deposit policy (reference by tariff page number). Provide a detailed explanation of why the Applicant's superior financial position limits any risk to Arizona consumers.

The Company will not collect advances, prepayments or deposits.

(A-16) Submit copies of affidavits of publication that the Applicant has, as required, published legal notice of the Application in all counties where the Applicant is requesting authority to provide service.

Note: For Resellers, the Applicant must complete and submit an Affidavit of Publication Form as Attachment "C" before Staff prepares and issues its report. Refer to the Commission's website for Legal Notice Material (Newspaper Information, Sample Legal Notice and Affidavit of Publication). For Facilities-Based Service Providers, the Hearing Division will advise the Applicant of the date of the hearing and the publication of legal notice. Do not publish legal notice or file affidavits of publication until you are advised to do so by the Hearing Division.

(A-17) Indicate if the Applicant is a switchless reseller of the type of telecommunications services that the Applicant will or intends to resell in Arizona:

Yes

No

If "Yes", provide the name of the company or companies whose telecommunications services the Applicant resells.

The company intends to resell services provided by Qwest and facilities-based competitive local exchange carriers.

(A-18) List the States in which the Applicant has had an application approved or denied to offer telecommunications services similar to those that the Applicant will or intends to offer in Arizona:

Note: If the Applicant is currently approved to provide telecommunications services that the Applicant intends to provide in Arizona in less than six states, excluding Arizona, list the Public Utility Commission ("PUC") of each state that granted the authorization. For each PUC listed provide the name of the contact person, their phone number, mailing address including zip code, and e-mail address.

None.

(A-19) List the States in which the Applicant currently offers telecommunications services similar to those that the Applicant will or intends to offer in Arizona.

Note: If the Applicant currently provides telecommunication services that the Applicant intends to provide in Arizona in six or more states, excluding Arizona, list the states. If the Applicant does not currently provide telecommunications services that the Applicant intends to provide in Arizona in five or less states, list the key personnel employed by the Applicant. Indicate each employee's name, title, position, description of their work experience, and years of service in the telecommunications services industry.

None.

(A-20) List the names and addresses of any alternative providers of the service that are also affiliates of the telecommunications company, as defined in R14-2-801.

None.

(A-21) Check here if you wish to adopt as your petition a statement that the service has already been classified as competitive by Commission Decision:

Decision # 64178 Resold Long Distance

Decision # 64178 Resold LEC

Decision # 64178 Facilities Based Long Distance

Decision # 64178 Facilities Based LEC

B. FINANCIAL INFORMATION

(B-1) Indicate if the Applicant has financial statements for the two (2) most recent years.

Yes

No

If "No," explain why and give the date on which the Applicant began operations.

(B-2) Include "Attachment D".

Provide the Applicant's financial information for the two (2) most recent years.

1. A copy of the Applicant's balance sheet.
2. A copy of the Applicant's income statement.
3. A copy of the Applicant's audit report.
4. A copy of the Applicant's retained earnings balance.
5. A copy of all related notes to the financial statements and information.

Note: Make sure "most recent years" includes current calendar year or current year reporting period.

(B-3) Indicate if the Applicant will rely on the financial resources of its Parent Company, if applicable.

Yes, see attached financial statements for Imergent, Inc., its parent company.

(B-4) The Applicant must provide the following information.

1. Provide the projected total revenue expected to be generated by the provision of telecommunications services to Arizona customers for the first twelve months following certification, adjusted to reflect the maximum rates for which the Applicant requested approval. Adjusted revenues may be calculated as the number of units sold times the maximum charge per unit.
2. Provide the operating expenses expected to be incurred during the first twelve months of providing telecommunications services to Arizona customers following certification.
3. Provide the net book value (original cost less accumulated depreciation) of all Arizona jurisdictional assets expected to be used in the provision of telecommunications service to Arizona customers at the end of the first twelve months of operation. Assets are not limited to plant and equipment. Items such as office equipment and office supplies should be included in this list.
4. If the projected value of all assets is zero, please specifically state this in your response.
5. If the projected fair value of the assets is different than the projected net book value, also provide the corresponding projected fair value amounts.

See "Attachment E"

C. RESOLD AND/OR FACILITIES-BASED LOCAL EXCHANGE TELECOMMUNICATIONS SERVICES

(C-1) Indicate if the Applicant has a resale agreement in operation,

Yes No

If "Yes", please reference the resale agreement by Commission Docket Number or Commission Decision Number.

D. FACILITIES-BASED LONG DISTANCE AND/OR FACILITIES BASED LOCAL EXCHANGE TELECOMMUNICATIONS SERVICES

(D-1) Indicate if the Applicant is currently selling facilities-based long distance telecommunications services AND/OR facilities-based local exchange telecommunications services in Arizona. This item applies to an Applicant requesting a geographic expansion of their CC&N:

Yes No

If "Yes," provide the following information:

1. The date or approximate date that the Applicant began selling facilities-based long distance telecommunications services AND/OR facilities-based local exchange telecommunications services in Arizona.
2. Identify the types of facilities-based long distance telecommunications services AND/OR facilities-based local exchange telecommunications services that the Applicant sells in Arizona.

If "No," indicate the date when the Applicant will begin to sell facilities-based long distance telecommunications AND/OR facilities-based local exchange telecommunications services in Arizona:

E. FACILITIES-BASED LOCAL EXCHANGE TELECOMMUNICATIONS SERVICES

(E-1) Indicate whether the Applicant will abide by the quality of service standards that were approved by the Commission in Commission Decision Number 59241:

Yes No

(E-2) Indicate whether the Applicant will provide all customers with 911 and E911 service, where available, and will coordinate with incumbent local exchange carriers ("ILECs") and emergency service providers to provide this service:

Yes No

(E-3) Indicate that the Applicant's switch is "fully equal access capable" (i.e., would provide equal access to facilities-based long distance companies) pursuant to A.A.C. R14-2-1111 (A):

Yes No

I certify that if the applicant is an Arizona corporation, a current copy of the Articles of Incorporation is on file with the Arizona Corporation Commission and the applicant holds a Certificate of Good Standing from the Commission. If the company is a foreign corporation or partnership, I certify that the company has authority to transact business in Arizona. I certify that all appropriate city, county, and/or State agency approvals have been obtained. Upon signing of this application, I attest that I have read the Commission's rules and regulations relating to the regulations of telecommunications services (A.A.C. Title 14, Chapter 2, Article 11) and that the company will abide by Arizona state law including the Arizona Corporation Commission Rules. I agree that the Commission's rules apply in the event there is a conflict between those rules and the company's tariff, unless otherwise ordered by the Commission. I certify that to the best of my knowledge the information provided in this Application and Petition is true and correct.

[Handwritten Signature]
(Signature of Authorized Representative)

January 20, 2010
(Date)

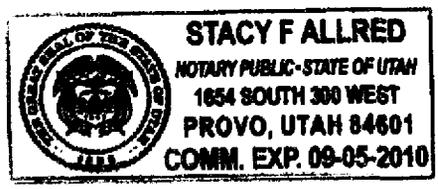
Jeff Korn
(Print Name of Authorized Representative)

Chief Legal Officer
(Title)

SUBSCRIBED AND SWORN to before me this 20 day of January, 2010

[Handwritten Signature: Stacy F. Allred]
NOTARY PUBLIC

My Commission Expires 09-05-2010



ATTACHMENTS

- A – Certificate of Good Standing, List of Officers and Directors or Owners and Percentage of Ownership
- B – Proposed Tariff
- C – Legal Notice
- D – Financial Information
- E – Arizona Projections

A - Certificate of Good Standing and

Officers, Directors and Owners

Percentage Ownership

Officers:

Steven G. Mihaylo Chief Executive Officer

Jeff Korn Chief Legal Officer

Directors:

Steven G. Mihaylo

Owners:

Imergent, Inc.

100%

STATE OF ARIZONA



Office of the
CORPORATION COMMISSION

I, Ernest G. Johnson, Executive Director of the Arizona Corporation Commission, do hereby certify that the attached copy of the following document:

ARTICLES OF INCORPORATION 04/19/2009

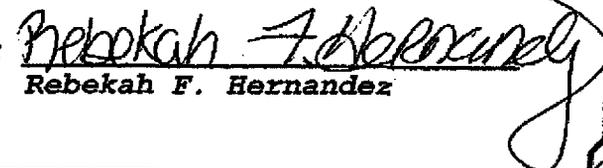
consisting of 3 pages, is a true and complete copy of the original of said document on file with this office for:

CREXENDO BUSINESS SOLUTIONS, INC.
ACC file number: -1519323-6

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the official seal of the Arizona Corporation Commission on this date: February 4, 2010.




Executive Director

By: 
Rebekah F. Hernandez

AZ CORPORATION COMMISSION
FILED

ARTICLES OF INCORPORATION

APR 14 2009

OF

FILE NO. 15193236 CREXENDO BUSINESS SOLUTIONS, INC.

PURSUANT TO A.R.S. § 10-202

1. Name: The Name of the Corporation is Crexendo Business Solutions, Inc.
2. Initial Business: The Corporation initially intends to conduct the business of: Providing small businesses with e-Commerce, hosting, telecommunications, and internet solutions. In particular, Crexendo Business Solutions, Inc. provides software, training, and hosted telecommunications to enable its customers to market and sell their products or services over the internet.
3. Authorized Capital: The Corporation shall have authority to issue 1,000 shares of Common Stock.
4. Known Place of Business: The street address of the known place of business of the Corporation is: 10201 South 51st Street, Phoenix, Arizona 85044.
5. Statutory Agent: The name and address of the statutory agent of the Corporation is: Steven G. Mihaylo, 10201 South 51st Street, Phoenix, Arizona 85044.
6. Board of Directors: The initial board of directors shall consist of one (1) director. The name and address of the person who shall serve as the director until the first annual meeting of shareholders or until his successor is elected and qualifies is:

Name: Steven G. Mihaylo
 Address: 10201 South 51st Street
 City, State, Zip: Phoenix, Arizona 85044.

7. Incorporators: The name and address of the incorporator is:

Name: Steven G. Mihaylo
 Address: 10201 South 51st Street
 City, State, Zip: Phoenix, Arizona 85044.

AZ CORPORATION COMMISSION
FILED

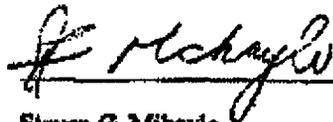
APR 21 2009

FILE NO. 15193236

- 8. Indemnification of Officers, Directors, Employees and Agents: The Corporation shall indemnify any person who incurs expenses or liabilities by reason of the fact he or she is or was an officer, director, employee or agent of the Corporation or is or was serving at the request of the Corporation as a director, officer, employee or agent of another Corporation, partnership, joint venture, trust or other enterprise. This indemnification shall be mandatory in all Circumstances in which indemnification is permitted by law.

- 9. Limitation of Liability: To the fullest extent permitted by the Arizona Revised Statutes, as the same exists or may hereafter be amended, a director of the Corporation shall not be liable to the Corporation or its stockholders for monetary damages for any action taken or any failure to take action as a director. No repeal, amendment or modification of this article, whether direct or indirect, shall eliminate or reduce its effect with respect to any act or omission of a director of the Corporation occurring prior to such repeal, amendment or modification.

Executed this 13th Day of April, 2009, by the Incorporator.

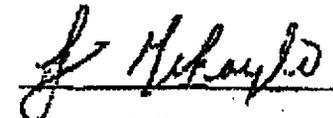
Signed: 
Steven G. Mihaylo

ACCEPTANCE OF APPOINTMENT BY STATUTORY AGENT

The undersigned hereby acknowledges and accepts the appointment

As statutory agent of the above-named corporation effective

This 13th Day of April, 2009.

Signed: 
Steven G. Mihaylo

**PROFIT
CERTIFICATE OF DISCLOSURE
Pursuant to A.R.S. §10-202. (D).**

Crescendo Business Solutions, Inc.
EXACT CORPORATE NAME

- A. Has any person serving either by election or appointment as officer, director, trustee, incorporator and persons controlling or holding over 10% of the issued and outstanding common shares or 10% of any other proprietary, beneficial or membership interest in the corporation:
1. Been convicted of a felony involving a transaction in securities, consumer fraud or antitrust in any state or federal jurisdiction within the seven-year period immediately preceding the execution of this Certificate?
 2. Been convicted of a felony, the essential elements of which consisted of fraud, misrepresentation, theft by false pretenses, or restraint of trade or monopoly in any state or federal jurisdiction within the seven-year period immediately preceding the execution of this Certificate?
 3. Been or are subject to an injunction, judgment, decree or permanent order of any state or federal court entered within the seven-year period immediately preceding the execution of this Certificate wherein such injunction, judgment, decree or permanent order:
 - (a) involved the violation of fraud or registration provisions of the securities laws of that jurisdiction; or
 - (b) involved the violation of the consumer fraud laws of that jurisdiction; or
 - (c) involved the violation of the antitrust or restraint of trade laws of that jurisdiction?

Yes _____ No x

B. IF YES, the following information MUST be attached:

1. Full name, prior name(s) and aliases, if used.
2. Full birth name.
3. Present home address.
4. Prior addresses (for immediate preceding 7-year period).
5. Date and location of birth.

B. The nature and description of each conviction or judicial action, date and location, the court and public agency involved and file or case number of case.

- C. Has any person serving as an officer, director, trustee, incorporator or holder of over twenty per cent of the issued and outstanding common shares or twenty per cent of any other proprietary, beneficial or membership interest in the corporation served in any such capacity or held a twenty per cent interest in any other corporation in any jurisdiction on the bankruptcy or receivership of the other corporation?

Yes _____ No x

IF YOUR ANSWER TO THE ABOVE QUESTION IS "YES", YOU MUST ATTACH THE FOLLOWING INFORMATION FOR EACH CORPORATION:

1. Name and address of the corporation.
2. Full name (including aliases) and address of each person involved.
3. State(s) in which the corporation:
 - (a) Was incorporated.
 - (b) Has transacted business.
4. Dates of corporate operation.
5. Date and case number of bankruptcy or receivership.

Under penalties of law, the undersigned incorporator(s)/officer(s) declare(s) that I/(we) have examined this Certificate, including any attachments, and to the best of my/(our) knowledge and belief it is true, correct and complete, and hereby declare as indicated above.

THE SIGNATURE(S) MUST BE DATED WITHIN THIRTY (30) DAYS OF THE DELIVERY DATE.

BY J. Michaels BY J. Michaels

PRINT NAME Steven Michaels PRINT NAME Steven Michaels

TITLE CEO DATE 4/14/09 TITLE CEO DATE 4/14/09

DOMESTIC CORPORATIONS: ALL INCORPORATORS MUST SIGN THE INITIAL CERTIFICATE OF DISCLOSURE if within sixty days, any person becomes an officer, director, trustee or person controlling or holding over 10% of the issued and outstanding shares or 10% of any other proprietary, beneficial, or membership interest in the corporation and the person was not included in this disclosure, the corporation must file an AMENDED certificate signed by at least one duly authorized officer of the corporation.

FOREIGN CORPORATIONS: MUST BE SIGNED BY AT LEAST ONE DULY AUTHORIZED OFFICER OF THE CORPORATION.

B - Proposed Tariffs

TITLE SHEET

ARIZONA TELECOMMUNICATIONS TARIFF

This tariff contains the descriptions, regulations, and rates applicable to the furnishing of service or facilities for Telecommunications Services furnished by Crexendo Business Solutions, Inc. ("Crexendo"), with principal offices at 10201 South 51st Street, Phoenix, Arizona 85044. This tariff applies for services furnished within the State of Arizona. This tariff is on file with the Arizona Corporation Commission, and copies may be inspected, during normal business hours, at the company's principal place of business.

ISSUE DATE: April 13, 2010

EFFECTIVE DATE:

ISSUED BY:

**Jeff Korn, Chief Legal Officer
10201 South 51st Street
Phoenix, Arizona 85044**

CONCURRING, CONNECTING OR OTHER PARTICIPATING CARRIERS

- 1. Concurring Carriers - None**
- 2. Connecting Carriers - None**
- 3. Other Participating Carriers - None**

ISSUE DATE: April 13, 2010

EFFECTIVE DATE:

ISSUED BY:

**Jeff Korn, Chief Legal Officer
10201 South 51st Street
Phoenix, Arizona 85044**

CHECK SHEET

The Sheets of this tariff are effective as of the date shown at the bottom of the respective sheet(s). Original and revised sheets as named below comprise all changes from the original tariff and are currently in effect as of the date on the bottom of this sheet.

<u>SHEET</u>	<u>REVISION</u>	<u>SHEET</u>	<u>REVISION</u>
1	Original	19	Original
2	Original	20	Original
3	Original	21	Original
4	Original	22	Original
5	Original	23	Original
6	Original	24	Original
7	Original	25	Original
8	Original	26	Original
9	Original	27	Original
10	Original	28	Original
11	Original	29	Original
12	Original	30	Original
13	Original	31	Original
14	Original	32	Original
15	Original		
16	Original		
17	Original		
18	Original		

* New or Revised Sheet

ISSUE DATE: April 13, 2010

EFFECTIVE DATE:

ISSUED BY:

**Jeff Korn, Chief Legal Officer
10201 South 51st Street
Phoenix, Arizona 85044**

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ISSUE DATE: April 13, 2010
ISSUED BY:

EFFECTIVE DATE:
Jeff Korn, Chief Legal Officer
10201 South 51st Street
Phoenix, Arizona 85044

TARIFF FORMAT

A. Sheet Numbering: Sheet numbers appear in the upper right corner of the page. Sheets are numbered sequentially. However, new sheets are occasionally added to the tariff. When a new sheet is added between sheets already in effect, a decimal is added. For example, a new sheet added between pages 11 and 12 would be page 11.1.

B. Sheet Revision Numbers: Revision numbers also appear in the upper right corner of each sheet where applicable. These numbers are used to indicate the most current page version on file with the Commission. For example, 4th Revised Sheet 13 cancels 3rd Revised Sheet 13. Consult the Check Sheet for the sheets currently in effect.

C. Paragraph Numbering Sequence: There are nine levels of paragraph coding. Each level of coding is subservient to its next higher level:

- 2.
- 2.1
- 2.1.1
- 2.1.1.A
- 2.1.1.A.1
- 2.1.1.A.1.(a)
- 2.1.1.A.1.(a).I
- 2.1.1.A.1.(a).I.(i)
- 2.1.1.A.1.(a).I.(i).(1)

D. Check Sheets: When a tariff filing is made with the Commission, an updated Check Sheet accompanies the tariff filing. The Check Sheet lists the sheets contained in the tariff, with a cross reference to the current Revision Number. When new sheets are added, the Check Sheet is changed to reflect the revision. All revisions made in a given filing are designated by an asterisk (*). There will be no other symbols used on this sheet if these are the only changes made to it (i.e., the format, etc. remains the same, just revised revision levels on some sheets). The tariff user should refer to the latest Check Sheet to find out if a particular sheet is the most current on Commission file.

ISSUE DATE: April 13, 2010
ISSUED BY:

EFFECTIVE DATE:
Jeff Korn, Chief Legal Officer
10201 South 51st Street
Phoenix, Arizona 85044

SYMBOLS

The following are the only symbols used for the purposes indicated below:

- (C) to signify change in regulation
- (D) to signify a deletion
- (I) to signify a rate increase
- (L) to signify material relocated in the tariff
- (N) to signify a new rate or regulation
- (R) to signify a rate reduction
- (T) to signify a change in text, but no change in rate or regulation

ISSUE DATE: April 13, 2010

EFFECTIVE DATE:

ISSUED BY:

**Jeff Korn, Chief Legal Officer
10201 South 51st Street
Phoenix, Arizona 85044**

SECTION 1 - TECHNICAL TERMS AND ABBREVIATIONS

Access Line - An arrangement from a local exchange telephone company or other common carrier, using either dedicated or switched access, which connects a Customer's location to the Company's location or switching center.

Authorization Code - A numerical code, one or more of which may be assigned to a Customer, to enable the Company to identify the origin of the Customer so it may rate and bill the call. Automatic number identification (ANI) is used as the authorization code wherever possible.

Commission - Used throughout this tariff to mean the Arizona Corporation Commission.

Customer - The person, firm, corporation or other legal entity which orders the services of the Company and is responsible for the payment of charges and for compliance with the Company's tariff regulations.

Company or Crexendo - Used throughout this tariff to mean Crexendo Business Solutions, Inc., a Arizona Corporation.

Dedicated Access - The Customer gains entry to the Company's services by a direct path from the Customer's location to the Company's point of presence.

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Resp. Org - Responsible Organization or entity identified by a Toll-Free service Customer that manages and administers records in the toll free number database and management system.

Switched Access - The Customer gains entry to the Company's services by a transmission line that is switched through the local exchange carrier to reach the Company's point of presence.

Telecommunications - The transmission, between or among points specified by the user, of information of the user's choosing, without change in the form or content of the information as sent and received.

Underlying Carrier - The telecommunications carrier whose network facilities provide the technical capability and capacity necessary for the transmission and reception of Customer telecommunications traffic.

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SECTION 2 - RULES AND REGULATIONS

2.1 Undertaking of the Company

This tariff contains the regulations and rates applicable to intrastate interexchange telecommunications services provided by the Company for telecommunications between points within the State of Arizona. Services are furnished subject to the availability of facilities and subject to the terms and conditions of this tariff in compliance with limitations set forth in the Commission's rules. The Company's services are provided on a statewide basis and are not intended to be limited geographically. The Company offers service to all those who desire to purchase service from the Company consistent with all of the provisions of this tariff. Customers interested in the Company's services shall file a service application with the Company which fully identifies the Customer, the services requested and other information requested by the Company. The Company reserves the right to examine the credit record and check the references of all applicants and Customers prior to accepting the service order. The service application shall not in itself obligate the Company to provide services or to continue to provide service if a later check of applicant's credit record is, in the opinion of the Company, contrary to the best interest of the Company. The Company may act as the Customer's agent for ordering access connection facilities provided by other carriers or entities when authorized by the Customer, to allow connection of a Customer's location to a service provided by the Company. The Customer shall be responsible for all charges due for such service arrangement.

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- 2.1.1 The services provided by the Company are not part of a joint undertaking with any other entity providing telecommunications channels, facilities, or services, but may involve the resale of the Message Toll Services (MTS) and Wide Area Telecommunications Services (WATS) of underlying common carriers subject to the jurisdiction of this Commission.
- 2.1.2 The rates and regulations contained in this tariff apply only to the services furnished by the Company and do not apply, unless otherwise specified, to the lines, facilities, or services provided by a local exchange telephone company or other common carriers for use in accessing the services of the Company.
- 2.1.3 The Company reserves the right to limit the length of communications, to discontinue furnishing services, or limit the use of service necessitated by conditions beyond its control, including, without limitation: lack of satellite or other transmission medium capacity; the revision, alteration or repricing of the Underlying Carrier's tariffed offerings; or when the use of service becomes or is in violation of the law or the provisions of this tariff.

2.2 Use of Services

- 2.2.1 The Company services may be used for any lawful purpose consistent with the transmission and switching parameters of the telecommunications facilities utilized in the provision of services, subject to any limitations set forth in this Section 2.2.
- 2.2.2 The use of the Company services to make calls which might reasonably be expected to frighten, abuse, torment, or harass another or in such a way as to unreasonably interfere with use by others is prohibited.

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- 2.2.3 The use of the Company services without payment for service or attempting to avoid payment for service by fraudulent means or devices, schemes, false or invalid numbers, or false calling or credit cards is prohibited.
- 2.2.4 The Company services are available for use 24 hours per day, seven days per week.
- 2.2.5 The Company does not transmit messages, but the services may be used for that purpose.
- 2.2.6 The Company services may be denied for nonpayment of charges or for other violations of this tariff.
- 2.2.7 Customers shall not use the service provided under this tariff for any unlawful purpose.
- 2.2.8 The Customer is responsible for notifying the Company immediately of any unauthorized use of services.

2.3 Liability of the Company

- 2.3.1 The Company shall not be liable for any claim, loss, expense or damage for any interruption, delay, error, omission, or defect in any service, facility or transmission provided under this tariff, if caused by the Underlying Carrier, an act of God, fire, war, civil disturbance, act of government, or due to any other causes beyond the Company's control.
- 2.3.2 The Company shall not be liable for, and shall be fully indemnified and held harmless by the Customer against any claim, loss, expense, or damage for defamation, libel, slander, invasion, infringement of copyright or patent, unauthorized use of any trademark, trade name or service mark, proprietary or creative right, or any other injury to any person, property or entity arising out of the material, data or information transmitted.

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- 2.3.3 No agent or employee of any other carrier or entity shall be deemed to be an agent or employee of the Company.
- 2.3.4 The Company's liability for damages, resulting in whole or in part from or arising in connection with the furnishing of service under this tariff, including but not limited to mistakes, omissions, interruptions, delays, errors, or other defects or misrepresentations shall not exceed an amount equal to the charges provided for under this tariff for the long distance call for the period during which the call was affected. No other liability in any event shall attach to the Company.
- 2.3.5 The Company shall not be liable for and shall be indemnified and saved harmless by any Customer or by any other entity from any and all loss, claims, demands, suits, or other action or any liability whatsoever, whether suffered, made, instituted, or asserted by any Customer or any other entity for any personal injury to, or death of, any person or persons, and for any loss, damage, defacement or destruction of the premises of any Customer or any other entity or any other property whether owned or controlled by the Customer or others.
- 2.3.6 The Company shall not be liable for any indirect, special, incidental, or consequential damages under this tariff including, but not limited to, loss of revenue or profits, for any reason whatsoever, including the breakdown of facilities associated with the service, or for any mistakes, omissions, delays, errors, or defects in transmission occurring during the course of furnishing service.

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2.3.7 The remedies set forth herein are exclusive and in lieu of all other warranties and remedies, whether express, implied, or statutory, INCLUDING WITHOUT LIMITATION IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE.

2.4 Responsibilities of the Customer

2.4.1 The Customer is responsible for placing any necessary orders and complying with tariff regulations. The Customer is also responsible for the payment of charges for services provided under this tariff.

2.4.2 The Customer is responsible for charges incurred for special construction and/or special facilities which the Customer requests and which are ordered by the Company on the Customer's behalf.

2.4.3 If required for the provision of the Company's services, the Customer must provide any equipment space, supporting structure, conduit and electrical power without charge to the Company.

2.4.4 The Customer is responsible for arranging access to its premises at times mutually agreeable to the Company and the Customer when required for Company personnel to install, repair, maintain, program, inspect or remove equipment associated with the provision of the Company's services.

2.4.5 The Customer shall cause the temperature and relative humidity in the equipment space provided by Customer for the installation of the Company equipment to be maintained within the range normally provided for the operation of microcomputers.

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- 2.4.6 The Customer shall ensure that the equipment and/or system is properly interfaced with the Company facilities or services, the signals emitted into the Company network are of the proper mode, bandwidth, power and signal level for the intended use of the subscriber and in compliance with criteria set forth in this tariff, the signals do not damage equipment, injure personnel, or degrade service to other Customers. If the FCC or some other appropriate certifying body certifies terminal equipment as being technically acceptable for direct electrical connection with interstate communications service, the Company will permit such equipment to be connected with its channels without the use of protective interface devices. If the Customer fails to maintain the equipment and/or the system properly, with resulting imminent harm to the Company equipment, personnel or the quality of service to other Customers, the Company may, upon written notice, require the use of protective equipment at the Customer's expense. If this fails to produce satisfactory quality and safety, the Company may, upon written notice, terminate the Customer's service.
- 2.4.7 The Customer must pay the Company for replacement or repair of damage to the equipment or facilities of the Company caused by negligence or willful act of the Customer or others, by improper use of the services, or by use of equipment provided by Customer or others.
- 2.4.8 The Customer must pay for the loss through theft of any Company equipment installed at Customer's premises.
- 2.4.9 If the Company installs equipment at Customer's premises, the Customer shall be responsible for payment of any applicable installation charge.
- 2.4.10 The Customer must use the services offered in this tariff in a manner consistent with the terms of this tariff and the policies and regulations of all state, federal and local authorities having jurisdiction over the service.

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2.5 Cancellation or Interruption of Services

2.5.1 Without incurring liability, upon five (5) working days' (defined as any day on which the company's business office is open and the U.S. Mail is delivered) written notice to the Customer, the Company may immediately discontinue services to a Customer or may withhold the provision of ordered or contracted services:

2.5.1.A For nonpayment of any sum due the Company for more than thirty (30) days after issuance of the bill for the amount due,

2.5.1.B For violation of any of the provisions of this tariff,

2.5.1.C For violation of any law, rule, regulation, policy of any governing authority having jurisdiction over the Company services, or

2.5.1.D By reason of any order or decision of a court, public service commission or federal regulatory body or other governing authority prohibiting the Company from furnishing its services.

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- 2.5.2 Without incurring liability, the Company may interrupt the provision of services at any time in order to perform tests and inspections to assure compliance with tariff regulations and the proper installation and operation of Customer and the Company equipment and facilities and may continue such interruption until any items of noncompliance or improper equipment operation so identified are rectified.
- 2.5.3 Service may be discontinued by the Company without notice to the Customer, by blocking traffic to certain countries, cities or NXX exchanges, or by blocking calls using certain Customer authorization codes, when the Company deems it necessary to take such action to prevent unlawful use of its service. The Company will restore service as soon as it can be provided without undue risk, and will, upon request by the Customer affected, assign a new authorization code to replace the one that has been deactivated.
- 2.5.4 The Customer may terminate service upon thirty (30) days written notice for the Company's standard month to month contract. Customer will be liable for all usage on any of the Company's service offerings until the Customer actually leaves the service. Customers will continue to have Company usage until the Customer notifies its local exchange carrier and changes its long distance carrier. Until the Customer so notifies its local exchange carrier, it shall continue to generate and be responsible for long distance usage.

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2.6 Credit Allowance

2.6.1 Credit may be given for disputed calls, on a per call basis.

2.6.2 Credit shall not be issued for unavailability of long distance services.

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2.7 Restoration of Service

The use and restoration of service shall be in accordance with the priority system specified in part 64, Subpart D of the Rules and Regulations of the Federal Communications Commission.

2.8 Deposit

The Company does not require deposits.

2.9 Advance Payments

The Company does not require advance payments; therefore, the Company does not have a Prepayment Policy.

2.10 Payment and Billing

2.10.1 Service is provided and billed on a billing cycle basis, beginning on the date that service becomes effective. Billing is payable upon receipt.

2.10.2 The customer is responsible for payment of all charges for services furnished to the Customer, as well as to all persons using the Customer's codes, exchange lines, facilities, or equipment, with or without the knowledge or consent of the Customer. The security of the Customer's Authorization Codes, subscribed exchange lines, and direct connect facilities is the responsibility of the Customer. All calls placed using direct connect facilities, subscribed exchange lines, or Authorization Codes will be billed to and must be paid by the Customer. Recurring charges and non-recurring charges are billed in advance. Charges based on actual usage during a month and any accrued interest will be billed monthly in arrears.

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2.10.3 All bills are presumed accurate, and shall be binding on the customer unless objection is received by the Company in writing within 30 days after such bills are rendered. No credits, refunds, or adjustments shall be granted if demand therefore is not received by the Company in writing within such 30 day period.

2.11 Billing Terms and Procedures

2.11.1 The billing date shall be printed on the bill and the date rendered shall be the mailing date.

2.11.2 Bills for telephone services may be considered delinquent 15 days after the date the bill is rendered.

2.11.3 Delinquent accounts for which payment has not been received may be terminated 22 days after the date the bill is rendered.

2.11.4 All payments shall be made at or mailed to the office of the Company or to the utility's duly authorized representative.

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2.12 Collection Costs

In the event Company is required to initiate legal proceedings to collect any amounts due to Company for regulated or non-regulated services, equipment or facilities, or to enforce any judgment obtained against a Customer, or for the enforcement of any other provision of this tariff or applicable law, Customer shall, in addition to all amounts due, be liable to Company for all reasonable costs incurred by Company in such proceedings and enforcement actions, including reasonable attorneys' fees, collection agency fees or payments, and court costs. In any such proceeding, the amount of collection costs, including attorneys' fees, due to the Company, will be determined by the court.

2.13 Taxes

All federal, state and local taxes, assessments, surcharges, or fees, including sales taxes, use taxes, gross receipts taxes, and municipal utilities taxes, are billed as separate line items and are not included in the rates quoted herein.

2.14 Late Charge

A late fee of 1.5% per month or the amount otherwise authorized by law, whichever is lower, will be charged on any past due balances.

2.15 Returned Check Charge

A fee of \$25 will be charged whenever a check or draft presented for payment for service is not accepted by the institution on which it is written.

2.16 Reconnection Charge

A reconnection fee of \$25 per occurrence will be charged when service is reestablished for Customers which have been disconnected due to non-payment. Payment of the reconnection fee and any other outstanding amounts will be due in full prior to reconnection of service.

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SECTION 3 - DESCRIPTION OF SERVICE

3.1 Computation of Charges

3.1.1 The total charge for each completed call may be a variable measured charge dependent on the duration, distance and time of day of the call. The total charge for each completed call may also be dependent only on the duration of the call, i.e. a statewide flat rate per minute charge. The variable measured charge is specified as a rate per minute which is applied to each minute. All calls are measured in increments as set forth in the Rates Section of this tariff. Fractions of a billing increment are rounded up to a full billing increment on a per call basis. Fractions of a cent per minute are rounded up to a full cent on a per call basis.

3.1.2 Where mileage bands appear in a rate table, rates for all calls are based upon the airline distance between the originating and terminating points of the call, as determined by the vertical and horizontal coordinates associated with the exchange (the area code and three digit central office code) associated with the originating and terminating telephone numbers. If the Customer obtains access to the Company's network by a dedicated access circuit, that circuit will be assigned an exchange for rating purposes based upon the Customer's main telephone number at the location where the dedicated access circuit terminates. The vertical and horizontal (V & H) coordinates for each exchange and the airline distance between them will be determined according to industry standards.

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3.1.3 Timing begins when the called station is answered and two way communication is possible, as determined by standard industry methods generally in use for ascertaining answer, including hardware answer supervision in which the local telephone company sends a signal to the switch or the software utilizing audio tone detection. Recognition of answer supervision is the responsibility of the Underlying Carrier. Timing for each call ends when either party hangs up. The Company will not bill for uncompleted calls.

3.2 Customer Complaints and/or Billing Disputes

Customer inquiries or complaints regarding service or accounting may be made in writing or by telephone to the Company at:

10201 South 51st Street
Phoenix, Arizona 85044
(866) 621-6111

Any objection to billed charges should be reported promptly to the Company. Adjustments to Customers' bills shall be made to the extent that records are available and/or circumstances exist which reasonably indicate that such charges are not in accordance with approved rates or that an adjustment may otherwise be appropriate. Where overbilling of a subscriber occurs, due either to Company or subscriber error, no liability exists which will require the Company to pay any interest, dividend or other compensation on the amount overbilled.

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If a Customer accumulates more than One Dollar of undisputed delinquent the Company 800 Service charges, the Company Resp. Org. reserves the right not to honor that Customer's request for a Resp. Org. change until such undisputed charges are paid in full.

3.3 Level of Service

A Customer can expect end to end network availability of not less than 99% at all times for all services.

3.4 Billing Entity Conditions

When billing functions on behalf of the Company or its intermediary are performed by local exchange telephone companies or others, the payment of charge conditions and regulations of such companies and any regulations imposed upon these companies by regulatory bodies having jurisdiction apply. The Company's name and toll-free telephone number will appear on the Customer's bill.

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3.5 Service Offerings

3.5.1 1+ Dialing

This service permits Customers to originate calls via switched or dedicated access lines, and to terminate intrastate calls. The customer dials "1+" followed by "ten digits" or dials "101XXXX" followed by "1+ ten digits".

3.5.2 Travel Cards

The Customer utilizes an 11 digit "toll-free" access number established by the Company to access a terminal. Upon receiving a voice prompt, the Customer uses push button dialing to enter an identification code assigned by the Company, and the ten digit number of the called party.

3.5.3 Toll-Free Service

This service is inbound calling only where an 800, 888 or other toll-free prefix number rings into a Customer's premise routed to a specific telephone number or terminated over a dedicated facility.

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3.5.4 Reserved for Future Use.

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3.5.5 Directory Assistance.

Access to long distance directory assistance is obtained by dialing 1 + 555-1212 for listings within the originating area code and 1 + (area code) + 555-1212 for other listings. When more than one number is requested in a single call, a charge will apply for each number requested. A charge will be applicable for each number requested, whether or not the number is listed or published.

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3.5.6 Specialized Pricing Arrangements.

Customized service packages and competitive pricing packages at negotiated rates may be furnished on a case-by-case basis in response to requests by Customers to the Company for proposals or for competitive bids. Service offered under this tariff provision will be provided to Customers pursuant to contract. Unless otherwise specified, the regulations for such arrangements are in addition to the applicable regulations and prices in other sections of the tariff. Specialized rates or charges will be made available to similarly situated Customers on a non-discriminatory basis. Discounts may apply based upon volume, affinity group plans, or term plan commitments.

3.5.7 Emergency Call Handling Procedures

Emergency "911" calls are not routed to company, but are completed through the local network at no charge.

3.5.8 Promotional Offerings

The Company may, from time to time, make promotional offerings to enhance the marketing of its services. These offerings may be limited to certain dates, times and locations. The Company will notify the Commission of such offerings as required by Commission rules and regulations.

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SECTION 4 - RATES

4.1 1+ & 101XXXX Dialing

\$0.15 per minute. Billed in one minute increments.

A \$4.95 per month per number service charge applies.

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4.2 Toll Free Service

\$0.25 per minute. Billed in one minute increments.

A \$10 per month per number service charge applies.

4.3 Travel Cards

\$0.25 per minute

4.4 Directory Assistance

\$1.15 per call

4.5 Returned Check Charge

\$25.00

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4.6 Rate Periods

	Monday - Friday	Sat.	Sun.
8 a.m. to 5 p.m.*	Daytime Rate Period		
5 p.m. to 11 p.m.*	Evening Rate Period		Evening Rate Period
11 p.m. to 8 a.m.*	Night/Weekend Rate Period		

* To, but not including

When a message spans more than one rate period, total charges for the minutes in each rate period are calculated and the results for each rate period are totaled to obtain the total message charge. If the calculation results in a fractional charge, the amount will be rounded up to the higher cent.

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4.7 Payphone Dial Around Surcharge

A dial around surcharge of \$.60 per call will be added to any completed intrastate toll access code and subscriber toll-free 800/888 type calls placed from a public or semi-public payphone.

4.8 Universal Service Fund Assessment & Presubscribed Interexchange Carrier Charge

The Customer will be assessed a monthly Universal Service Fund Contribution charge on all telecommunications services, which in no event shall be less than the prevailing contribution percentage rate charged the Company on intrastate traffic by the Universal Service Administrative Company (or any successor) or any state agency or its administrator. A Presubscribed Interexchange Carrier Charge ("PICC") applies on a monthly basis to all Customer monthly bills at the prevailing rate.

4.9 Carrier Cost Recovery Charge

In order to recover costs the Company incurs with regard to TeleRelay service, National Number Portability and Federal Regulatory fees, a \$.99 monthly surcharge will be assessed per account per month. This surcharge will appear as a separate line item on your invoice.

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SECTION 5 - MINIMUM/MAXIMUM RATES

5.1 1 + Dialing

\$0.04 per minute Minimum

\$0.25 per minute Maximum

5.2 Toll-Free Service

\$0.04 per minute Minimum

\$0.25 per minute Maximum

5.3 Travel Cards

\$0.04 per minute Minimum

\$0.25 per minute Maximum

5.4 Directory Assistance

\$0.50 Minimum

\$1.50 Maximum

5.5 Payphone Dial Around Surcharge

\$0.35 Minimum

\$0.60 Maximum

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Arizona
LOCAL EXCHANGE TELECOMMUNICATIONS SERVICES TARIFF
OF
Crexendo Business Solutions, Inc.

This tariff contains the descriptions, regulations, and rates applicable to the provision of local exchange telecommunications services provided by Crexendo Business Solutions, Inc. with principal offices at 10201 South 51st Street, Phoenix, Arizona 85044 for services furnished within the State of Arizona. This tariff is on file with the Arizona Corporation Commission, and copies may be inspected, during normal business hours, at the Company's principal place of business.

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Jeff Korn
Chief Legal Officer
10201 South 51st Street
Phoenix, Arizona 85044

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5	78	Original	7	110	Original			
5	79	Original	7	111	Original			
5	80	Original	7	112	Original			
5	81	Original	7	113	Original			
5	82	Original	7	114	Original			
5	83	Original	8	115	Original			
5	84	Original	9	116	Original			
5	85	Original	10	117	Original			
5	86	Original	10	118	Original			
5	87	Original	10	119	Original			
5	88	Original						
5	89	Original						
5	90	Original						
5	91	Original						
5	92	Original						

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Issued by:

Jeff Korn
Chief Legal Officer
10201 South 51st Street
Phoenix, Arizona 85044

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**EXPLANATION OF SYMBOLS, REFERENCE
MARKS, AND ABBREVIATIONS OF TECHNICAL
TERMS USED IN THIS TARIFF**

The following symbols shall be used in this tariff for the purpose indicated below:

- (C) To signify changed regulation.
- (D) To signify discontinued rate or regulation.
- (I) To signify increased rate.
- (M) To signify a move in the location of text.
- (N) To signify new rate or regulation.
- (R) To signify reduced rate.
- (S) To signify reissued matter.
- (T) To signify a change in text but no change in rate or regulation.

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APPLICATION OF TARIFF

This tariff sets forth the service offerings, rates, terms and conditions applicable to the furnishing of intrastate end-user local exchange communications services by Crexendo Business Solutions, Inc., hereinafter referred to as the Company, to Customers within the state of Arizona. Crexendo's services are furnished subject to the availability of facilities and subject to the terms and conditions set forth herein.

This tariff is on file with the Arizona Corporation Commission. In addition, this tariff is available for review at the main office of Crexendo Business Solutions, Inc. at 10201 South 51st Street, Phoenix, Arizona 85044.

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TARIFF FORMAT

- A. Page Numbering** - Page numbers appear in the upper right corner of the page. Pages are numbered sequentially. However, new pages are occasionally added to the tariff. When a new page is added between pages already in effect, a decimal is added. For example, a new page added between pages 14 and 15 would be 14.1.
- B. Page Revision Numbers** - Revision numbers also appear in the upper right corner of each page. These numbers are used to determine the most current page version on file with the Commission. For example, the 4th revised Page 14 cancels the 3rd revised Page 14. Because of various suspension periods, deferrals, etc., the most current page number on file with the Commission is not always the tariff page in effect. Consult the Check Sheet for the page currently in effect.
- C. Paragraph Numbering Sequence** - There are nine levels of paragraph coding. Each level of coding is subservient to its next higher level:
- 2.
 - 2.1.
 - 2.1.1.
 - 2.1.1.A.
 - 2.1.1.A.1.
 - 2.1.1.A.1.(a).
 - 2.1.1.A.1.(a).I.
 - 2.1.1.A.1.(a).I.(i).
 - 2.1.1.A.1.(a).I.(i).(1).
- D. Check Sheets** - When a tariff filing is made with the Commission, an updated Check Sheet accompanies the tariff filing. The Check Sheet lists the pages contained in the tariff, with a cross reference to the current revision number. When new pages are added, the Check Sheet is changed to reflect the revision. All revisions made in a given filing are designated by an asterisk (*). There will be no other symbols used on this page if these are the only changes made to it (i.e., the format, etc. remain the same, just revised revision levels on some pages.) The tariff user should refer to the latest Check Sheet to find out if a particular page is the most current on file with the Commission.

SECTION 1.0 – DEFINITIONS

Access Line - An arrangement from a local exchange telephone company or other common carrier, using either dedicated or switched access, which connects a Customer's location to Carrier's location or switching center.

Account - A Company accounting category containing up to two (2) residential local exchange access lines billed to the same Customer at the same address. The second or non-primary local exchange access line will share any call allowance of the primary local exchange access line. The second or non-primary local exchange access line therefore will not be provisioned to include a separate call allowance structure. No features are included with the second or non-primary local exchange access line.

Account Codes - Permits Centrex Stations and attendants to dial an account code number of up to eight digits. For use when placing calls over facilities arranged for Automatic Message Accounting (AMA) recording. The account or project number must be input prior to dialing the called number.

Advance Payment - Part or all of a payment required before the start of service.

Authorization Code - A numerical code, one or more of which may be assigned to a Customer, to enable Carrier to identify the origin of service of the Customer so it may rate and bill the call. All authorization codes shall be the sole property of Carrier and no Customer shall have any property or other right or interest in the use of any particular authorization code. Automatic numbering identification (ANI) may be used as or in connection with the authorization code.

Authorized User - A person, firm or corporation authorized by the Customer to be an end-user of the service of the Customer.

Automatic Numbering Identification (ANI) - A type of signaling provided by a local exchange telephone company which automatically identifies the local exchange line from which a call originates.

Commission - Arizona Corporation Commission.

Common Carrier - An authorized company or entity providing telecommunications services to the public

Company - Crexendo Business Solutions, Inc., the issuer of this tariff.

Customer - The person, firm or corporation that orders service and is responsible for the payment of charges and compliance with the terms and conditions of this tariff.

Customer Premises - A location designated by the Customer for the purposes of connecting to the Company's services.

Customer Terminal Equipment - Terminal equipment provided by the Customer.

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SECTION 1.0 - DEFINITIONS, (CONT'D.)

Deposit - Refers to a cash or equivalent of cash security held as a guarantee for payment of the charges.

End Office - The LEC switching system office or serving wire center where Customer station loops are terminated for purposes of interconnection to each other and/or to trunks.

Equal Access - A form of dialed access provided by local exchange companies whereby interexchange calls dialed by the Customer are automatically routed to the Company's network. Presubscribed Customers may also route interexchange calls to the Company's network by dialing an access code supplied by the Company.

Exchange Telephone Company or Telephone Company - Denotes any individual, partnership, association, joint-stock company, trust, or corporation authorized by the appropriate regulatory bodies to engage in providing public switched communication service throughout an exchange area, and between exchange areas within the LATA.

ICB - Individual Case Basis.

IXC or Interexchange Carrier- A long distance telecommunications services provider.

Interruption - The inability to complete calls due to equipment malfunctions or human errors. Interruption shall not include, and no allowance shall be given for service difficulties such as slow dial tone, circuits busy or other network and/or switching capability shortages. Nor shall Interruption include the failure of any service or facilities provided by a common carrier or other entity other than the Carrier. Any Interruption allowance provided within this Tariff by Carrier shall not apply where service is interrupted by the negligence or willful act of the Customer, or where the Carrier, pursuant to the terms of this Tariff, terminates service because of non-payment of bills, unlawful or improper use of the Carrier's facilities or service, or any other reason covered by this Tariff or by applicable law.

LATA - A Local Access and Transport Area established pursuant to the Modification of Final Judgment entered by the United States District Court for the District of Columbia in Civil Action No. 82-0192; or any other geographic area designated as a LATA in the National Exchange Carrier Association, Inc. Tariff F.C.C. No. 4, or its successor tariff(s).

LEC - Local Exchange Company refers to the dominant, monopoly local telephone company in the area also served by the Company.

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SECTION 1.0 - DEFINITIONS, (CONT'D.)

Monthly Recurring Charges - The monthly charges to the Customer for services, facilities and equipment, which continue for the agreed upon duration of the service.

MOU - Minutes of Use.

NECA - National Exchange Carriers Association.

Non-Recurring Charge ("NRC") - The initial charge, usually assessed on a one-time basis, to initiate and establish service.

PBX - Private Branch Exchange

PIN - Personal Identification Number. See Authorization Code.

Point of Presence ("POP") - Point of Presence

Recurring Charges - Monthly charges to the Customer for services, and equipment, which continues for the agreed upon duration of the service.

Service - Any means of service offered herein or any combination thereof.

Service Order - The written request for Company services executed by the Customer and the Company in the format devised by the Company. The signing of a Service Order Form by the Customer and acceptance by the Company initiates the respective obligations of the parties as set forth therein and pursuant to this tariff.

Serving Wire Center - A specified geographic point from which the vertical and horizontal coordinate is used in calculation of airline mileage.

Shared Inbound Calls - Refers to calls that are terminated via the Customer's Company-provided local exchange line.

Shared Outbound Calls - Refers to calls in Feature Group (FGD) exchanges whereby the Customer's local telephone lines are presubscribed by the Company to the Company's outbound service such that "1 + 10-digit number" calls are automatically routed to the Company's or an IXC's network. Calls to stations within the Customer's LATA may be placed by dialing "10XXX" or "101XXXX" with 1 + 10-digit number."

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SECTION 1.0 - DEFINITIONS, (CONT'D.)

Station - The network control signaling unit and any other equipment provided at the Customer's premises which enables the Customer to establish communications connections and to effect communications through such connections.

Subscriber - The person, firm, partnership, corporation, or other entity who orders telecommunications service from Crexendo. Service may be ordered by, or on behalf of, those who own, lease or otherwise manage the pay telephone, PBX, or other switch vehicle from which an End User places a call utilizing the services of the Company.

Switched Access Origination/Termination - Where access between the Customer and the interexchange carrier is provided on local exchange company Feature Group circuits and the connection to the Customer is a LED-provided business or residential access line. The cost of switched Feature Group access is billed to the interexchange carrier.

Terminal Equipment - Any telecommunications equipment other than the transmission or receiving equipment installed at a Company location.

Usage Charges - Charges for minutes or messages traversing over local exchange facilities.

User or End User - A Customer, Joint User, or any other person authorized by a Customer to use service provided under this tariff.

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SECTION 2.0 - REGULATIONS

2.1 Undertaking of the Company

2.1.1 Scope

The Company undertakes to furnish communications service pursuant to the terms of this tariff in connection with one-way and/or two-way information transmission between points within the state of Arizona.

The Company is responsible under this tariff only for the services and facilities provided hereunder, and it assumes no responsibility for any service provided by any other entity that purchases access to the Company network in order to originate or terminate its own services, or to communicate with its own customers.

2.1.2 Shortage of Equipment or Facilities

2.1.2.A. The Company reserves the right to limit or to allocate the use of existing facilities, or of additional facilities offered by the Company, when necessary because of lack of facilities, or due to some other cause beyond the Company's control.

2.1.2.B. The furnishing of service under this tariff is subject to the availability on a continuing basis of all the necessary facilities and is limited to the capacity of the Company's facilities as well as facilities the Company may obtain from other carriers to furnish service from time to time as required at the sole discretion of the Company.

SECTION 2.0 - REGULATIONS, (CONT'D.)**2.1 Undertaking of the Company, (Cont'd.)****2.1.3 Terms and Conditions**

- 2.1.3.A.** Service is provided on the basis of a minimum period of at least thirty (30) days, 24-hours per day. For the purpose of computing charges in this tariff, a month is considered to have 30 days.
- 2.1.3.B.** Except as otherwise stated in this tariff, Customers may be required to enter into written service orders which shall contain or reference a specific description of the service ordered, the rates to be charged, the duration of the services, and the terms and conditions in this tariff. Customers will also be required to execute any other documents as may be reasonably requested by the Company.
- 2.1.3.C.** At the expiration of the initial term specified in each Service Order, or in any extension thereof, service shall continue on a month-to-month basis at the then current rates unless terminated by either party upon notice. Any termination shall not relieve the Customer of its obligation to pay any charges incurred under the service order and this tariff prior to termination. The rights and obligations which by their nature extend beyond the termination of the term of the service order shall survive such termination.
- 2.1.3.D.** In any action between the parties to enforce any provision of this tariff, the prevailing party shall be entitled to recover its legal fees and court costs from the non-prevailing party in addition to other relief a court may award.
- 2.1.3.E.** Service may be terminated upon written notice to the Customer if:
- 2.1.3.E.1** the Customer is using the service in violation of this tariff; or
 - 2.1.3.E.2** the Customer is using the service in violation of the law.
- 2.1.3.F.** This tariff shall be interpreted and governed by the laws of the state of Arizona regardless of its choice of laws provision.

SECTION 2.0 - REGULATIONS, (CONT'D.)

2.1 Undertaking of the Company, (Cont'd.)

2.1.3 Terms and Conditions, (Cont'd.)

2.1.3.G. Any other Telephone Company may not interfere with the right of any person or entity to obtain service directly from the Company. No person or entity shall be required to make any payment, incur any penalty, monetary or otherwise, or purchase any services in order to have the right to obtain service directly from the Company.

2.1.3.H. To the extent that either the Company or any other telephone company exercises control over available cable pairs, conduit, duct space, raceways, or other facilities needed by the other to reach a person or entity, the party exercising such control shall make them available to the other on terms equivalent to those under which the Company makes similar facilities under its control available to its customers. At the reasonable request of either party, the Company and the other telephone company shall join the attempt to obtain from the owner of the property access for the other party to serve a person or entity.

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SECTION 2.0 - REGULATIONS, (CONT'D.)**2.1 Undertaking of the Company, (Cont'd.)****2.1.4 Limitations on Liability**

2.1.4.A. Except as otherwise stated in this section, the liability of the Company for damages arising out of either: (1) the furnishing of its services, including but not limited to mistakes, omissions, interruptions, delays, or errors, or other defects, representations, or use of these services or (2) the failure to furnish its service, whether caused by acts or omission, shall be limited to the extension of allowances to the Customer for interruptions in service as set forth in Section 2.6.

2.1.4.B. Except for the extension of allowances to the Customer for interruptions in service as set forth in Section 2.6, the Company shall not be liable to a Customer or third party for any direct, indirect, special, incidental, reliance, consequential, exemplary or punitive damages, including, but not limited to, loss of revenue or profits, for any reason whatsoever, including, but not limited to, any act or omission, failure to perform, delay, interruption, failure to provide any service or any failure in or breakdown of facilities associated with the service.

2.1.4.C. The liability of the Company for errors in billing that result in overpayment by the Customer shall be limited to a credit equal to the dollar amount erroneously billed or, in the event that payment has been made and service has been discontinued, to a refund of the amount erroneously billed.

SECTION 2.0 - REGULATIONS, (CONT'D.)**2.1 Undertaking of the Company, (Cont'd.)****2.1.4 Limitations on Liability, (Cont'd.)**

2.1.4.D. The Company shall be indemnified and saved harmless by the Customer from and against all loss, liability, damage and expense, including reasonable counsel fees, due to:

2.1.4.D.1 Any act or omission of: (a) the Customer, (b) any other entity furnishing service, equipment or facilities for use in conjunction with services or facilities provided by the Company; or (c) common carriers or warehousemen, except as contracted by the Company;

2.1.4.D.2 Any delay or failure of performance or equipment due to causes beyond the Company's control, including but not limited to, acts of God, fires, floods, earthquakes, hurricanes, or other catastrophes; national emergencies, insurrections, riots, wars or other civil commotions; strikes, lockouts, work stoppages or other labor difficulties; criminal actions taken against the Company; unavailability, failure or malfunction of equipment or facilities provided by the Customer or third parties; and any law, order, regulation or other action of any governing authority or agency thereof;

2.1.4.D.3 Any unlawful or unauthorized use of the Company's facilities and services;

2.1.4.D.4 Libel, slander, invasion of privacy or infringement of patents, trade secrets, or copyrights arising from or in connection with the material transmitted by means of Company-provided facilities or services; or by means of the combination of Company-provided facilities or services;

2.1.4.D.5 Breach in the privacy or security of communications transmitted over the Company's facilities;

SECTION 2.0 - REGULATIONS, (CONT'D.)**2.1 Undertaking of the Company, (Cont'd.)****2.1.4 Limitations on Liability, (Cont'd.)****2.1.4.D. (Cont'd.)**

- 2.1.4.D.6** Changes in any of the facilities, operations or procedures of the Company that render any equipment, facilities or services provided by the Customer obsolete, or require modification or alteration of such equipment, facilities or services, or otherwise affect their use or performance, except where reasonable notice is required by the Company and is not provided to the Customer, in which event the Company's liability is limited as set forth in paragraph A. of this Subsection 2.1.4.
- 2.1.4.D.7** Defacement of or damage to Customer premises resulting from the furnishing of services or equipment on such premises or the installation or removal thereof;
- 2.1.4.D.8** Injury to property or injury or death to persons, including claims for payments made under Workers' Compensation law or under any plan for employee disability or death benefits, arising out of, or caused by, any act or omission of the Customer, or the construction, installation, maintenance, presence, use or removal of the Customer's facilities or equipment connected, or to be connected to the Company's facilities;
- 2.1.4.D.9** Any noncompletion of calls due to network busy conditions;
- 2.1.4.D.10** Any calls not actually attempted to be completed during any period that service is unavailable;
- 2.1.4.D.11** And any other claim resulting from any act or omission of the Customer or patron(s) of the Customer relating to the use of the Company's services or facilities.

SECTION 2.0 - REGULATIONS, (CONT'D.)**2.1 Undertaking of the Company, (Cont'd.)****2.1.4 Limitations on Liability, (Cont'd.)**

2.1.4.E. The Company does not guarantee nor make any warranty with respect to installations provided by it for use in an explosive atmosphere.

2.1.4.F. The Company makes no warranties or representations, EXPRESS OR IMPLIED, either *in fact or by operation of law, statutory or otherwise, including warranties of merchantability or fitness for a particular use, except those expressly set forth herein.*

2.1.4.G. Failure by the Company to assert its rights pursuant to one provision of this rate sheet does not preclude the Company from asserting its rights under other provisions.

2.1.4.H. Directory Errors - In the absence of gross negligence or willful misconduct, no liability for damages arising from errors or mistakes in or omissions of directory listings, or errors or mistakes in or omissions of listing obtainable from the directory assistance operator, including errors in the reporting thereof, shall attach to the Company. An allowance for errors or mistakes in or omissions of published directory listings or for errors or mistakes in or omissions of listing obtainable from the directory assistance operator shall be at the monthly tariff rate for each listing, or in the case of a free or no-charge directory listing, credit shall equal two times the monthly tariff rate for an additional listing, for the life of the directory or the charge period during which the error, mistake or omission occurs.

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SECTION 2.0 - REGULATIONS, (CONT'D.)**2.1 Undertaking of the Company, (Cont'd.)****2.1.4 Limitations on Liability, (Cont'd.)****2.1.4.I. With respect to Emergency Number 911 Service:**

2.1.4.I.1 This service is offered solely as an aid in handling assistance calls in connection with fire, police and other emergencies. The Company is not responsible for any losses, claims, demands, suits or any liability whatsoever, whether suffered, made instituted or asserted by the Customer or by any other party or person for any personal injury or death of any person or persons, and for any loss, damage or destruction of any property, whether owned by the Customer or others, caused or claimed to have been caused by: (1) mistakes, omissions, interruptions, delays, errors or other defects in the provision of service, or (2) installation, operation, failure to operate, maintenance, removal, presence, condition, local or use of any equipment and facilities furnishing this service.

2.1.4.I.2 Neither is the Company responsible for any infringement, nor invasion of the right of privacy of any person or persons, caused or claimed to have been caused directly or indirectly, by the installation, operation, failure to operate, maintenance, removal, presence, condition, occasion or use of emergency 911 service features and the equipment associated therewith, or by any services furnished by the Company, including, but not limited to the identification of the telephone number, address or name associated with the telephone used by the party or parties accessing emergency 911 service, and which arise out of the negligence or other wrongful act of the Company, the Customer, its users, agencies or municipalities, or the employees or agents of any one of them.

SECTION 2.0 - REGULATIONS, (CONT'D.)**2.1 Undertaking of the Company, (Cont'd.)****2.1.4 Limitations on Liability, (Cont'd.)****2.1.4.I. With respect to Emergency Number 911 Service, (Cont'd.)**

2.1.4.I.3 When a Customer with a nonpublished telephone number, as defined herein, places a call to the emergency 911 service, the Company will release the name and address of the calling party, where such information can be determined, to the appropriate local governmental authority responsible for emergency 911 service upon request of such governmental authority. By subscribing to service under this rate sheet, the Customer acknowledges and agrees with the release of information as described above.

2.1.5 Notification of Service-Affecting Activities

The Company will provide the Customer reasonable notification of service-affecting activities that may occur in normal operation of its business. Such activities may include, but are not limited to, equipment or facilities additions, removals or rearrangements and routine preventative maintenance. Generally, such activities are not specific to an individual Customer but affect many Customers' services. No specific advance notification period is applicable to all service activities. The Company will work cooperatively with the Customer to determine the reasonable notification requirements. With some emergency or unplanned service-affecting conditions, such as an outage resulting from cable damage, notification to the Customer may not be possible.

SECTION 2.0 - REGULATIONS, (CONT'D.)**2.1 Undertaking of the Company, (Cont'd.)****2.1.6 Provision of Equipment and Facilities**

- 2.1.6.A.** The Company shall use reasonable efforts to make available services to a Customer on or before a particular date, subject to the provisions of and compliance by the Customer with, the regulations contained in this tariff. The Company does not guarantee availability by any such date and shall not be liable for any delays in commencing service to any Customer.
- 2.1.6.B.** The Company shall use reasonable efforts to maintain only the facilities and equipment that it furnishes to the Customer. The Customer may not, nor may the Customer permit others to, rearrange, disconnect, remove, attempt to repair, or otherwise interfere with any of the facilities or equipment installed by the Company, except upon the written consent of the Company.
- 2.1.6.C.** The Company may substitute, change or rearrange any equipment or facility at any time and from time to time, but shall not thereby alter the technical parameters of the service provided the Customer.
- 2.1.6.D.** Equipment the Company provides or installs at the Customer Premises for use in connection with the services the Company offers shall not be used for any purpose other than that for which it was provided.
- 2.1.6.E.** The Customer shall be responsible for the payment of service charges as set forth herein for visits by the Company's agents or employees to the Premises of the Customer when the service difficulty or trouble report results from the use of equipment or facilities provided by any party other than the Company, including but not limited to the Customer.

SECTION 2.0 - REGULATIONS, (CONT'D.)**2.1 Undertaking of the Company, (Cont'd.)****2.1.6 Provision of Equipment and Facilities, (Cont'd.)**

2.1.6.F. The Company shall not be responsible for the installation, operation, or maintenance of any Customer-provided communications equipment. Where such equipment is connected to the facilities furnished pursuant to this tariff, the responsibility of the Company shall be limited to the furnishing of facilities offered under this tariff and to the maintenance and operation of such facilities. Subject to this responsibility, the Company shall not be responsible for:

- (1) the transmission of signals by Customer-provided equipment or for the quality of, or defects in, such transmission; or
- (2) the reception of signals by Customer-provided equipment.

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SECTION 2.0 - REGULATIONS, (CONT'D.)**2.1 Undertaking of the Company, (Cont'd.)****2.1.7 Non-routine Installation**

At the Customer's request, installation and/or maintenance may be performed outside the Company's regular business hours or in hazardous locations. In such cases, charges based on cost of the actual labor, material, or other costs incurred by or charged to the Company will apply. If installation is started during regular business hours but, at the Customer's request, extends beyond regular business hours into time periods including, but not limited to, weekends, holidays, and/or night hours, additional charges may apply.

2.1.8 Special Construction

Subject to the agreement of the Company and to all of the regulations contained in this tariff, special construction of facilities may be undertaken on a reasonable efforts basis at the request of the Customer. Special construction is that construction undertaken:

- A. where facilities are not presently available, and there is no other requirement for the facilities so constructed;
- B. of a type other than that which the Company would normally utilize in the furnishing of its services;
- C. over a route other than that which the Company would normally utilize in the furnishing of its services;
- D. in a quantity greater than that which the Company would normally construct;
- E. on an expedited basis;
- F. on a temporary basis until permanent facilities are available;
- G. involving abnormal costs; or
- H. in advance of its normal construction.

2.1.9 Ownership of Facilities

Title to all facilities provided in accordance with this rate sheet remains in the Company, its partners, agents, contractors or suppliers.

SECTION 2.0 - REGULATIONS, (CONT'D.)**2.2 Prohibited Uses**

- 2.2.1** The services the Company offers shall not be used for any unlawful purpose or for any use as to which the Customer has not obtained all required governmental approvals, authorizations, licenses, consents and permits.
- 2.2.2** The Company may require applicants for service who intend to use the Company's offerings for resale and/or for shared use to file a letter with the Company confirming that their use of the Company's offerings complies with relevant laws and Commission regulations, policies, orders, and decisions.
- 2.2.3** The Company may block any signals being transmitted over its Network by Customers which cause interference to the Company or other users. Customer shall be relieved of all obligations to make payments for charges relating to any blocked Service and shall indemnify the Company for any claim, judgment or liability resulting from such blockage.
- 2.2.4** A customer, joint user, or authorized user may not assign, or transfer in any manner, the service or any rights associated with the service without the written consent of the Company. The Company will permit a Customer to transfer its existing service to another entity if the existing Customer has paid all charges owed to the Company for regulated communications services. Such a transfer will be treated as a disconnection of existing service and installation of new service, and non-recurring installation charges as stated in this tariff will apply.

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SECTION 2.0 - REGULATIONS, (CONT'D.)**2.3 Obligations of the Customer****2.3.1 General**

The Customer is responsible for making proper application for service; placing any necessary order, complying with tariff regulations; payment of charges for services provided. Specific Customer responsibilities include, but are not limited to the following:

- A. the payment of all applicable charges pursuant to this tariff;
- B. damage to or loss of the Company's facilities or equipment caused by the acts or omissions of the Customer; or the noncompliance by the Customer, with these regulations; or by fire or theft or other casualty on the Customer Premises, unless caused by the negligence or willful misconduct of the employees or agents of the Company;
- C. providing at no charge, as specified from time to time by the Company, any needed personnel, equipment space and power to operate Company facilities and equipment installed on the premises of the Customer, and the level of heating and air conditioning necessary to maintain the proper operating environment on such premises;
- D. obtaining, maintaining, and otherwise having full responsibility for all rights-of-way and conduits necessary for installation of fiber optic cable and associated equipment used to provide Communication Services to the Customer from the cable building entrance or property line to the location of the equipment space described in 2.3.1(C.) Any and all costs associated with obtaining and maintaining the rights-of-way described herein, including the costs of altering the structure to permit installation of the Company-provided facilities, shall be borne entirely by, or may be charged by the Company to, the Customer. The Company may require the Customer to demonstrate its compliance with this section prior to accepting an order for service;

SECTION 2.0 - REGULATIONS, (CONT'D.)**2.3 Obligations of the Customer, (Cont'd.)****2.3.1 General, (Cont'd.)**

- E.** providing a safe place to work and complying with all laws and regulations regarding the working conditions on the premises at which Company employees and agents shall be installing or maintaining the Company's facilities and equipment. The Customer may be required to install and maintain Company facilities and equipment within a hazardous area if, in the Company's opinion, injury or damage to the Company's employees or property might result from installation or maintenance by the Company. The Customer shall be responsible for identifying, monitoring, removing and disposing of any hazardous material (e.g. asbestos) prior to any construction or installation work;
- F.** complying with all laws and regulations applicable to, and obtaining all consents, approvals, licenses and permits as may be required with respect to, the location of Company facilities and equipment in any Customer premises or the rights-of-way for which Customer is responsible under Section 2.3.1D.; and granting or obtaining permission for Company agents or employees to enter the premises of the Customer at any time for the purpose of installing, inspecting, maintaining, repairing, or upon termination of service as stated herein, removing the facilities or equipment of the Company;
- G.** not creating, or allowing to be placed, any liens or other encumbrances on the Company's equipment or facilities; and
- H.** making Company facilities and equipment available periodically for maintenance purposes at a time agreeable to both the Company and the Customer. No allowance will be made for the period during which service is interrupted for such purposes.

SECTION 2.0 - REGULATIONS, (CONT'D.)**2.3 Obligations of the Customer, (Cont'd.)****2.3.2 Liability of the Customer**

- A.** The Customer will be liable for damages to the facilities of the Company and for all incidental and consequential damages caused by the negligent or intentional acts or omissions of the Customer, its officers, employees, agents, invites, or contractors where such acts or omissions are not the direct result of the Company's negligence or intentional misconduct.
- B.** To the extent caused by any negligent or intentional act of the Customer as described in A., preceding, the Customer shall indemnify, defend and hold harmless the Company from and against all claims, actions, damages, liabilities, costs and expenses, including reasonable attorneys' fees, for (1) any loss, destruction or damage to property of any third party, and (2) any liability incurred by the Company to any third party pursuant to this or any other rate sheet of the Company, or otherwise, for any interruption of, interference to, or other defect in any service provided by the Company to such third party.
- C.** The Customer shall not assert any claim against any other Customer or user of the Company's services for damages resulting in whole or in part from or arising in connection with the furnishing of service under this rate sheet including but not limited to mistakes, omissions, interruptions, delays, errors or other defects or misrepresentations, whether or not such other Customer or user contributed in any way to the occurrence of the damages, unless such damages were caused solely by the negligent or intentional act or omission of the other Customer or user and not by any act or omission of the Company. Nothing in this rate sheet is intended either to limit or to expand Customer's right to assert any claims against third parties for damages of any nature other than those described in the preceding sentence.

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SECTION 2.0 - REGULATIONS, (CONT'D.)**2.4 Customer Equipment and Channels****2.4.1 General**

A User may transmit or receive information or signals via the facilities of the Company. The Company's services are designed primarily for the transmission of voice-grade telephonic signals, except as otherwise stated in this tariff. A User may transmit any form of signal that is compatible with the Company's equipment, but the Company does not guarantee that its services will be suitable for purposes other than voice-grade telephonic communication except as specifically stated in this tariff.

2.4.2 Station Equipment

- A.** Terminal equipment on the User's Premises and the electric power consumed by such equipment shall be provided by and maintained at the expense of the User. The User is responsible for the provision of wiring or cable to connect its terminal equipment to the Company Point of Connection.
- B.** The Customer is responsible for ensuring that Customer-provided equipment connected to Company equipment and facilities is compatible with such equipment and facilities. The magnitude and character of the voltages and currents impressed on Company-provided equipment and wiring shall be such as not to cause damage to the Company-provided equipment and wiring or injury to the Company's employees or to other persons. Any additional protective equipment required to prevent such damage or injury shall be provided by the Company at the Customer's expense, subject to prior Customer approval of the equipment expense.

SECTION 2.0 - REGULATIONS, (CONT'D.)**2.4 Customer Equipment and Channels, (Cont'd.)****2.4.3 Interconnection of Facilities**

- A.** Any special interface equipment necessary to achieve compatibility between the facilities and equipment of the Company used for furnishing Communication Services and the channels, facilities, or equipment of others shall be provided at the Customer's expense.
- B.** Communication Services may be connected to the services or facilities of other communications carriers only when authorized by, and in accordance with, the terms and conditions of the tariffs of the other communications carriers that are applicable to such connections.
- C.** Facilities furnished under this tariff may be connected to Customer-provided terminal equipment in accordance with the provisions of this tariff. All such terminal equipment shall be registered by the Federal Communications Commission pursuant to Part 68 of Title 47, Code of Federal Regulations; and all User-provided wiring shall be installed and maintained in compliance with those regulations.
- D.** Users may interconnect communications facilities that are used in whole or in part for interstate communications to services provided under this tariff only to the extent that the user is an "End User", as defined in Section 69.2(m), Title 47, Code of Federal Regulations (1992 edition).

SECTION 2.0 - REGULATIONS, (CONT'D.)**2.4 Customer Equipment and Channels, (Cont'd.)****2.4.4 Inspections**

- A.** Upon suitable notification to the Customer, and at a reasonable time, the Company may make such tests and inspections as may be necessary to determine that the Customer is complying with the requirements set forth in Section 2.4.2A. for the installation, operation, and maintenance of Customer-provided facilities, equipment, and wiring in the connection of Customer-provided facilities and equipment to Company-owned facilities and equipment.
- B.** If the protective requirements for Customer-provided equipment are not being complied with, the Company may take such action as it deems necessary to protect its facilities, equipment, and personnel. The Company will notify the Customer promptly if there is any need for further corrective action. Within ten days of receiving this notice, the Customer must take this corrective action and notify the Company of the action taken. *If the Customer fails to do this, the Company may take whatever additional action is deemed necessary, including the suspension of service, to protect its facilities, equipment and personnel from harm.*

SECTION 2.0 - REGULATIONS, (CONT'D.)**2.5 Payment Arrangements****2.5.1 Payment for Service**

The Customer is responsible for the payment of all charges for facilities and services furnished by the Company to the Customer and to all Authorized Users by the Customer, regardless of whether those services are used by the Customer itself or are resold to or shared with other persons.

The Customer is responsible for payment of any sales, use, gross receipts, excise, access or other local, state, federal and 911 taxes, charges or surcharges (however designated) (excluding taxes on Company's net income) imposed on or based upon the provision, sale or use of Network Services.

The security of the Customer's PIN is the responsibility of the Customer. All calls placed using a PIN shall be billed to and shall be the obligation of the Customer. The Customer shall not be responsible for charges in connection with the unauthorized use of PINs arising after the Customer notifies the Company of the loss, theft, or other breach of security of such PINs.

Customers will only be charged once, on either an interstate or intrastate basis, for any nonrecurring charges.

2.5.2 Billing and Collection of Charges

The Customer is responsible for payment of all charges incurred by the Customer or other Authorized Users for services and facilities furnished to the Customer by the Company.

- A. Nonrecurring charges are due and payable within thirty (30) days after the invoice date, unless otherwise agreed to in advance.
- B. The Company shall present invoices for recurring charges monthly to the Customer, in advance of the month in which service is provided, and Recurring Charges shall be due and payable within thirty (30) days after the invoice date. When billing is based on customer usage, charges will be billed monthly for the preceding billing periods.

SECTION 2.0 - REGULATIONS, (CONT'D.)**2.5 Payment Arrangements, (Cont'd.)****2.5.2 Billing and Collection of Charges, (Cont'd.)**

- C. When service does not begin on the first day of the month, or end on the last day of the month, the charge for the fraction of the month in which service was furnished will be calculated on a pro rata basis. For this purpose, every month is considered to have thirty (30) days.
- D. Billing of the Customer by the Company will begin on the Service Commencement Date, which is the first day following the date on which the Company notifies the Customer that the service or facility is available for use, except that the Service Commencement Date may be postponed by *mutual agreement of the parties*, or if the service or facility does not conform to standards set forth in this tariff or the Service Order. Billing accrues through and includes the day that the service, circuit, arrangement or component is discontinued.
- E. If any portion of the payment is not received by the Company, or if any portion of the payment is received by the Company in funds that are not immediately available, within twenty (20) days of the mail date on the bill, then a late payment penalty shall be due the Company. The late payment penalty shall be that portion of the payment not received by the date due minus any charges billed as local taxes multiplied by 1.5%.
- F. The Customer will be assessed a *maximum* charge of thirty-five (\$35.00) for each check or other payment type submitted by the Customer to the Company that a bank or financial institution refuses to honor. See Section 10, Page 9 for current charges.
- G. If service is disconnected by the Company in accordance with Section 2.5.6 following and later restored, restoration of service will be subject to all applicable installation charges.

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SECTION 2.0 - REGULATIONS, (CONT'D.)**2.5 Payment Arrangements, (Cont'd.)****2.5.3 Disputed Bills**

- A.** In the event that a billing dispute occurs concerning any charges billed to the Customer by the Company, the Company may require the Customer to pay the undisputed portion of the bill to avoid discontinuance of service for non-payment. The Customer must submit a documented claim for the disputed amount. The Customer will submit all documentation as may reasonably be required to support the claim. All claims must be submitted to the Company within 90 days of receipt of billing for those services. If the Customer does not submit a claim as stated above, the Customer waives all rights to filing a claim thereafter.
- B.** Unless disputed the invoice shall be deemed to be correct and payable in full by the Customer. If the Customer is unable to resolve any dispute with the Company, then the Customer may file a complaint with the Arizona Corporation Commission, 1200 West Washington Street, Phoenix, Arizona 85007.
- C.** If the dispute is resolved in favor of the Customer and the Customer has withheld the disputed amount, no interest, credits or penalties will apply.

2.5.4 Advance Payments

The Company does not collect advance payments.

SECTION 2.0 - REGULATIONS, (CONT'D.)

2.5 Payment Arrangements, (Cont'd.)

2.5.5 Deposits

- A. The Company does not collect deposits.

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SECTION 2.0 - REGULATIONS, (CONT'D.)

2.5 Payment Arrangements, (Cont'd.)

2.5.5 Reserved For Future Use

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SECTION 2.0 - REGULATIONS, (CONT'D.)

2.5 Payment Arrangements, (Cont'd.)

2.5.6 Discontinuance of Service

- A. Upon nonpayment of any amounts owing to the Company, the Company may, by giving five (5) days written notice to the Customer, discontinue or suspend service without incurring any liability.
- B. Upon violation of any of the other material terms or conditions for furnishing service the Company may, by giving five (5) days written notice to the Customer, discontinue or suspend service without incurring any liability if such violation continues during that period.
- C. Upon condemnation of any material portion of the facilities used by the Company to provide service to a Customer or if a casualty renders all or any material portion of such facilities inoperable beyond feasible repair, the Company, by notice to the Customer, may discontinue or suspend service without incurring any liability.

SECTION 2.0 - REGULATIONS, (CONT'D.)**2.5 Payment Arrangements, (Cont'd.)****2.5.6 Discontinuance of Service, (Cont'd.)**

- D.** Upon the Customer's insolvency, assignment for the benefit of creditors, filing for bankruptcy or reorganization, or failing to discharge an involuntary petition within the time permitted by law, the Company may immediately discontinue or suspend service without incurring any liability.
- E.** Upon any governmental prohibition or required alteration of the services to be provided or any violation of an applicable law or regulation, the Company may immediately discontinue service without incurring any liability.
- F.** In the event of fraudulent use of the Company's network, the Company will discontinue service without notice and/or seek legal recourse to recover all costs involved in enforcement of this provision.
- G.** Upon the Company's discontinuance of service to the Customer under Section 2.5.6 A. or 2.5.6 B., the Company, in addition to all other remedies that may be available to the Company at law or in equity or under any other provision of this tariff, may declare all future monthly and other charges that would have been payable by the Customer during the remainder of the term for which such services would have otherwise been provided to the Customer to be immediately due and payable (discounted to present value at six percent).
- H.** Without notice in the event of Customer use of equipment or services in such a manner as to adversely affect the Company's service to others.
- I.** Without notice in the event of tampering with the equipment or services furnished by the Company.

SECTION 2.0 - REGULATIONS, (CONT'D.)**2.5 Payment Arrangements, (Cont'd.)****2.5.7 Cancellation of Application for Service**

- A.** Applications for service cannot be canceled without the Company's agreement. Where the Company permits a Customer to cancel an application for service prior to the start of service or prior to any special construction, no charges will be imposed except for those specified below.
- B.** Where, prior to cancellation by the Customer, the Company incurs any expenses in installing the service or in preparing to install the service that it otherwise would not have incurred, a charge equal to the costs incurred by the Company, less net salvage, shall apply, but in no case shall this charge exceed the sum of the charge for the minimum period of services ordered, including installation charges, and all charges others levy against the Company that would have been chargeable to the Customer had service commenced (all discounted to present value at six percent).
- C.** Where the Company incurs any expense in connection with special construction, or where special arrangements of facilities or equipment have begun, before the Company receives a cancellation notice, a charge equal to the costs incurred by the Company, less net salvage, applies. In such cases, the charge will be based on such elements as the cost of the equipment, facilities, and material, the cost of installation, engineering, labor, and supervision, general and administrative expense, other disbursements, depreciation, maintenance, taxes, provision for return on investment, and any other costs associated with the special construction or arrangements.
- D.** The special charges described in 2.5.7 A. through 2.5.7 C. will be calculated and applied on a case-by-case basis.

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SECTION 2.0 - REGULATIONS, (CONT'D.)

2.5 Payment Arrangements, (Cont'd.)

2.5.8 Changes in Service Requested

If the Customer makes or requests material changes in circuit engineering, equipment specifications, service parameters, premises locations, or otherwise materially modifies any provision of the application for service, the Customer's installation fee shall be adjusted accordingly.

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SECTION 2.0 - REGULATIONS, (CONT'D.)**2.6 Allowances for Interruptions in Service**

Interruptions in service that are not due to the negligence of, or noncompliance with the provisions of this tariff by, the Customer or the operation or malfunction of the facilities, power or equipment provided by the Customer, will be credited to the Customer as set forth in 2.6.1 for the part of the service that the interruption affects.

2.6.1 General

- A.** A credit allowance will be given when service is interrupted, except as specified below. A service is interrupted when it becomes inoperative to the Customer, e.g., the Customer is unable to transmit or receive, because of a failure of a component furnished by the Company under this rate sheet.
- B.** An interruption period begins when the Customer reports a service, facility or circuit to be inoperative and, if necessary, releases it for testing and repair. An interruption period ends when the service, facility or circuit is operative.

SECTION 2.0 - REGULATIONS, (CONT'D.)**2.6 Allowances for Interruptions in Service, (Cont'd.)****2.6.1 General, (Cont'd.)**

- C.** If the Customer reports a service, facility or circuit to be interrupted but declines to release it for testing and repair, or refuses access to its premises for test and repair by the Company, the service, facility or circuit is considered to be impaired but not interrupted. No credit allowances will be made for a service, facility or circuit considered by the Company to be impaired.
- D.** The Customer shall be responsible for the payment of service charges as set forth herein for visits by the Company's agents or employees to the premises of the Customer when the service difficulty or trouble report results from the use of equipment or facilities provided by any party other than the Company, including but not limited to the Customer.

2.6.2 Limitations of Allowances

No credit allowance will be made for any interruption in service:

- A.** Due to the negligence of or noncompliance with the provisions of this rate sheet by any person or entity other than the Company, including but not limited to the Customer;
- B.** Due to the failure of power, equipment, systems, connections or services not provided by the Company;
- C.** Due to circumstances or causes beyond the reasonable control of the Company;
- D.** During any period in which the Company is not given full and free access to its facilities and equipment for the purposes of investigating and correcting interruptions;
- E.** A service will not be deemed to be interrupted if a Customer continues to voluntarily make use of the such service. If the service is interrupted, the Customer can get a service credit, use another means of communications provided by the Company (pursuant to Section 2.6.3), or utilize another service provider;

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SECTION 2.0 - REGULATIONS, (CONT'D.)**2.6 Allowances for Interruptions in Service, (Cont'd.)****2.6.2 Limitations of Allowances, (Cont'd.)**

- F. During any period when the Customer has released service to the Company for maintenance purposes or for implementation of a Customer order for a change in service arrangements;
- G. That occurs or continues due to the Customer's failure to authorize replacement of any element of special construction; and
- H. That was not reported to the Company within thirty (30) days of the date that service was affected.

2.6.3 Use of Another Means of Communications

If the Customer elects to use another means of communications during the period of interruption, the Customer must pay the charges for the alternative service used.

2.6.4 Application of Credits for Interruptions in Service

- A. Credits for interruptions in service that is provided and billed on a flat rate basis for a minimum period of at least one month, beginning on the date that billing becomes effective, shall in no event exceed an amount equivalent to the proportionate charge to the Customer for the period of service during which the event that gave rise to the claim for a credit occurred. A credit allowance is applied on a pro rata basis against the rates specified hereunder and is dependent upon the length of the interruption. Only those facilities on the interrupted portion of the circuit will receive a credit.
- B. For calculating credit allowances, every month is considered to have thirty (30) days.
- C. A credit allowance will be given for interruptions of thirty (30) minutes or more. Two or more interruptions of fifteen (15) minutes or more during any one 24-hour period shall be combined into one cumulative interruption.

SECTION 2.0 - REGULATIONS, (CONT'D.)**2.6 Allowances for Interruptions in Service, (Cont'd.)****2.6.4 Application of Credits for Interruptions in Service, (Cont'd.)****D. Interruptions of 24 Hours or Less**

Length of Interruption	Amount of Service To Be Credited
Less than 30 minutes	None
30 minutes up to but not including 3 hours	1/10 Day
3 hours up to but not including 6 hours	1/5 Day
6 hours up to but not including 9 hours	2/5 Day
9 hours up to but not including 12 hours	3/5 Day
12 hours up to but not including 15 hours	4/5 Day
15 hours up to but not including 24 hours	One Day

E. Interruptions Over 24 Hours and Less Than 72 Hours

Interruptions over 24 hours and less than 72 hours will be credited 1/5 day for each 3-hour period or fraction thereof. No more than one full day's credit will be allowed for any period of 24 hours.

F. Interruptions Over 72 Hours

Interruptions over 72 hours will be credited 2 days for each full 24-hour period. No more than thirty (30) days credit will be allowed for any one month period.

SECTION 2.0 - REGULATIONS, (CONT'D.)**2.6 Allowances for Interruptions in Service, (Cont'd.)****2.6.5 Cancellation For Service Interruption**

Cancellation or termination for service interruption is permitted only if any circuit experiences a single continuous outage of 8 hours or more or cumulative service credits equaling 16 hours in a continuous 12-month period. The right to cancel service under this provision applies only to the single circuit that has been subject to the outage or cumulative service credits.

2.7 Use of Customer's Service by Others**2.7.1 Joint Use Arrangements**

Joint use arrangements will be permitted for all services provided under this tariff. From each joint use arrangement, one member will be designated as the Customer responsible for the manner in which the joint use of the service will be allocated. The Company will accept orders to start, rearrange, relocate, or discontinue service only from the designated Customer. Without affecting the Customer's ultimate responsibility for payment of all charges for the service, each joint user shall be responsible for the payment of the charges billed to it.

SECTION 2.0 - REGULATIONS, (CONT'D.)**2.8 Cancellation of Service/Termination Liability**

If a Customer cancels a Service Order or terminates services before the completion of the term for any reason whatsoever other than a service interruption (as defined in Section 2.6.1 above), the Customer agrees to pay to the Company termination liability charges, as defined below. These charges shall become due as of the effective date of the cancellation or termination and be payable within the period, set forth in Section 2.5.2.

2.8.1 Termination Liability

The Customer's termination liability for cancellation of service shall be equal to:

- A. all unpaid Non-Recurring charges reasonably expended by the Company to establish service to the Customer; plus
- B. any disconnection, early cancellation or termination charges reasonably incurred and paid to third parties by the Company on behalf of the Customer; plus
- C. all Recurring Charges specified in the applicable Service Order Tariff for the balance of the then current term discounted at the prime rate announced in the Wall Street Journal on the third business day following the date of cancellation;
- D. minus a reasonable allowance for costs avoided by the Company as a direct result of the Customer's cancellation.

2.9 Transfers and Assignments

Neither the Company nor the Customer may assign or transfer its rights or duties in connection with the services and facilities provided by the Company without the written consent of the other party, except that the Company may assign its rights and duties:

- 2.9.1 to any subsidiary, parent company or affiliate of the Company; or
- 2.9.2 pursuant to any sale or transfer of substantially all the assets of the Company; or
- 2.9.3 pursuant to any financing, merger or reorganization of the Company.

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SECTION 2.0 - REGULATIONS, (CONT'D.)**2.10 Customer Liability for Unauthorized Use of the Network**

Unauthorized use of the network occurs when a person or entity that does not have actual, apparent, or implied authority to use the network, obtains the Company's services provided under this rate sheet.

2.10.1 Customer Liability for Fraud and Unauthorized Use of the Network

- A.** The Customer is liable for the unauthorized use of the network obtained through the fraudulent use of a Company calling card, if such a card is offered by the Company, or an accepted credit card, provided that the unauthorized use occurs before the Company has been notified.
- B.** A Company calling card is a telephone calling card issued by the Company at the Customer's request, which enables the Customer or user(s) authorized by the Customer to place calls over the Network and to have the charges for such calls billed to the Customer's account.

An accepted credit card is any credit card that a cardholder has requested or applied for and received, or has signed, used, or authorized another person to use to obtain credit. Any credit card issued as a renewal or substitute in accordance with this paragraph is an accepted credit card when received by the cardholder.

- C.** The Customer must give the Company written or oral notice that an unauthorized use of a Company calling card or an accepted credit card has occurred or may occur as a result of loss, and/or theft.
- D.** The Customer is responsible for payment of all charges for calling card services furnished to the Customer or to users authorized by the Customer to use service provided under this rate sheet, unless due to the negligence of the Company. This responsibility is not changed due to any use, misuse, or abuse of the Customer's service or Customer-provided equipment by third parties, the Customer's employees, or the public.

The liability of the Customer for unauthorized use of the Network by credit card fraud will not exceed the lesser of fifty dollars (\$50.00) or the amount of money, property, labor, or services obtained by the unauthorized user before notification to the Company.

SECTION 2.0 - REGULATIONS, (CONT'D.)**2.11 Notices and Communications**

- 2.11.1** The Customer shall designate on the Service Order an address to which the Company shall mail or deliver all notices and other communications, except that the Customer may also designate a separate address to which the Company's bills for service shall be mailed.
- 2.11.2** The Company shall designate on the Service Order an address to which the Customer shall mail or deliver all notices and other communications, except that Company may designate a separate address on each bill for service to which the Customer shall mail payment on that bill.
- 2.11.3** Except as otherwise stated in this tariff, all notices or other communications required to be given pursuant to this tariff will be in writing. Notices and other communications of either party, and all bills mailed by the Company, shall be presumed to have been delivered to the other party on the third business day following placement of the notice, communication or bill with the U.S. Mail or a private delivery service, prepaid and properly addressed, or when actually received or refused by the addressee, whichever occurs first.
- 2.11.4** The Company or the Customer shall advise the other party of any changes to the addresses designated for notices, other communications or billing, by following the procedures for giving notice set forth herein.

2.12 Taxes, Fees and Surcharges

The Company reserves the right to bill any and all applicable taxes, fees and surcharges in addition to normal rates and charges for services provided to the Customer. Taxes and fees include, but are not limited to: Federal Excise Tax, State Sales Tax, Municipal Tax, and Gross Receipts Tax. Unless otherwise specified in this tariff, such taxes, fees and surcharges are in addition to rates as quoted in this tariff and will be itemized separately on Customer invoices.

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SECTION 2.0 - REGULATIONS, (CONT'D.)**2.12 Taxes, Fees and Surcharges, (Cont'd.)****2.12.1 Arizona Universal Service Fund (AUSF)**

In addition to all other taxes and fees that are listed herein or passed through in the normal course of business (e.g. sales tax), the Company shall also add an amount to be collected to each bill for recovery of the Arizona Universal Service Fund (AUSF).

Towards the ultimate goal that basic service be available and affordable to all citizens of the state, the Arizona Corporation Commission has created support mechanisms to assist in the provision of such service in high-cost areas. Pursuant to Arizona Administrative Code, R14-2, Article 12, the Rule directs that the surcharge will be levied on all telecommunications service purchased by end-users.

The Arizona Universal Service Fund (AUSF) surcharge will be the amount set forth in the Arizona Administrative Code, R14-2, Article 12. The percentage and amounts set forth will be subject to periodic adjustment by the Company.

SECTION 2.0 - REGULATIONS, (CONT'D.)

2.13 Miscellaneous Provisions

2.13.1 Telephone Number Changes

Whenever any Customer's telephone number is changed after a directory is published, the Company shall intercept all calls to the former number for at least one hundred and twenty (120) days and give the calling party the new number provided existing central office equipment will permit, and the Customer so desires.

When service in an existing location is continued for a new Customer, the existing telephone number may be retained by the new Customer only if the former Customer consents in writing, and if all charges against the account are paid or assumed by the new Customer.

2.13.2 Maintenance and Operations Records

Records of various tests and inspections, to include non-routine corrective maintenance actions or monthly traffic analysis summaries for network administration, necessary for the purposes of the Company or to fulfill the requirements of Commission rules shall be kept on file in the office of the Company as required under Commission rules.

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SECTION 2.0 - REGULATIONS, (CONT'D.)**2.14 Customer Responsibility****A. Cancellation by Customer**

Customers may cancel service verbally or in writing. The company shall hold the Customer responsible for payment of all charges, including fixed fees, surcharges, etc., which accrue up to the cancellation date. Customers that cancel the primary local exchange line will have the entire Account disconnected, including any secondary line and all associated features. In the event the Customer executes a term commitment agreement with the Company, the Customer must cancel service and terminate the agreement in accordance with the agreement terms.

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SECTION 3.0 - SERVICE AREAS

3.1 Exchange Service Areas

Local exchange services are provided, subject to availability of facilities and equipment, in areas currently served by the following Incumbent LECs: 1) Qwest, Inc.

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SECTION 4.0 - BASIC SERVICES AND RATES

4.1 Call Timing for Usage Sensitive Services

Where charges for a service are specified based on the duration of use, such as the duration of a telephone call, the following rules apply:

- 4.1.1 Calls are measured in durational increments identified for each service. All calls which are fractions of a measurement increment are rounded-up to the next whole unit.
- 4.1.2 Timing on completed calls begins when the call is answered by the called party. Answering is determined by hardware answer supervision in all cases where this signaling is provided by the terminating local carrier and any intermediate carrier(s).
- 4.1.3 Timing terminates on all calls when the calling party hangs up or the Company's network receives an off-hook signal from the terminating carrier.

4.2 Reserved for Future Use

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SECTION 4.0 - BASIC SERVICES AND RATES, (CONT'D.)**4.3 Network Exchange Bundled Service****4.3.1 General**

Crexendo offers basic local exchange service only as part of a bundle or package of telecommunications services. All packages include local service, long distance service (interstate and intrastate toll) and selected custom calling features. Voice Mail and Optional Internet access 1 may be available with some packages at an additional charge. The aforementioned services are only available as part of the bundled service offering and are not available on an individual service basis. Customers will be billed directly by the Company.

The Company provides Customers with the option of obtaining a Primary Line and Secondary Line per account:

A. Primary Line

The initial residential local exchange access line per account.

B. Secondary Line

The second or additional residential local exchange access line, billed to the same address as the Primary Line, the Secondary Line will share the monthly call allowance with the Primary Line. The Secondary Line does not automatically include or share any Custom Calling Features. Feature packages may be purchased separately.

Should a Customer with both lines opt to disconnect the Primary Line, the remaining Secondary Line will automatically convert to a Primary Line with all features and functionality of such, and at the Primary Line monthly recurring rate.

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SECTION 4.0 - BASIC SERVICES AND RATES, (CONT'D.)**4.3 Network Exchange Bundled Service, (Cont'd.)****4.3.1 General, (Cont'd.)**

Network Exchange Bundled Service may include the calling features listed below:

These features are offered subject to availability of suitable facilities. Certain features may not be available with all classes of services.

Call Forwarding - Fixed, Busy Line No Answer - This feature, when activated, redirects attempted terminating calls to another Customer-specified line. Call originating ability is not affected by Call Forwarding - Fixed, Busy Line No Answer. The calling party is billed for the call to the called number. If the forwarded leg of the call is chargeable, the Customer with the Call Forwarding - Fixed, Busy Line No Answer is billed for the forwarded leg of the call. Calls cannot be transferred to an International Direct Distance Dialing number.

Caller ID with Name - Allows a Customer to see a caller's name and number previewed on a display screen before the call is answered allowing a Customer to prioritize and or screen incoming calls. Caller ID records the name, number, date and time of each incoming call - including calls that aren't answered by the Customer. Caller ID service requires the use of specialized CPE not provided by the company. It is the responsibility of the Customer to provide the necessary CPE. In areas where Caller ID with Name is not available, Caller ID, which only displays the incoming telephone number, will be substituted.

SECTION 4.0 - BASIC SERVICES AND RATES, (CONT'D.)**4.3 Network Exchange Bundled Service, (Cont'd.)****4.3.1 General, (Cont'd.)**

Network Exchange Bundled Service may include the calling features listed below, (cont'd.):

Call Forwarding - Variable - a Customer activated feature that automatically transfers all incoming calls from the Customer's telephone number to another dialable telephone number until the Customer deactivates the feature. If forwarded to a long distance number the Subscriber will incur the long distance charges.

Call Forwarding with Remote Activation- This service allows Customers who subscribe to Call Forward to access, activate, or deactivate Call Forward from a remote location using a touchtone telephone. If forwarded to a long distance number the Subscriber will incur the long distance charges.

Call Trace - Allows a called party to initiate an automatic trace of the last call received. Call Trace is available on a usage basis only. After receiving the call which is to be traced, the Customer dials a code and the traced telephone number is automatically sent to the Company for action. The Customer originating the trace will not receive the traced telephone number. The results of the trace will be furnished only to legally constituted law enforcement agencies or authorities upon proper request by them.

Call Blocking- Call Blocking allows Customer to block calls from different telephone numbers. A screening list is created by Customer either by adding the last number associated with the line (incoming or outgoing) or by pre-selecting the telephone number to be blocked. Callers from such numbers hear an announcement that the calling party is not accepting calls and Customer's phone will not ring. The screening list may be edited and revised at Customer's discretion.

SECTION 4.0 - BASIC SERVICES AND RATES, (CONT'D.)**4.3 Network Exchange Bundled Service, (Cont'd.)****4.3.1 General, (Cont'd.)**

Network Exchange Bundled Service may include the calling features listed below, (cont'd.):

Caller ID Per Line Blocking- Allows a Customer to prevent the transmission and display of their directory number and/or directory name information on outgoing calls. Line Blocking is in operation on a continuous basis and is applicable on all outgoing calls from Customer's blocked line. Line Blocking does not prevent transmission of the calling party information to emergency services that utilize automatic number identification for delivery of the calling information.

VIP Alert - Allows a customer to program telephone numbers of selected callers, enabling the customer to distinguish certain incoming calls from all others by a distinctive ring tone.

Privacy Service- A feature which intercepts calls that are marked "private" and "out of area," or "unavailable" on Caller ID units. When unidentified callers dial the Subscriber's number, they will receive an announcement informing them that the party they are calling does not accept calls from unidentified callers. They will receive a prompt to identify their name or state their intention and the service will then attempt to connect the call. Only if the caller responds will the call be connected.

The Subscriber's Caller ID will display the platform number and the name of the service. If the Subscriber chooses not to take the call the caller will hear a message which states the Subscriber is unavailable.

Privacy Service is offered subject to availability of suitable facilities. This service will be provisioned on a line-by-line basis and Customers with more than one line would need to have the service activated on each line if they want the ability to intercept unknown and blocked calls to each line.

SECTION 4.0 - BASIC SERVICES AND RATES, (CONT'D.)**4.3 Network Exchange Bundled Service, (Cont'd.)****4.3.1 General, (Cont'd.)**

Call Waiting with Caller ID with Name - Call Waiting with Caller ID with Name provides a tone signal to indicate to a Customer already engaged in a telephone call that a second caller is attempting to dial in and allows a Customer to see a caller's name and number previewed on a display screen allowing a Customer to prioritize and or screen incoming calls. This feature permits the Customer to place the first call on hold, answer the second call and then alternate between both callers. Cancel Call Waiting (CCW) allows a Call Waiting (CW) Customer to disable CW for the duration of an outgoing telephone call. CCW is activated (i.e., CW is disabled) by dialing a special code prior to placing a call, and is automatically deactivated when the Customer disconnects from the call. In areas where Caller ID with Name is not available, Caller ID, which only displays the callers telephone number, will be substituted.

Speed Calling - This feature allows a user to dial selected numbers by means of an abbreviated code. This feature is available in either an 8 number or a 30 number capacity. The Speed Calling list can only accommodate a number consisting of 15 digits or less.

Three Way Calling - Permits the Customer to add a third party to an established connection. When the third party answers, a two-way conversation can be held before adding the original party for a three-way conference. The Customer initiating the conference controls the call and may disconnect the third party to reestablish the original connection or establish a connection to a different third party. The feature may be used on both outgoing and incoming.

SECTION 4.0 - BASIC SERVICES AND RATES, (CONT'D.)**4.3 Network Exchange Bundled Service, (Cont'd.)****4.3.2 Arizona Home Edition - Standard Service**

Arizona Home Edition is a package of features available to residential customers in conjunction with an individual flat rate or additional flat rate access line. Residence customers are entitled to choose three services/features from the following list in their package.

- Anonymous Call Rejection
- Caller ID – Name and Number
- Call Forwarding Busy Line/Don't Answer
- Call Forwarding
- Call Forwarding Variable
- Selective Call Forwarding
- Call Rejection
- Call Waiting
- Call Waiting ID
- Selective Call Waiting
- Custom Ringing (first Custom Ringing number only)
- Directory Assistance (6 calls above allowance)
- Last Call Return
- Message Waiting Indication – Audible or Audible/Visual
- Three-Way Calling

All terms and conditions specified elsewhere for the respective services/features requested as part of this package shall apply.

- a. A customer may choose one or more of the features in the Caller ID Family as one of their selections
- b. A customer may choose Call Waiting, Call Waiting ID or Selective Call Waiting from the Call Waiting Family as one of their selections.
- c. A customer choosing Caller ID - Name and Number will automatically be provided with Anonymous Call Rejection.
- d. All services or features selected in the package can only be provided where technically available and compatible with other features the customer may choose to order.

SECTION 4.0 - BASIC SERVICES AND RATES, (CONT'D.)

4.3 Network Exchange Bundled Service, (Cont'd.)

4.3.2 Arizona Home Edition - Standard Service, (Cont'd.)

Rates

Arizona Home Edition will be provided at the following rates:

	MAXIMUM MONTHLY RATE
• Per individual flat rate residence line with three features	\$25.00
• Per additional flat rate residence line with three features	30.00

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SECTION 4.0 - BASIC SERVICES AND RATES, (CONT'D.)**4.3 Network Exchange Bundled Service, (Cont'd.)****4.3.3 Arizona Home Edition - Deluxe Service**

Arizona Home – Deluxe Edition is a package of features available to residential customers in conjunction with an individual flat rate or additional flat rate access line. Residence customers subscribing to the package are entitled to unlimited use of the services/features specified below:

- Anonymous Call Rejection
- Caller ID – Name and Number
- Call Forwarding Busy Line/Don't Answer
- Call Forwarding
- Call Forwarding Variable
- Selective Call Forwarding
- Call Rejection
- Call Waiting
- Call Waiting ID
- Selective Call Waiting
- Custom Ringing (first Custom Ringing number only)
- Directory Assistance (6 calls above allowance)
- Last Call Return
- Message Waiting Indication – Audible or Audible/Visual
- Three-Way Calling

All terms and conditions specified elsewhere for the respective services/features requested as part of this package shall apply.

- a. A customer may choose one or more of the features in the Caller ID Family as one of their selections
- b. A customer may choose Call Waiting, Call Waiting ID or Selective Call Waiting from the Call Waiting Family as one of their selections.
- c. A customer choosing Caller ID - Name and Number will automatically be provided with Anonymous Call Rejection.
- d. All services or features selected in the package can only be provided where technically available and compatible with other features the customer may choose to order.

SECTION 4.0 - BASIC SERVICES AND RATES, (CONT'D.)**4.3 Network Exchange Bundled Service, (Cont'd.)****4.3.3 Arizona Home Edition - Deluxe Service, (Cont'd.)**

Rates

Arizona Home Edition -- Deluxe Service will be provided at the following rates:

	MAXIMUM MONTHLY RATE
• Per individual flat rate residence line with three features	\$40.00
• Per additional flat rate residence line with three features	40.00

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4.3 Network Exchange Bundled Service, (Cont'd.)

4.3.3 RESERVED FOR FUTURE USE

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SECTION 4.0 - BASIC SERVICES AND RATES, (CONT'D.)

4.3 Network Exchange Bundled Service, (Cont'd.)

4.3.4 Arizona Home Edition - Deluxe Service

Package Price for Deluxe Service

	Maximum
Primary Line, per month	\$130.00
Secondary Line, per month	\$100.00
Service Connection Fee, one time charge per line *	
Primary Line	\$130.00
Secondary Line	\$100.00

* Service Connection fee waived for those customers who meet the Company's enrollment criteria and who retain their existing telephone number when switching their service to Crexendo.

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4.3 Network Exchange Bundled Service, (Cont'd.)

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SECTION 4.0 - BASIC SERVICES AND RATES, (CONT'D.)

4.3 Network Exchange Bundled Service, (Cont'd.)

4.3.5 Business A La Carte Service

Business A La Carte service is targeted at small business Customers and provides options based on the Customers calling patterns and estimated usage. Customers who subscribe to this service must designate Crexendo as the presubscribed carrier for local calling concurrent with enrollment for this service. Business A La Carte provides Customers with the option of selecting Crexendo for toll services.

A. Local Exchange Service

.1 Local Access Line	Maximum
Local Business Line	
Monthly Rate	\$120.00
Service Connection Fee, one-time charge per line ¹	
Per Line	\$200.00
.2 PBX	
	Maximum
Monthly Rate	\$120.00
Service Connection Fee, one-time charge per line ¹	
Per Line	\$200.00

¹ Service Connection fee is waived for those customers who retain their existing telephone number when switching their service to Crexendo. The charge will apply if additional lines are transferred to Crexendo after the initial order.

SECTION 4.0 - BASIC SERVICES AND RATES, (CONT'D.)

4.3 Network Exchange Bundled Service, (Cont'd.)

4.3.5 Business A La Carte Service, (Cont'd.)

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4.3 Network Exchange Bundled Service, (Cont'd.)

4.3.5 Business A La Carte Service, (Cont'd.)

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4.3 Network Exchange Bundled Service, (Cont'd.)

4.3.5 Business A La Carte Service, (Cont'd.)

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SECTION 4.0 - BASIC SERVICES AND RATES, (CONT'D.)**4.3 Network Exchange Bundled Service, (Cont'd.)****4.3.5 Business A La Carte Service, (Cont'd.)****E Custom/Optional Calling Features**

Business A La Carte may include the calling features listed below:

Call Forwarding - Call Forwarding, when activated, redirects attempted terminating calls to another Customer-specific line. The Customer may have to activate and deactivate the forwarding function and specify the desired terminating telephone number during each activation procedure. Call originating ability is not affected by Call Forwarding. The calling party is billed for the call to the called number. If the forwarded leg of the call is chargeable, the Customer with the Call Forwarding is billed for the forwarded leg of the call. Calls cannot be transferred to an International Direct Distance Dialing number.

Speed Calling - This feature allows a user to dial selected numbers by means of an abbreviated code. This feature is available in an 8 number capacity. The Speed Calling list can only accommodate a number consisting of 15 digits or less.

Caller ID - Allows a Customer to see a caller's telephone number previewed on a display screen before the call is answered allowing a Customer to prioritize and or screen incoming calls. Caller ID records the number, date and time of each incoming call - including calls that aren't answered by the Customer. Caller ID service requires the use of specialized CPE not provided by the company. It is the responsibility of the Customer to provide the necessary CPE.

Call Waiting - Call Waiting provides a tone signal to indicate to a Customer already engaged in a telephone call that a second caller is attempting to dial in. This feature permits the Customer to place the first call on hold, answer the second call and then alternate between both callers. Cancel Call Waiting (CCW) allows a Call Waiting (CW) Customer to disable CW for the duration of an outgoing telephone call. CCW is activated (i.e., CW is disabled) by dialing a special code prior to placing a call, and is automatically deactivated when the Customer disconnects from the call. Customers must actively choose this feature on a line-by-line basis. Call Waiting is not available on lines enabled for Rotary Hunting.

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Three Way Calling - Permits the Customer to add a third party to an established connection. When the third party answers, a two-way conversation can be held before adding the original party for a three-way conference. The Customer initiating the conference controls the call and may disconnect the third party to reestablish the original connection or establish a connection to a different third party. The feature may be used on both outgoing and incoming.

Hunting - Routes a call to an idle station line in a prearranged group when the called station line is busy. This feature is available at no charge but must be requested by the Customer.

a. Maximum rates

.1	Monthly Rates, per Feature:	\$15.00
.2	Monthly Rate, Feature Pack, (3 or more features):	\$45.00

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SECTION 4.0 - BASIC SERVICES AND RATES, (CONT'D.)**4.3 Network Exchange Bundled Service, (Cont'd.)****4.3.6 Arizona Business Edition - Standard Service**

Business Edition - Standard is a package of features available to business customers in conjunction with an individual flat rate or additional flat rate access line. Business customers subscribing to the package are entitled to choose three services/features from the following list in their package.

- Anonymous Call Rejection
- Caller ID - Name and Number
- Call Forwarding Busy Line
- Call Forwarding Busy Line/Don't Answer
- Call Forwarding Don't Answer
- Call Forwarding Variable
- Remote Access Forwarding
- Call Transfer
- Call Waiting
- Call Waiting ID
- Selective Call Waiting
- Custom Ringing
- Directory Assistance (6 calls above allowance)
- Last Call Return
- Message Waiting Indication -- Audible or Audible/Visual
- Three-Way Calling

Terms and Conditions

- a. All terms and conditions specified elsewhere for the respective services/features requested as part of this package shall apply.
- b. A customer choosing Caller ID - Name and Number will automatically be provided with Anonymous Call Rejection.
- c. A customer may choose one or more compatible features in the Call Forwarding Family as one of their selections.
- d. A customer may choose Call Waiting, Call Waiting ID or Selective Call Waiting from the Call Waiting Family as one of their selections. They may add Long Distance Alert as part of that selection.

SECTION 4.0 - BASIC SERVICES AND RATES, (CONT'D.)

4.3 Network Exchange Bundled Service, (Cont'd.)

4.3.6 Arizona Business Edition - Standard Service, (Cont'd.)

Terms and Conditions, (Cont'd.)

- e. A customer who chooses Voice Messaging Service will also be provided with Call Forwarding Busy Line/Don't Answer, Easy Access and Message Waiting Indication as part of their Voice Messaging Service selection. A customer who wishes to use another provider's Voice Messaging Service will be provided with Call Forwarding Busy Line/Don't Answer, Easy Access and Message Waiting Indication and it will not be counted as one of their three selections of features/services.
- f. All services or features selected in the package can only be provided where technically available and compatible with other features the customer may choose to order.
- g. Customers selecting Directory Assistance may make six calls above the allowance to the Company's 411 service.

Rates and Charges

- a. The monthly rate that follows includes a business individual flat rate or additional flat rate line as specified in 4.3.5A, preceding. Where applicable, incremental charges, apply.
- b. Normal nonrecurring charges associated with the line as specified in 4.3.5, preceding, apply where the Company's Business is provided in association with the installation of a new business individual or additional flat rate line or the move of a business individual or additional flat rate line from one location to another.
- c. Any mandated charges or special surcharges, e.g., 911, TDD, EUCL, Telephone Assistance Plan, will apply to Add-A-Line under the same terms as a flat rate business line.
- d. Arizona Business Edition - Standard Service will be provided at the following rate:

	MAXIMUM MONTHLY RATE
Per individual or additional flat rate business line	\$75.00

SECTION 4.0 - BASIC SERVICES AND RATES, (CONT'D.)**4.3 Network Exchange Bundled Service, (Cont'd.)****4.3.7 Arizona Business Edition - Deluxe Service**

Business Edition - Deluxe is a package of features available to business customers in conjunction with an individual flat rate or additional flat rate access line. Business customers subscribing to the package are entitled to unlimited use of the services/features specified below:

- Anonymous Call Rejection
- Caller ID - Name and Number
- Call Forwarding Busy Line
- Call Forwarding Busy Line/Don't Answer
- Call Forwarding Don't Answer
- Call Forwarding Variable
- Remote Access Forwarding
- Call Transfer
- Call Waiting
- Call Waiting ID
- Selective Call Waiting
- Custom Ringing
- Directory Assistance (6 calls above allowance)
- Last Call Return
- Message Waiting Indication – Audible or Audible/Visual
- Three-Way Calling

Terms and Conditions

- a. All terms and conditions specified elsewhere for the respective services/features requested as part of this package shall apply.
- b. A customer choosing Caller ID - Name and Number will automatically be provided with Anonymous Call Rejection.
- c. A customer may choose one or more compatible features in the Call Forwarding Family as one of their selections.

SECTION 4.0 - BASIC SERVICES AND RATES, (CONT'D.)

4.3 Network Exchange Bundled Service, (Cont'd.)

4.3.7 Arizona Business Edition - Deluxe Service, (Cont'd)

Terms and Conditions, (Cont'd.)

- d. A customer may choose Call Waiting, Call Waiting ID or Selective Call Waiting from the Call Waiting Family as one of their selections. They may add Long Distance Alert as part of that selection.
- e. A customer who chooses Voice Messaging Service will also be provided with Call Forwarding Busy Line/Don't Answer, Easy Access and Message Waiting Indication as part of their Voice Messaging Service selection. A customer who wishes to use another provider's Voice Messaging Service will be provided with Call Forwarding Busy Line/Don't Answer, Easy Access and Message Waiting Indication and it will not be counted as one of their three selections of features/services.
- f. All services or features selected in the package can only be provided where technically available and compatible with other features the customer may choose to order.
- g. Customers selecting Directory Assistance may make six calls above the allowance to the Company's 411 service.

Rates and Charges

- a. The monthly rate that follows includes a business individual flat rate or additional flat rate line as specified in 4.3.5A, preceding. Where applicable, incremental charges, apply.
- b. Normal nonrecurring charges associated with the line as specified in 4.3.5, preceding, apply where the Company's Business is provided in association with the installation of a new business individual or additional flat rate line or the move of a business individual or additional flat rate line from one location to another.
- c. Any mandated charges or special surcharges, e.g., 911, TDD, EUCL, Telephone Assistance Plan, will apply to Add-A-Line under the same terms as a flat rate business line.
- d. Arizona Business Edition - Deluxe will be provided at the following rate:

	MAXIMUM MONTHLY RATE
Per individual or additional flat rate business line	\$100.00

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SECTION 5.0 - MISCELLANEOUS SERVICES AND RATES
5.1 Service Order and Change Charges

Non-recurring charges apply to processing Service Orders for new service and for changes in service.

5.1.1 Service Order Charges

	Maximum Rates	
	Residence	Business
Primary and Secondary Service Connection Charge	\$50.00	\$80.00
Transfer of Service Charge, Primary Line	\$110.00	\$130.00
Transfer of Service Charge, Secondary Line	\$110.00	\$130.00
Technician Dispatch Charge (or Trouble Isolation Charge)	\$160.00	\$160.00
Service Order Charge	\$30.00	\$30.00
Premises Visit Charge, first 15 minutes	80.00	80.00
Premises Visit Charge, add'l 15 minutes	60.00	60.00

5.1.2 Change Order Charges:

Telephone Number Change Order	\$20.00	\$55.00
Feature or Feature Pack Change Order	\$20.00	\$55.00
Toll Restriction Fee Order	\$20.00	\$55.00
Listing Change Charge	\$20.00	\$55.00
Home Edition Change Charge	\$20.00	\$55.00

5.1.3 Record Change Charges

Record Order Charge	15.00	45.00
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5.1.4 Miscellaneous Charges

Duplicate Invoice	\$25.00	\$25.00
Call Detail Report	\$25.00	\$25.00

Service Connection Fees are listed with the rates for the specific service tariffed.

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SECTION 5.0 - MISCELLANEOUS SERVICES AND RATES, (CONT'D.)**5.1 Service Order and Change Charges, (Cont'd.)****5.1.5 Service Order Charges – Definitions**

Primary Service Connection Charge - applies to requests for initial connection or establishment of telephone service to the Company.

Secondary Service Connection Charge - applies to the second or additional line of a new access line installation and connection and customer requests for an inside move, change or addition to regular service. This charge applies only when the second or additional line is ordered simultaneously with the initial connection for service.

Transfer of Service Charge, Primary Line - applies to the first line of a Transfer of Service Order, (TOS) when a customer requests a move or change in physical location. This charge applies whether a customer changes telephone number or not. If, in addition, the Customer requests the telephone number be changed, a separate charge may apply.

Transfer of Service Charge, Secondary Line - applies to the second, or third, etc., line of a Transfer of Service Order, (TOS) when a customer requests a move or change in physical location. This charge applies whether a customer changes telephone number or not. If, in addition, the Customer requests the telephone number be changed, a separate charge may apply.

Technician Dispatch (or Trouble Isolation) Charge - A separate Technician Dispatch Charge (or Trouble Isolation Charge) applies, in addition to all other charges for the visit, when a visit to the Customer's premises is necessary to isolate a problem reported to the Company but identified by the Company's technician as attributable to Customer-provided equipment or inside wire. This charge also applies for visits by the Company's agents or employees, at the Customer's request, to the Premises of the Customer, when the Customer fails to meet the Company's agent or employees for the prearranged appointment as requested.

Service Order Charge - This charge, applicable to Business Customers only, applies to customer-requested changes in service not covered specifically on other identified non-recurring service order and change charges. This charge is applied in cases where Hunting is added after the initial order is placed.

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SECTION 5.0 - MISCELLANEOUS SERVICES AND RATES, (CONT'D.)**5.1 Service Order and Change Charges, (Cont'd.)****5.1.6 Change Order Charges – Definitions**

Change Order Charges apply to work associated with providing exchange line service or customer-requested changes to existing services. One charge applies for each change order requested by the customer. If multiple changes listed below are requested by the Customer and occur on the same order/request one charge only applies. A Change Order Service Charge applies to the following customer-initiated changes:

Feature or Feature Pack Change Order - applies when a customer requests a change, adding or removing a feature or feature pack.

Toll Restriction Fee Order - applies when a Customer requests a change, adding or removing Toll Restriction Service.

Telephone Number Change Order - applies to each telephone number change request/order.

Long Distance Minutes Pack Change Order - applies to residential Customers who request/order a change to add or delete an LD Minutes Pack.

Listing Change Charge - applies when a Customer requests/orders a change to add or delete a white pages listing or requests a change to add/delete listings. This charge also applies to request for Non-Published or Non-Listed numbers.

Home Edition Change Charge - applies when a residential Customer requests/orders a change in service from Home Edition- Basic Service to Home Edition- Standard Service or from Home Edition - Standard Service to Home Edition - Basic Service.

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SECTION 5.0 - MISCELLANEOUS SERVICES AND RATES, (CONT'D.)

5.1 Service Order and Change Charges, (Cont'd.)

5.1.7 Record Change Charges – Definitions

A Record Change charge applies when a Customer requests/orders a change to Company records such as adding/changing a name on said Customer's account, changing billing address or contact information, adding/changing the person(s) authorized to make changes on said Customer's account.

5.1.8 Miscellaneous Charges – Definitions

Duplicate Invoice - applies each time a Customer requests an additional copy of a current bill or invoice.

Call Detail Report - applies each time a Customer requests local call detail for a given month.

SECTION 5.0 - MISCELLANEOUS SERVICES AND RATES, (CONT'D.)

5.2 Reserved For Future Use

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SECTION 5.0 - MISCELLANEOUS SERVICES AND RATES, (CONT'D.)**5.3 Restoration of Service**

A restoration charge applies to the restoration of suspended service and facilities because of nonpayment of bills and is payable at the time that the restoration of the suspended service and facilities is arranged. The restoration charge does not apply when, after disconnection of service, service is later re-installed.

	Maximum Rates	
	Residence	Business
Per occasion, per line	\$50.00	\$110.00

5.4 Temporary Suspension/Restoration of Service

Upon the request of the customer, service may be temporarily suspended. Suspension of service may begin or terminate on any day of the month provided notice is given sufficiently in advance for arrangements to be made. Service will be disconnected to the extent necessary to assure that no inward or outward service will be available during the period of suspension.

	Maximum Rates	
	Residence	Business
Nonrecurring charge, per line suspended	\$20.00	\$55.00
Recurring charge, per line suspended	50% of regular service rates	
Nonrecurring charge, per line restored	\$20.00	\$55.00

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SECTION 5.0 - MISCELLANEOUS SERVICES AND RATES, (CONT'D.)**5.5 Public Telephone Surcharge**

In order to recover the Company's expenses to comply with the FCC's pay telephone compensation plan effective on October 7, 1997 (FCC 97-371), an undiscountable per call charge is applicable to all intrastate calls that originate from any pay telephone, not presubscribed to the Company, used to access Company provided services. This surcharge, which is in addition to standard tariffed usage charges and any applicable service charges and surcharges associated with service, applies for the use of the instrument used to access Company provided service and is unrelated to the service accessed from the pay telephone.

Pay telephones include coin-operated and coinless phones owned by local telephone companies, independent companies and interexchange carriers. The Public Pay Telephone Surcharge applies to the initial completed call and any reoriginated call. The Public Pay Telephone Surcharge does not apply to calls placed from pay telephones at which the Customer pays for service by inserting coins during the progress of the call.

Whenever possible, the Public Pay Telephone Surcharge will appear on the same invoice containing the usage charges for the surcharged call. In cases where proper pay telephone coding digits are not transmitted to the Company prior to completion of a call, the Public Pay Telephone Surcharge may be billed on a subsequent invoice after the Company has obtained information from a carrier that the originating station is an eligible pay telephone.

Maximum Rate Per Call: \$.60

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SECTION 5.0 - MISCELLANEOUS SERVICES AND RATES, (CONT'D.)**5.6 Optional Calling Features**

The features in this section are made available to Residential and Business Customers on a per use basis. All features are provided subject to availability. Customers may utilize each feature by dialing the appropriate access code. The Customer will be billed the per feature activation charge shown in the table below each time a feature is used by the Customer. Transmission levels for calls forwarded or calls placed or received using optional calling features may not be acceptable for all some uses in some cases.

5.6.1 Feature Descriptions

Return Call: Allows a Customer to return the most recent incoming call and, after dialing a code, hear an announcement of the last telephone number that called. If the Customer wishes to return the call right away, voice prompts will instruct the Customer to dial a certain digit and the call will automatically be returned.

Call Trace: Allows a Customer to initiate an automatic trace of the last call received. After receiving the call which is to be traced, the Customer dials a code and the traced telephone number is automatically sent to the Company. The Customer using Call Trace is required to contact the Company for further action. The Customer originating the trace will not receive the traced telephone number. The results of a trace will be furnished only to legally constituted authorities upon proper request by them.

Repeat Dialing: Permits the Customer to redial automatically the last number dialed.

Three Way Calling: permits the Customer to add a third party to an established connection. When the third party answers, a two-way conversation can be held before adding the original party for a three-way conference. The Customer initiating the conference controls the call and may disconnect the third party to reestablish the original connection or establish a connection to a different third party. The feature may be used on both outgoing and incoming.

SECTION 5.0 - MISCELLANEOUS SERVICES AND RATES, (CONT'D.)**5.6 Optional Calling Features, (Cont'd.)****5.6.1 Feature Descriptions, (Cont'd.)**

Caller Identification Blocking: Allows the name and number of the calling party to be blocked from being transmitted when placing outbound calls.

Per Call Blocking: To activate per-call blocking, a Customer dials a special code prior to placing a call. Blocking will be activated for that outgoing call only. There is no charge for using per call blocking, and it is provided on an unlimited basis.

Per Line Blocking: When blocking is established on the line, it can be deactivated by dialing a code before each call. This one call unblock allows the name and/or number to be sent for that one call only. Customers who choose per line blocking for the first time will not be charged the nonrecurring charge. After the first time, customers requesting per line blocking will pay a nonrecurring charge for each line equipped with per line blocking. Per line blocking will be provided free to law enforcement and domestic violence agencies and individual victims of domestic violence upon request.

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SECTION 5.0 - MISCELLANEOUS SERVICES AND RATES, (CONT'D.)

5.6 Optional Calling Features, (Cont'd.)

5.6.2 Maximum Rates

FEATURE	Residential	Business
	Monthly Maximum	Monthly Maximum
Speed Calling		
8 Number	12.00	12.00
30 Number	12.00	12.00
Call Forwarding		
Variable	12.00	12.00
Busy Line (Expanded)	12.00	12.00
Busy Line (Overflow)	12.00	12.00
Busy Line (Programmable)	12.00	12.00
Don't Answer	12.00	12.00
Don't Answer (Expanded)	12.00	12.00
Don't Answer (Programmable)	12.00	12.00
Busy Line/Don't Answer	12.00	12.00
Busy Line (External)/DA	12.00	12.00
Call Rejection	12.00	12.00
Call Waiting	12.00	12.00
Call Transfer	12.00	12.00
Caller ID		
Name and Number	12.00	12.00
Number	12.00	12.00
Continuous Redial	12.00	12.00
Distinctive Alert	12.00	12.00
Hot Line	12.00	12.00
Priority Call	12.00	12.00
Remote Access Forwarding	12.00	12.00
Selective Call Forwarding	12.00	12.00

FEATURE	Residential		Business	
	Per Use	Monthly Maximum	Per Use	Monthly Maximum
Call Tracing - per use	\$4.00	\$12.00	\$4.00	\$12.00
Repeat Call (*66) - per use	\$1.50	\$12.00	\$1.50	\$12.00
Return Call (*69) - per use	\$1.50	\$12.00	\$1.50	\$12.00
Three Way Calling - per use	\$1.50	\$12.00	\$1.50	\$12.00

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SECTION 5.0 - MISCELLANEOUS SERVICES AND RATES, (CONT'D.)

5.7 Directory Assistance Services

A Customer may obtain assistance, for a charge, in determining a telephone number by dialing Directory Assistance Service. A Customer can also receive assistance by writing the Company with a list of names and addresses for which telephone numbers are desired.

5.7.1 Basic Directory Assistance

The rates specified following apply when Customers request company assistance in determining telephone numbers of Customers who are located in the same local service area or who are not located in the same local service area but who are located within the same NPA.

There are no call allowances for Directory Assistance.

Charges will not apply for calls placed from hospital services or calls placed from telephones where the Customer or, in the case of residence service, a member of the Customer's household, has been affirmed in writing as unable to use a Company provided directory because of a visual, physical or reading handicap.

SECTION 5.0 - MISCELLANEOUS SERVICES AND RATES, (CONT'D.)**5.7 Directory Assistance Services, (Cont'd.)****5.7.2 Directory Assistance Call Completion**

Directory Assistance Call Completion (DACC) is a service that provides customers the option of having their local or intraLATA calls automatically completed when they request a telephone listing from the Directory Assistance operator. The call may be completed automatically or by the Directory Assistance operator.

The DACC portion of the call may either be billed in the same manner as the DA portion or alternately billed by using a calling card, billing to a third number, or collect. All operator-handled charges, as specified in 5.8, apply as appropriate.

There are no allowances for DACC, however, the Directory Assistance portion of the call is still governed by the appropriate call allowance as stated in Section 5.7.1.

For local and intraLATA calls, charges for DACC service are not applicable to calls placed by those customers with reading, visual, or physical handicaps.

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SECTION 5.0 - MISCELLANEOUS SERVICES AND RATES, (CONT'D.)

5.7 Directory Assistance Services, (Cont'd.)

5.7.3 National Directory Assistance Service

National Directory Assistance Service is provided to customers of the Company for the purpose of requesting telephone numbers of individuals or businesses who are located outside the customer's local Directory Assistance service area.

There are no call allowances or exemptions for National Directory Assistance.

A maximum of two(2) requested telephone numbers are allowed per call.

This service may be alternately billed by using a calling card, billing to a third number, or collect. Operator-handled charges, as specified in 5.8, apply as appropriate.

SECTION 5.0 - MISCELLANEOUS SERVICES AND RATES, (CONT'D.)**5.7 Directory Assistance Services, (Cont'd.)****5.7.4 Maximum Rates****A. Basic Directory Assistance**

Local Directory Assistance	<u>Per query</u>
Direct dialed (in excess of allowance)	\$2.00
Via operator (no allowance)	\$3.00

B. Directory Assistance Call Completion

Per completed call	\$1.00
--------------------	--------

C. National Directory Assistance

Direct dialed	\$2.00
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SECTION 5.0 - MISCELLANEOUS SERVICES AND RATES, (CONT'D.)**5.8 Local Operator Service**

The Company's operator services, available to presubscribed Customers, are accessible on a twenty-four (24) hour per day seven (7) days per week basis. In addition to the per call service charge, usage rates apply. The types of calls handled are as follows:

Customer Dialed Calling/Credit Card Call - This charge applies in addition to usage charges for station to station calls billed to an authorized Calling Card or Commercial Credit Card. The Customer must dial the destination telephone number where the capability exists for the Customer to do so. A separate rate applies in the event operator assistance is requested for entering the Customer's card number for billing purposes.

Operator Dialed Calling/Credit Card Call - This charge applies in addition to usage charges for station to station calls billed to an authorized telephone Calling Card or Commercial Credit Card and the operator dials the destination telephone number at the request of the Customer.

Operator Station - These charges apply in addition to usage charges for non-Person-to-Person calls placed using the assistance of a Company operator and billed Collect, to a Third Party, by deposit of coins in Pay Telephones, or via some method other than a Calling Card or Commercial Credit Card.

Person-to-Person - This charge applies in addition to usage charges for calls placed with the assistance of a Company operator to a particular party at the destination number. This charge applies regardless of billing method, including but not limited to billing to a Calling Card, Commercial Credit Card, Collect, by deposit of coins in Pay Telephones, or to a Third Party. Charges do not apply unless the specified party or an acceptable substitute is available.

Usage charges for local operator assisted calls are those usage charges that would normally apply to the calling party's service. In addition to usage charges, an operator assistance charge applies to each call.

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SECTION 5.0 - MISCELLANEOUS SERVICES AND RATES, (CONT'D.)

5.8 Local Operator Service, (Cont'd.)

5.8.1 Maximum Local and IntraLATA Per Call Service Charges:

Customer Dialed Calling Card	\$4.50
Customer Dialed/Operator Assisted Calling Card	\$6.05
Collect	\$3.30
Third Party Billed	\$3.30
Person-to-Person	\$6.50

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SECTION 5.0 - MISCELLANEOUS SERVICES AND RATES, (CONT'D.)**5.9 Busy Line Verification and Emergency Interrupt Service**

Upon request of a calling party the Company will verify a busy condition on a designated local service line. The operator will determine if the line is clear or in use and report to the calling party. At the request of the Customer, the operator will interrupt the call on the busy line. Emergency Interruption is only permitted in cases where the calling party indicates an emergency exists and requests interruption. If the Customer has the operator interrupt a call, both the Busy Line Verification and the Emergency Interrupt charge will apply.

No charge will apply when the calling party advises that the call is to or from an official public emergency agency. Busy Verification and Interrupt Service is furnished where and to the extent that facilities permit.

The Customer shall identify and save the Company harmless against all claims that may arise from either party to the interrupted call or any person.

5.9.1 Maximum Rates

	Per call
Busy Line Verification, per request	\$3.00
Emergency Interruption	\$6.00

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SECTION 5.0 - MISCELLANEOUS SERVICES AND RATES, (CONT'D.)**5.10 Directory Listing Service****5.10.1 General**

The following rates and regulations apply to standard listings in light face type in the white pages (alphabetical section) of the telephone directory and to the Directory Assistance records of the Company.

Directory listings are limited to such information as is essential to the identification of the listed party. The listing of a service, commodity, or trade name is not permitted unless it is the name, or an integral part of the name, under which the Customer does business.

A listing is limited to one line in the directory, except where in the judgment of the Company, more than one line is required to identify the Customer properly. In such cases, the additional lines required are provided at no extra charge.

Listing services are available with all classes of main telephone exchange service.

5.10.2 Listings**A. Primary Listing**

One listing, termed the primary listing, is included with each exchange access line or each joint user service.

SECTION 5.0 - MISCELLANEOUS SERVICES AND RATES, (CONT'D.)**5.10 Directory Listing Service, (Cont'd.)****5.10.2 Listings, (Cont'd.)****B. Additional Listings**

Additional listings may be the listings of individual names of those entitle to use the customer's service or , for business, Departments, Divisions, Tradenames, etc.

In connection with business and residence service, regular additional listings are available only in the names of Authorized Users of the Customer's service.

Ordinarily, all additional listings are of the same address and telephone number as the primary listings, except as provided for joint user and alternate number listings. However, when it appears necessary as an aid to the use of the directory and provided satisfactory service can be furnished, a listing will be permitted under the address of a branch exchange, Centrex or extension of an exchange service line installed on the premises of the Customer, but at an address different from that of the attendant position of main service.

Business additional listings are not permitted in connection with residence service. Residence additional listings are also permitted in connection with business service which is located in a residence and for permanent or season guests residing in a hotel or club.

A residence dual name additional listing is comprised of a surname, two first names, address and telephone number. A residence dual name additional listing may be provided for two persons who share the same surname and reside at the same address, or for a person known by two first names.

Special types of additional listings, such as Alternate, Alpha and Informational, Duplicate and Reference Listings, Foreign Listings, etc. take the same business or residence classification as the service with which such listings are furnished.

SECTION 5.0 - MISCELLANEOUS SERVICES AND RATES, (CONT'D.)**5.10 Directory Listing Service, (Cont'd.)****5.10.2 Listings, (Cont'd.)****C. Nonpublished Service**

The telephone numbers of nonpublished service are not listed in either the Company's alphabetical directory or Directory Assistance records available to the general public.

Non published information may be released to emergency service providers, to customers who subscribe to Company offerings which require the information to provide service and/ or bill their clients, or, to telephone customers who are billed for calls placed to or from nonpublished numbers and to entities which collect for the billed services. Nonpublished names and/or telephone numbers may also be delivered to customers on a call-by-call basis.

Incoming calls to nonpublished service will be completed by the Company only when the calling party places the call by number. The Company will adhere to this practice not withstanding any claim the calling party may present, except claims of emergencies involving life and death. In such cases, the Company will call the non-published number and request permission to make an immediate connection to the calling party.

When the Company agrees to keep a number unlisted, it does so without any obligation. Except for cases of gross negligence or willful misconduct, the Company is not liable for any damages that might arise from publishing a non-published number in the directory or disclosing it to some. If, in error, the telephone number is published in the directory, the Company's only obligation is to credit or refund any monthly charges the Customer paid for non-published service.

The Subscriber indemnifies (i.e., promises to reimburse the Company for any amount the Company must pay as a result of) and save the Company harmless against any and all claims for damages caused or claimed to have been caused, directly or indirectly, by the publication of a non-published service or the disclosing of said number to any person.

SECTION 5.0 - MISCELLANEOUS SERVICES AND RATES, (CONT'D.)**5.10 Directory Listing Service, (Cont'd.)****5.10.2 Listings, (Cont'd.)****D. Nonlisted Service**

Non-listed service means that the Customer's telephone number is not listed in the directory, but does it appear in the Company's Directory Assistance Records.

This service is subject to the rules and regulations for E911 service, where applicable.

The Company will only complete calls to a nonlisted number, if requested by a caller, during the course of a directory assistance call completion service.

When the Company agrees to keep a number unlisted, it does so without any obligation. Except for cases of gross negligence or willful misconduct, the Company is not liable for any damages that might arise from publishing a non-listed number in the directory or disclosing it to some. If, in error, the telephone number is listed in the directory, the Company's only obligation is to credit or refund any monthly charges the Customer paid for nonlisted service.

The subscriber indemnifies (i.e., promises to reimburse the Company for any amount the Company must pay as a result of) and save the Company harmless against any and all claims for damages caused or claimed to have been caused, directly or indirectly, by the publication of a non-listed service or the disclosing of said number to any person.

SECTION 5.0 - MISCELLANEOUS SERVICES AND RATES, (CONT'D.)**5.10 Directory Listing Service, (Cont'd.)****5.10.2 Listings, (Cont'd.)****E. Toll-Free Directory Listings**

Where available, a listing which references the Toll Free Number for a Business customer will be made available.

F. Straight Line Under Directory Listing

A business listing where one or more listings are indented under an original listing of the same customer without repetition of the name.

G. Caption and Subcaption Directory Listings

Two or more business listings may be placed under a caption consisting of the name of the customer or of any of the parties which the customer is entitled to list together with a designation or title where the name is not indicative of the business or profession. One or more sub captions may be furnished under a caption, each sub caption consisting of a directive heading which serves to identify two or more listings placed thereunder, where this grouping is necessary for the proper routing of calls.

SECTION 5.0 - MISCELLANEOUS SERVICES AND RATES, (CONT'D.)

5.10 Directory Listing Service, (Cont'd.)

5.10.3 Maximum Rates and Charges

	Per Month
Primary Listings	\$0.00
Change in Primary Listing	
Business, each	----
Residence, each	----
Additional Listings	
Business, each	\$6.00
Residence, each	\$3.00
Nonlisted Service	
Business, each	\$3.00
Residence, each	\$3.00
Nonpublished Service	
Business, each	\$3.60
Residence, each	\$3.80
Toll-Free Directory Listings	
Business, each	\$30.00
Residence, each	N/A
Straight Line Under Listings	
Business, each	\$10.00
Residence, each	N/A
Captions and Subcaptions Listings	
Business, each	\$10.00
Residence, each	N/A

For non-recurring charges associated with a customer-initiated change in a directory listing, see Section 10.2.1 of this tariff.

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SECTION 5.0 - MISCELLANEOUS SERVICES AND RATES, (CONT'D.)**5.11 Carrier Presubscription****5.11.1 General**

Carrier Presubscription is a procedure whereby a Customer designates to the Company the carrier which the Customer wishes to be the carrier of choice for intraLATA and interLATA toll calls. Such calls are automatically directed to the designated carrier, without the need to use carrier access codes or additional dialing to direct the call to the designated carrier. Presubscription does not prevent a Customer who has presubscribed to an IntraLATA or InterLATA toll carrier from using carrier access codes or additional dialing to direct calls to an alternative long distance carrier on a per call basis.

5.11.2 Presubscription Options - Customers may select the same carrier or separate carriers for intraLATA and interLATA long distance. The following options for long distance Presubscription are available:

- Option A:** Customer selects the Company as the presubscribed carrier for IntraLATA and InterLATA toll calls subject to presubscription.
- Option B:** Customer may select the Company as the presubscribed carrier for IntraLATA calls subject to presubscription and some other carrier as the presubscribed carrier for interLATA toll calls subject to presubscription.
- Option C:** Customer may select a carrier other than the Company for intraLATA toll calls subject to presubscription and the Company for interLATA toll calls subject to presubscription.
- Option D:** Customer may select the carrier other than the Company for both intraLATA and interLATA toll calls subject to presubscription.
- Option E:** Customer may select two different carriers, neither being the Company for intraLATA and interLATA toll calls. One carrier to be the Customer's primary intraLATA interexchange carrier. The other carrier to be the Customer's primary interLATA interexchange carrier.
- Option F:** Customer may select a carrier other than the Company for no presubscribed carrier for intraLATA toll calls subject to presubscription which will require the Customer to dial a carrier access code to route all intraLATA toll calls to the carrier of choice for each call.

SECTION 5.0 - MISCELLANEOUS SERVICES AND RATES, (CONT'D.)**5.11 Carrier Presubscription, (Cont'd.)****5.11.3 Rules and Regulations**

Customers of record will retain their primary interexchange carrier(s) until they request that their dialing arrangements be changed.

Customers of record or new Customers may select either Options A, B, C, D, E or F for intraLATA Presubscription.

Customers may change their selected Option and/or presubscribed toll carrier at any time subject to charges specified in 5.11.5 below:

5.11.4 Presubscription Procedures

A new Customer will be asked to select intraLATA and interLATA toll carriers at the time the Customer places an order to establish local exchange service with the Company. The Company will process the Customer's order for service. All new Customers' initial requests for intraLATA toll service presubscription shall be provided free of charge.

If a new Customer is unable to make selection at the time the new Customer places an order to establish local exchange service, the Company will read a random listing of all available intraLATA and interLATA carriers to aid the Customer in selection. If selection is still not possible, the Company will inform the Customer that he/she will be given 90 calendar days in which to inform the Company of his/her choice for primary toll carrier(s) free of charge. Until the Customer informs the Company of his/her choice of primary toll carrier, the Customer will not have access to long distance services on a presubscribed basis, but rather will be required to dial a carrier access code to route all toll calls to the carrier(s) of choice. Customers who inform the Company of a choice for toll carrier presubscription within the 90 day period will not be assessed a service charge for the initial Customer request.

Customers of record may initiate a intraLATA or interLATA presubscription change at any time, subject to the charges specified in 5.11.5 below. If a Customer of record inquires of the Company of the carriers available for toll presubscription, the Company will read a random listing of all available intraLATA carriers to aid the Customer in selection.

SECTION 5.0 - MISCELLANEOUS SERVICES AND RATES, (CONT'D.)**5.11 Carrier Presubscription, (Cont'd.)****5.11.5 Presubscription Charges****A. Application of Charges**

After a Customer's initial selection for a presubscribed toll carrier and as detailed in above, for any change thereafter, an Presubscription Change Charge, as set for the below will apply. Customers who request a change in intraLATA and interLATA carriers with the same order will be assessed a single charge per line.

B. Maximum Nonrecurring Charges

Per business or residence line, trunk, or port: \$10.00

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SECTION 5.0 - MISCELLANEOUS SERVICES AND RATES, (CONT'D.)**5.12 Intercept Referral Service****5.12.1 General**

Intercept Referral Service is a service used when a Customer disconnects service or changes telephone numbers. Calls to the intercepted telephone number are referred to an operator or a recorded message. Intercept services are offered for periods up to three (3) months for residential Customers and up to twelve (12) months for business Customers. Service is available subject to the availability of facilities and the disconnected number. The following Intercept services are available.

Basic Intercept Referral Service - Basic Intercept Service includes all intercept recordings that do not provide the new telephone number information.

New Number Referral Service - New Number Referral Service includes all intercept recordings that provide the new telephone number information.

Split Referral Intercept Service - Split Referral Intercept Service provides for calls to the disconnected number to be routed to the operator who will challenge the incoming call and provide the new number information dependent on the caller's response. The minimum billing period for this service is three months.

5.12.2 Maximum Rates

Basic Intercept Service is provided at no charge.

New Number Referral Service is provided at no charge.

Split Referral Intercept Service

	<u>Business</u>	<u>Residence</u>
Three months	\$250.00	\$80.00
Six months	\$490.00	n/a
Nine months	\$730.00	n/a
Twelve months	\$980.00	n/a

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SECTION 5.0 - MISCELLANEOUS SERVICES AND RATES, (CONT'D.)**5.13 Toll Restriction Service**

Provides for Exchange Access lines or trunks to be restricted from dialing billable toll calls. Local directory assistance calls are allowed. This service is offered subject to the availability of facilities to individual line residence, individual line business and dial switching type customers. Provision of toll restriction does not alleviate customer responsibility for completed toll calls.

Toll Restriction may include Billed Number Screening (BNS) for residential customers. BNS prohibits *collect and/or third number billed calls from being charged to BNS equipped numbers*. Some calls, originating from locations that do not have screening capabilities, may not be capable of being intercepted and denied. These calls will be billed to the customer if completed.

5.13.1 Maximum Rates

	Residence	Business
Nonrecurring charge, per line	\$12.00	\$55.00
Monthly, per line	----	\$10.00

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SECTION 5.0 - MISCELLANEOUS SERVICES AND RATES, (CONT'D.)**5.14 900 Service Access Restriction**

900 Service Access Restriction enables residence or business exchange access line customers to prohibit dialing of calls with the 900 prefix. Customers who choose this service will also be restricted from calling calls with the prefix of 976 and 676. This service is offered only where facilities permit and is only available on direct dialed calls.

5.14.1 Maximum Rates

	Residence	Business
Nonrecurring charge, per line	\$0.00	\$0.00
Monthly rate, per line	\$0.00	\$0.00

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SECTION 5.0 - MISCELLANEOUS SERVICES AND RATES, (CONT'D.)**5.15 Blocking for 10XXX1+/10XXX011+**

This service prevents 10XXX1+ and 10XXX011+ calls from being completed and is offered subject to the availability of facilities. Provision of this service does not alleviate customer responsibility for completed toll calls.

5.15.1 Maximum Rates

	Nonrecurring Charge	Monthly Rate
Per line or trunk arranged	\$6.00	\$0.20

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SECTION 6.0 - LONG DISTANCE SERVICES

6.1 General

Rates and regulations for the Company's Long Distance Services may be found in the Company's **Arizona Tariff No. 1**.

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SECTION 7 – ADVANCED SERVICES
7.1 Direct Inward Dial (DID) Service

DID service is an optional feature which can be purchased in conjunction with Company-provided Basic Trunks or Digital Trunks. DID service transmits the dialed digits for all incoming calls allowing the Customer's PBX to route incoming calls directly to individual stations corresponding to each individual DID number. Charges for DID capability and DID numbers apply in addition to charges specified for Basic Trunks or Digital Trunks.

So the Company may efficiently manage its number resource, the Company, at its sole discretion, reserves the right to limit the quantity of DID numbers a Customer may obtain. Requests for 300 or more DID numbers must be provided to the Company in writing no less than five (5) months prior to activation. In addition, the Company reserves the right to review vacant DID stations or stations not in use to determine their utilization. Should the Company determine, based on its own discretion, that there is inefficient number utilization, the Company may reassign the DID numbers.

The Customer has no property right to the telephone number or any other call number destination associated with DID service furnished by the Company, and no right to the continuance of service through any particular end office. The Company reserves the right to change such numbers, or the end office designation associated with such numbers, or both, assigned to the Customer, whenever the Company deems it necessary to do so in the conduct of its business.

DID Numbers	Maximum <u>Monthly Rates</u>
Block of 20 DID Numbers	6.00
Individual DID Number	0.30
DID Trunk Termination	90.00

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SECTION 7 – ADVANCED SERVICES

7.2 Advanced Service Packages

7.2.1 ISDN PRI Service with Unlimited Local Calling

ISDN PRI offers an array of value-added features, such as calling number identification and call-by-call selection that enhance productivity. ISDN PRI is configured with 23 64 Kbps bi-directional B (Bearer) channels and one 64 Kbps D (Data) channel. Unique to ISDN PRI is its ability to designate the D channel to handle all of the signaling and call control requirements and leave the remaining 23 B channels free for any mix of circuit-switched voice and data.

Each of these products is offered under a 12, 24 or 36 month term agreement. Rates include unlimited local calling for sent-paid, directly dialed calls. Rates do not include calling card calls, information type calls to Time and Weather, 555, 700, 900, 976 Services, Directory Assistance or any other type of Operator Handled call.

ISDN PRI includes the following non-optional Feature Package: Inbound Calling Line ID-Name & Number and Call by Call Selection.

Regional Toll and Long Distance Services must be PIC'd to the Company. These rates are in addition to ISDN PRI and DS1 rates below.

Recurring Charges

	Monthly Recurring Charge		
	12 Months	24 Months	36 Months
	ICB	ICB	ICB

Non-Recurring Charges

		Non-Recurring Charge		
		12 Months	24 Months	36 Months
	First Line	ICB	ICB	ICB
	Each Add'l Line	ICB	ICB	ICB
Expedite Service Charge ¹		Per PRI		
		ICB		
Order Supplement Charge ²		First Change	Subsequent Change	
	Verizon	ICB	ICB	
Order Cancellation Charge ^{Error!}		Per PRI		
		ICB		

¹ Expedite Service Charges apply when customer requests installation of service in less time than normal installation interval of 30 business days.

² Order Supplement Charges apply when a change of the Requested Service Date is requested by customer. A change of requested service date must be within 30 days of the previous requested service date. In no event will the Company be obligated to accept more than three (3) changes to a requested service date. The service will be deemed canceled upon the fourth (4) such request and applicable Order Cancellation Charges will apply.

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SECTION 7 – ADVANCED SERVICES

7.2 Advanced Service Packages, (Cont'd.)

7.2.2 Digital DS-1 PBX Service with Unlimited Local Calling

This service provides a trunk side DS1 electrical interface from the customer's digital PBX system to a digital port on a local Company switch for the origination and termination of calls. Traffic to and from the digital PBX can be received or dialed directly from any PBX station without the need for an attendant.

These digital trunks deliver a high-speed DS1 (T1) connection between your PBX and the Company network. There are up to 24 channels on one facility, each of which can be used to place or receive calls. This multi-channel capability dramatically reduces the need for additional PBX circuit cards.

Each of these products is offered under a 12, 24 or 36 month term agreement. Rates include unlimited local calling for sent-paid, directly dialed calls. Rates do not include calling card calls, information type calls to Time and Weather, 555, 700, 900, 976 Services, Directory Assistance or any other type of Operator Handled call.

Regional Toll and Long Distance Services must be PIC'd to the Company. These rates are in addition to ISDN PRI and DS1 rates below.

Monthly Recurring Charges

	Monthly Recurring Charge		
	12 Months	24 Months	36 Months
	ICB	ICB	ICB

Non-Recurring Charges

	Non-Recurring Charge		
	12 Months	24 Months	36 Months
	ICB	ICB	ICB
First Line	ICB	ICB	ICB
Each Add'l Line	ICB	ICB	ICB
Expedite Service Charge ³ SBC/Pacific Bell	Per DS1 ICB		
Order Supplement Charge ⁴	First Change ICB	Subsequent Change ICB	
Order Cancellation Charge ^{Error!} <small>Bookmark not defined.</small>	Per DS1 ICB		

³ Expedite Service Charges apply when customer requests installation of service in less time than normal installation interval of 30 business days.

⁴ Order Supplement Charges apply when a change of the Requested Service Date is requested by customer. A change of requested service date must be within 30 days of the previous requested service date. In no event will the Company be obligated to accept more than three (3) changes to a requested service date. The service will be deemed canceled upon the fourth (4) such request and applicable Order Cancellation Charges will apply.

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SECTION 7 – ADVANCED SERVICES

7.2 Advanced Service Packages, (Cont'd.)

7.2.3 ISDN PRI Service with Unlimited Local Calling and Bundled Toll/LD Service

ISDN PRI offers an array of value-added features, such as calling number identification and call-by-call selection that enhance productivity. ISDN PRI is configured with 23 64 Kbps bi-directional B (Bearer) channels and one 64 Kbps D (Data) channel. Unique to ISDN PRI is its ability to designate the D channel to handle all of the signaling and call control requirements and leave the remaining 23 B channels free for any mix of circuit-switched voice and data.

This product is offered under a 12, 24 or 36 month term agreement. Rates include unlimited local calling for sent-paid, directly dialed calls. Rates do not include calling card calls, information type calls to Time and Weather, 555, 700, 900, 976 Services, Directory Assistance or any other type of Operator Handled call.

The Unlimited Local Calling and Bundled Toll/LD Service Products are offered with six different increments of Toll/LD Minutes of Use: 5,000, 10,000, 15,000, 30,000, 50,000 and 100,000. Installation charges are included in the monthly recurring charges. Regional Toll and Long Distance Services must be PIC'd to the Company.

ISDN PRI with Unlimited Local and Bundled 5,000 Long Distance MOU

This package includes unlimited local and 5,000 long distance minutes of use. Also included is Inbound Calling Line ID-Name & Number & Call-by-Call Selection (ISDN PRI) long distance usage @ 5,000 MOUs (including regional toll). Usage over the selected LD package will be billed at \$0.049 per minute.

	Monthly Recurring Charge		
12 Months	24 Months	36 Months	
ICB	ICB	ICB	

ISDN PRI with Unlimited Local and Bundled 10,000 Long Distance MOU

This package includes unlimited local and 10,000 long distance minutes of use. Also included is Inbound Calling Line ID-Name & Number & Call-by-Call Selection (ISDN PRI) long distance usage @ 10,000 MOUs (including regional toll). Usage over the selected LD package will be billed at \$0.049 per minute.

	Monthly Recurring Charge		
12 Months	24 Months	36 Months	
ICB	ICB	ICB	

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SECTION 7 – ADVANCED SERVICES

7.2 Advanced Service Packages, (Cont'd.)

7.2.3 ISDN PRI Service with Unlimited Local Calling and Bundled Toll/LD Service, (Cont'd.)

ISDN PRI with Unlimited Local and Bundled 15,000 Long Distance MOU

This package includes unlimited local and 15,000 long distance minutes of use. Also included is Inbound Calling Line ID-Name & Number & Call-by-Call Selection (ISDN PRI) long distance usage @ 15,000 MOUs (including regional toll). Usage over the selected LD package will be billed at \$0.049 per minute.

	Monthly Recurring Charge		
	12 Months	24 Months	36 Months
	ICB	ICB	ICB

ISDN PRI with Unlimited Local and Bundled 30,000 Long Distance MOU

This package includes unlimited local and 30000 long distance minutes of use. Also included is Inbound Calling Line ID-Name & Number & Call-by-Call Selection (ISDN PRI) long distance usage @ 30,000 MOUs (including regional toll). Usage over the selected LD package will be billed at \$0.049 per minute.

	Monthly Recurring Charge		
	12 Months	24 Months	36 Months
SBC/Pacific Bell Area	ICB	ICB	ICB

ISDN PRI with Unlimited Local and Bundled 50,000 Long Distance MOU

This package includes unlimited local and 50,000 long distance minutes of use. Also included is Inbound Calling Line ID-Name & Number & Call-by-Call Selection (ISDN PRI) long distance usage @ 50,000 MOUs (including regional toll). Usage over the selected LD package will be billed at \$0.049 per minute.

	Monthly Recurring Charge		
	12 Months	24 Months	36 Months
	ICB	ICB	ICB

ISDN PRI with Unlimited Local and Bundled 100,000 Long Distance MOU

This package includes unlimited local and 100,000 long distance minutes of use. Also included is Inbound Calling Line ID-Name & Number & Call-by-Call Selection (ISDN PRI) long distance usage @ 100,000 MOUs (including regional toll). Usage over the selected LD package will be billed at \$0.049 per minute.

	Monthly Recurring Charge		
	12 Months	24 Months	36 Months
	ICB	ICB	ICB

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SECTION 7 – ADVANCED SERVICES

7.2 Advanced Service Packages, (Cont'd.)

7.2.4 Digital DS-1 PBX Service with Unlimited Local Calling and Bundled Toll/LD Service

This service provides a trunk side DS1 electrical interface from the customer's digital PBX system to a digital port on a local Company switch for the origination and termination of calls. Traffic to and from the digital PBX can be received or dialed directly from any PBX station without the need for an attendant.

These digital trunks deliver a high-speed DS1 (T1) connection between your PBX and the Company network. There are up to 24 channels on one facility, each of which can be used to place or receive calls. This multi-channel capability dramatically reduces the need for additional PBX circuit cards.

Each of these products is offered under a 12, 24 or 36 month term agreement. Rates include unlimited local calling for sent-paid, directly dialed calls. Rates do not include calling card calls, information type calls to Time and Weather, 555, 700, 900, 976 Services, Directory Assistance or any other type of Operator Handled call.

The Digital DS-1 PBX Service with Unlimited Local Calling and Bundled Toll/LD Service Products are offered with six different increments of Toll/LD Minutes of Use: 5,000, 10,000, 15,000, 30,000, 50,000 and 100,000. Installation charges are included in the monthly recurring charges. Regional Toll and Long Distance Services must be PIC'd to the Company.

ISDN DS1 with Unlimited Local and Bundled 5,000 Long Distance MOU

This package includes unlimited local and 5,000 long distance minutes of use. Also included is Inbound Calling Line ID-Name & Number and long distance usage @ 5,000 MOUs (including regional toll). Usage over the selected LD package will be billed at \$0.049 per minute.

	Monthly Recurring Charge		
12 Months	24 Months	36 Months	
ICB	ICB	ICB	

ISDN DS1 with Unlimited Local and Bundled 10,000 Long Distance MOU

This package includes unlimited local and 10,000 long distance minutes of use. Also included is Inbound Calling Line ID-Name & Number and long distance usage @ 10,000 MOUs (including regional toll). Usage over the selected LD package will be billed at \$0.049 per minute.

	Monthly Recurring Charge		
12 Months	24 Months	36 Months	
ICB	ICB	ICB	

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SECTION 7 – ADVANCED SERVICES

7.2 Advanced Service Packages, (Cont'd.)

7.2.4 Digital DS-1 PBX Service with Unlimited Local Calling and Bundled Toll/LD Service, (Cont'd.)

ISDN DS1 with Unlimited Local and Bundled 15,000 Long Distance MOU

This package includes unlimited local and 15,000 long distance minutes of use. Also included is Inbound Calling Line ID-Name & Number and long distance usage @ 15,000 MOUs (including regional toll). Usage over the selected LD package will be billed at \$0.049 per minute.

	Monthly Recurring Charge		
12 Months	24 Months	36 Months	
ICB	ICB	ICB	

ISDN DS1 with Unlimited Local and Bundled 30,000 Long Distance MOU

This package includes unlimited local and 30,000 long distance minutes of use. Also included is Inbound Calling Line ID-Name & Number and long distance usage @ 30,000 MOUs (including regional toll). Usage over the selected LD package will be billed at \$0.049 per minute.

	Monthly Recurring Charge		
12 Months	24 Months	36 Months	
ICB	ICB	ICB	

ISDN DS1 with Unlimited Local and Bundled 50,000 Long Distance MOU

This package includes unlimited local and 50,000 long distance minutes of use. Also included is Inbound Calling Line ID-Name & Number and long distance usage @ 50,000 MOUs (including regional toll). Usage over the selected LD package will be billed at \$0.049 per minute.

	Monthly Recurring Charge		
12 Months	24 Months	36 Months	
ICB	ICB	ICB	

ISDN DS1 with Unlimited Local and Bundled 100,000 Long Distance MOU

This package includes unlimited local and 100,000 long distance minutes of use. Also included is Inbound Calling Line ID-Name & Number and long distance usage @ 100,000 MOUs (including regional toll). Usage over the selected LD package will be billed at \$0.049 per minute.

	Monthly Recurring Charge		
12 Months	24 Months	36 Months	
ICB	ICB	ICB	

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SECTION 7 – ADVANCED SERVICES**7.2 Advanced Service Packages, (Cont'd.)****7.2.5 ISDN BRI Service**

ISDN BRI (Basic Rate Interface) uses standard “twisted pair” cables and is nearly three times faster than a 56K dial up line. ISDN PRI (Primary Rate Interface) uses a 1.544 Mbps digital transport facility (T1). Both services provide the superior clarity of digital transmission, a high-speed data interface and sufficient bandwidth capacity to fulfill your current and future communication needs.

ISDN BRI consists of two 64 Kbps B (Bearer) channels and one 16 Kbps D (Data) channel. Each B channel has the ability to integrate voice, data, image and video. The B channels may be kept separate or bonded together to deliver 128 Kbps.

Monthly Recurring Charges

	Monthly Recurring Charge ⁵
ISDN Basic Exchange Digital Line, each	\$10.00
ISDN Basic Exchange Circuit Switched Voice	
First Line	n/a
Second Line	2.00
ISDN Basic Exchange Circuit Switched Data, each	2.00
ISDN Basic Exchange Alternate Circuit Switched Voice/Data, each	2.00

⁵ These ISDN BRI rates are a supplement to individual Message Rate Service.

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SECTION 7 – ADVANCED SERVICES

7.2 Advanced Service Packages, (Cont'd.)

7.2.6 Digital Centrex Service

Digital Centrex Service delivers superior performance, PBX-like functionality including abbreviated dialing, and is compatible with many telephone sets. Each user has a unique seven-digit direct telephone number and customized features. The service is affordable, power failure safe and provides a scalable platform for future growth and technology.

Monthly Recurring Charges

Contract Length	Monthly Recurring Charge
12 months – Assume Dial 9	26.61
12 months	23.15
24 months	21.05
36 months	17.59
60 months	16.51
84 months	15.80

NOTES FOR ALL ADVANCED SERVICES: Availability of services must be verified with the Company based on customer address and NPA-NXX. Rates do not include FCC End User Charge, FCC Port Charge, or other surcharges and taxes. Minimum service period is 12 months. If service is cancelled prior to the end of the contract, a termination charge will be calculated as follows: a. The average of the sum of all line charges on three previous Company invoices to the customer (excluding taxes) multiplied by the number of months remaining in the term agreement.

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SECTION 8 - SPECIAL ARRANGEMENTS

8.1 Individual Case Basis (ICB) Arrangements

Arrangements will be developed on a case-by-case basis in response to a bona fide special request from a Customer or prospective Customer to develop a competitive bid for a service not generally offered under this tariff. Rates quoted in response to such competitive requests may be different than those specified for such services in this tariff. ICB rates will be offered to the Customer in writing and on a nondiscriminatory basis.

ICB will be filed with the Communications Division of the Commission.

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SECTION 9 - PROMOTIONAL OFFERINGS

9.1 Special Promotions

The Company may, from time to time, offer services in this Tariff at special promotional rates and/or terms. Such promotional arrangements shall be filed with the Commission when so required. All rates and terms contained in this Tariff shall continue to apply unless specifically addressed in the promotional agreements.

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SECTION 10 - CURRENT PRICE LIST**10.1 Basic Services and Rates****10.1.1 Network Exchange Bundled Service****A. Arizona Home Edition - Standard Service**

Arizona Home Edition will be provided at the following rates:

	MONTHLY RATE
• Per individual flat rate residence line with three features	\$12.81
• Per additional flat rate residence line with three features	15.99

B. Arizona Home Edition - Deluxe Service

Arizona Deluxe Edition will be provided at the following rates:

	MONTHLY RATE
• Per individual flat rate residence line with three features	\$19.81
• Per additional flat rate residence line with three features	22.99

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SECTION 10.0 - CURRENT PRICE LIST, (CONT'D.)

10.1 Basic Services and Rates, (Cont'd.)

10.1.1 Network Exchange Bundled Service, (Cont'd.)

D. Business A La Carte Service

Business A La Carte service is targeted at small business Customers and provides options based on the Customers calling patterns and estimated usage. Customers who subscribe to this service must designate Crexendo as the presubscribed carrier for local calling concurrent with enrollment for this service. Business A La Carte provides Customers with the option of selecting Crexendo for toll services.

Local Exchange Service

Local Access Line

Local Business Line	
Monthly Rate, per line	\$30.40
Service Connection Fee, one-time charge per line*	
Per Line	\$42.50

PBX Trunk

Monthly Rate	\$38.51
Service Connection Fee, one-time charge per line*	
Per Line	\$56.00

* Service Connection fee is waived for those customers who retain their existing telephone number when switching their service to Crexendo. The charge will apply if additional lines are transferred to Crexendo after the initial order.

* Service Connection fee is waived for those customers who retain their existing telephone number when switching their service to Crexendo. The charge will apply if additional lines are transferred to Crexendo after the initial order.

SECTION 10.0 - CURRENT PRICE LIST, (CONT'D.)

10.1 Basic Services and Rates, (Cont'd.)

10.1.1 Network Exchange Bundled Service, (Cont'd.)

D. Arizona Business Edition - Standard Service

Arizona Business Edition - Standard Service will be provided at the following rate:

	MONTHLY RATE
Per individual or additional flat rate business line	\$39.99

E. Arizona Business Edition - Deluxe Service

Arizona Business Edition - Deluxe will be provided at the following rate:

	MONTHLY RATE
Per individual or additional flat rate business line	\$49.99

SECTION 10.0 - CURRENT PRICE LIST, (CONT'D.)**10.1 Basic Services and Rates, (Cont'd.)****10.1.2 Direct Inward Dial (DID) Service**

	<u>Monthly</u> <u>Recurring</u>
DID Numbers	
Block of 20 DID Numbers	3.00
Individual DID Number	0.15
DID Trunk Termination	45.00

10.1.3 Advanced Services

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SECTION 10.0 - CURRENT PRICE LIST, (CONT'D.)**10.2 Miscellaneous Services and Rates****10.2.1 Service Order and Change Charges**

Non-recurring charges apply to processing Service Orders for new service and for changes in service.

	Residence	Business
<u>Service Order Charges</u>		
Primary and Secondary Service Connection Charge*	\$27.50	\$42.50
Transfer of Service Charge, Primary Line	\$89.99	\$49.99
Transfer of Service Charge, Secondary Line	\$75.00	\$49.99
Technician Dispatch Charge (or Trouble Isolation Charge)	\$69.99	\$79.99
Service Order Charge	10.00	22.00
Premises Visit Charge, first 15 minutes	60.00	60.00
Premises Visit Charge, add'l 15 minutes	30.00	30.00
<u>Change Order Charges:</u>		
Telephone Number Change Order	\$10.00	\$10.00
Feature or Feature Pack Change Order	\$10.00	\$10.00
Toll Restriction Fee Order	\$10.00	\$10.00
Listing Change Charge	\$10.00	\$10.00
Home Edition Change Charge	\$10.00	\$10.00
<u>Record Change Charges:</u>		
Record Order Charge	8.50	22.00
<u>Miscellaneous Charges</u>		
Duplicate Invoice	\$5.00	\$5.00
Call Detail Report	\$5.00	\$5.00

* This charge not applicable where a Service Connection Fee is listed for a specific service such as Network Bundled Service. See Section 10.1.1 for Network Bundled Service nonrecurring charges.

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SECTION 10.0 - CURRENT PRICE LIST, (CONT'D.)

10.2 Miscellaneous Services and Rates, (Cont'd.)

10.2.2 RESERVED FOR FUTURE USE

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SECTION 10.0 - CURRENT PRICE LIST, (CONT'D.)**10.2 Miscellaneous Services and Rates, (Cont'd.)****10.2.3 Restoration of Service**

	<u>Residence</u>	<u>Business</u>
Per occasion, per line	\$25.00	\$55.00

10.2.4 Temporary Suspension/Restoration of Service

	<u>Residence</u>	<u>Business</u>
Nonrecurring charge, per line suspended	\$10.00	\$27.50
Recurring charge, per line suspended	50% of regular service rates	
Nonrecurring charge, per line restored	\$10.00	\$27.50

10.2.5 Public Telephone Surcharge

Rate Per Call:	\$0.75
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SECTION 10.0 - CURRENT PRICE LIST, (CONT'D.)

10.2 Miscellaneous Services and Rates, (Cont'd.)

10.2.6 Optional Calling Features

	Residential	Business
FEATURE	Monthly	Monthly
Speed Calling		
8 Number	1.75	2.50
30 Number	2.50	4.00
Call Forwarding		
Variable	2.50	4.30
Busy Line (Expanded)	0.30	2.50
Busy Line (Overflow)	0.30	4.00
Busy Line (Programmable)	1.60	7.50
Don't Answer	0.65	3.50
Don't Answer (Expanded)	0.65	3.50
Don't Answer (Programmable)	2.10	4.00
Busy Line/Don't Answer	0.85	5.00
Busy Line (External)/DA	0.85	5.00
Call Rejection	4.00	4.00
Call Waiting	2.50	7.00
Call Transfer	5.50	5.50
Caller ID		
Name and Number	5.00	7.45
Number	5.00	7.45
Continuous Redial	2.25	3.00
Distinctive Alert	0.08	0.75
Hot Line	1.75	1.75
Priority Call	2.25	3.00
Remote Access Forwarding	3.45	7.25
Selective Call Forwarding	2.25	3.00

Per Use Features

FEATURE	Residential		Business	
	Per Use	Monthly	Per Use	Monthly
Call Tracing - per use	\$2.00	N/A	\$2.00	N/A
Repeat Call - per use	\$0.75	\$2.25	\$0.75	\$3.00
Return Call - per use	\$0.75	\$2.70	\$0.75	\$2.50
Three-Way Calling, per use	\$0.75	\$2.50	\$0.75	\$3.50

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SECTION 10.0 - CURRENT PRICE LIST, (CONT'D.)**10.2 Miscellaneous Services and Rates, (Cont'd)****10.2.7 Directory Assistance Services****A. Basic Directory Assistance**

Local Directory Assistance	<u>Per query</u>
Direct dialed (in excess of allowance)	\$1.15
Via operator (no allowance)	\$1.50

B. Directory Assistance Call Completion

Per completed call \$0.50

C. National Directory Assistance

Direct dialed \$1.50

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SECTION 10.0 - CURRENT PRICE LIST, (CONT'D.)**10.2 Miscellaneous Services and Rates, (Cont'd.)****10.2.8 Local Operator Service****Local and IntraLATA Per Call Service Charges:**

Customer Dialed Calling Card	\$2.00
Customer Dialed/Operator Assisted Calling Card	\$3.00
Collect	\$1.30
Third Party Billed	\$1.30
Person-to-Person	\$3.50

10.2.9 Busy Line Verification and Emergency Interrupt Service

	<u>Per call</u>
Busy Line Verification, per request	\$2.25
Emergency Interruption	\$3.00

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SECTION 10.0 - CURRENT PRICE LIST, (CONT'D.)**10.2 Miscellaneous Services and Rates, (Cont'd.)****10.2.10 Directory Listing Service**

	<u>Per Month</u>
Primary Listings	\$0.00
Change in Primary Listing	
Business, each	----
Residence, each	----
Additional Listings	
Business, each	\$2.50
Residence, each	\$1.25
Nonlisted Service	
Business, each	\$1.20
Residence, each	\$1.30
Nonpublished Service	
Business, each	\$1.55
Residence, each	\$1.65
Toll-Free Directory Listings, each	
Business, each	\$15.00
Residence, each	N/A
Straight Line Under Listings	
Business, each	\$2.00
Residence, each	N/A
Captions and Subcaptions Listings	
Business, each	\$2.00
Residence, each	N/A

For non-recurring charges associated with a customer-initiated change in a directory listing, see Section 10.2.1 of this tariff.

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SECTION 10.0 - CURRENT PRICE LIST, (CONT'D.)

10.2 Miscellaneous Services and Rates, (Cont'd.)

10.2.11 Carrier Presubscription

Nonrecurring Charges

Per business or residence line, trunk, or port: **\$5.00**

10.2.12 Intercept Referral Service

Basic Intercept Service is provided at no charge.

New Number Referral Service is provided at no charge.

Split Referral Intercept Service

	Business	Residence
Three months	\$125.00	\$40.00
Six months	\$245.00	n/a
Nine months	\$365.00	n/a
Twelve months	\$490.00	n/a

SECTION 10.0 - CURRENT PRICE LIST, (CONT'D.)
10.2 Miscellaneous Services and Rates, (Cont'd.)**10.2.13 Toll Restriction Service**

	Residence	Business
Nonrecurring charge, per line	\$6.00	\$27.50
Monthly, per line	----	\$5.00

10.2.14 900 Service Access Restriction

	Residence	Business
Nonrecurring charge, per line	\$0.00	\$0.00
Monthly rate, per line	\$0.00	\$0.00

10.2.15 Blocking for 10XXX1+/10XXX011+

	Nonrecurring Charge	Monthly Rate
Per line or trunk arranged	\$3.00	\$0.10

10.2.16 Returned Check Charge

Per dishonored check returned	\$25.00
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C - Legal Notice

Will be submitted when Docket No. Assigned by Commission.

D - Financial Information

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FORM 10-K

IMERGENT INC - IIG

Filed: September 01, 2009 (period: June 30, 2009)

Annual report which provides a comprehensive overview of the company for the past year

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended: **June 30, 2009**

or

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

For the transition period from: _____ to _____

iMERGENT, INC.

(Exact name of registrant as specified in its charter)

Delaware	001-32277	87-0591719
(State or Other Jurisdiction of Incorporation or Organization)	(Commission File Number)	(I.R.S. Employer Identification No.)

10201 South 51st Street, Phoenix, AZ 85044

(Address of Principal Executive Office) (Zip Code)

(801) 227-0004

(Registrant's telephone number, including area code)

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

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$0.001 per share	American Stock Exchange

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

None

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.
Yes No

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) 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.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

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

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

The aggregate market value of the common stock held by nonaffiliates of the registrant as of December 31, 2008 (end of the Company's second fiscal quarter) was approximately \$32,696,000.

The number of shares of the registrant's common stock outstanding at August 31, 2009 was 11,446,320.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for its 2009 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.” As used in the Form 10-K, “StoresOnline™” is a registered trademark of our Company in the United States and other countries. All other product names are or may be trademarks of, and are used to identify the products and services of, their respective owners.

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, PROJECT, PREDICT, POTENTIAL OR CONTINUE (INCLUDING THE NEGATIVE OF SUCH TERMS), OR OTHER SIMILAR TERMINOLOGY. THESE STATEMENTS ARE ONLY PREDICTIONS AND ARE BASED UPON VARIOUS ASSUMPTIONS THAT MAY NOT BE REALIZED. ACTUAL EVENTS OR RESULTS MAY DIFFER MATERIALLY. IN EVALUATING THESE STATEMENTS, YOU SHOULD SPECIFICALLY CONSIDER VARIOUS FACTORS, INCLUDING, BUT NOT LIMITED TO, THE RISKS OUTLINED BELOW UNDER ITEM 1A. 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 DO NOT INTEND 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, UNLESS REQUIRED BY LAW.

ITEM 1. BUSINESS

GENERAL

We provide eServices, eCommerce technology, training and a variety of web-based technologies and resources including search engine optimization and search engine management services to entrepreneurs and small, medium, and large enterprises. Our eServices offerings leverage industry and client practices and are designed to help increase the predictability of success for Internet merchants. Our services are also designed to help decrease the risks associated with eCommerce implementation by providing low-cost, scalable solutions with ongoing software and training updates and support. The Company’s strategic vision is to remain an eCommerce provider focused on our target markets. We sell and market our products and services in the United States and international (English-speaking) markets, including Canada, the UK, Australia, New Zealand, and Singapore.

iMergent, Inc. was incorporated as a Nevada corporation on April 13, 1995. In November 1999, we were 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 business activities of assisting and providing web-based technology solutions to entrepreneurs and small businesses who are seeking to establish a viable eCommerce presence on the Internet.

IMERGENT WEBSITE

The Company is headquartered at 10201 South 51st Street, Phoenix, AZ, 85044, and our telephone number is (801) 227-0004. Our Website is www.imergentinc.com. To assist Investors we publish our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and any amendments to those reports filed, or furnished, pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 which are filed with the Securities and Exchange Commission (“SEC”) on our Website under the Investor Relations Tab. All such filings are available free of charge.

INDUSTRY BACKGROUND

The Internet has transformed the way business is conducted. To address current economic conditions, successful companies have turned to the Internet as a less expensive marketing channel which allows them to globally compete and communicate with a network of consumers and partners. Introducing a business to the Internet can unleash new opportunities which enable them to drive revenue growth, services opportunities, product innovation, and operational efficiencies. Companies must be able to offer and deliver their services and products through the Internet to capitalize on this potential.

A company seeking to effect such a transformation or launch a website on the Internet often needs outside technical expertise to assist in identifying viable Internet tools, and to develop and implement strategies within a realistic budget. This outside technical

assistance is essential to create a competitive advantage over other organizations attempting to market their products and services over the Internet.

We believe this environment has created a significant and growing demand for third-party Internet professional services which has resulted in a proliferation of eServices companies offering specialized solutions, such as order processing, transaction reporting, help desk support, training, consulting, security, website design, and website optimization and hosting. We believe there is a large, fragmented and under-served population of businesses and entrepreneurs searching for professional services firms who offer business-to-entrepreneur (B2E) and business-to-business (B2B) eCommerce solutions accompanied by support and continuing education.

We believe this market requires platforms of products and services which embrace the opportunities presented by the Internet. Accordingly, we believe organizations increasingly are searching for B2E and B2B eCommerce solutions, which focus on promoting their business on the Internet. These solutions include technology, education, creative design, website optimization, transaction processing, data warehousing/hosting, transaction reporting and help desk support. Furthermore, we believe our target market will increasingly look to Internet solutions providers who leverage industry and customer practices, increase predictability of their Internet initiatives and decrease implementation risks by providing low-cost, scalable solutions with minimal lead-time.

INDUSTRY AND BUSINESS SEGMENT SUMMARY

StoresOnline, Inc. - Offering Services to Entrepreneurs and Small Office/Home Office

Our StoresOnline business offers a continuum of services and technology to the Small Office/Home Office (SOHO) business owner and entrepreneur seeking the tools and training to establish a successful website on the Internet. Specifically, StoresOnline services a market segment looking for a "do-it-yourself" option as an alternative to the high cost of contracting an eCommerce web developer and, most importantly, an ad agency for website promotion. Both are difficult barriers to many entrepreneurs looking to establish a presence on the Internet. StoresOnline delivers the tools, training, and support to help the entrepreneur and SOHO business owner maintain and promote their websites on their own, thus making the Internet a viable option for their businesses.

Our services start with a complimentary 90-minute informational "Preview Training Session" aimed toward those interested in extending their business to the Internet. These Preview Training Sessions have been proven to increase awareness of and excitement for the opportunities presented by the Internet. At these Preview Training Sessions, our instructors (i) preview the advantages of establishing a website on the Internet, (ii) answer many of the most common questions new or prospective Internet merchants have, (iii) explain, in general terms, how to develop an effective internet strategy and (iv) explain how to transform an existing "brick and mortar" company into a eCommerce enabled company.

At the Preview Training Session, the attending entrepreneur or small business owner has the opportunity to purchase a license to use our proprietary StoresOnline Express software and website development platform and thereby become an Internet merchant. The attending small business owner or entrepreneur is also presented an opportunity to attend a full day Internet Training Workshop. The StoresOnline Express software package includes the following products and services:

- a license to create one fully enabled eCommerce website, with the option to host this website on ours servers;
- helpdesk technical support via on-line chat;
- fully integrated StoresOnline shopping cart technology; and
- Pay-Pal merchant account integration for real-time online credit card processing.

Approximately two weeks after each Preview Training Session, we return to conduct an intensive "Internet Training Workshop" which teaches Internet eCommerce and website implementation training to the small business owners and entrepreneurs who purchased the StoresOnline Express package at the Preview Training Session. Instructors of the Internet Training Workshop expand upon the principles taught at the Preview Training Session elaborating on the details, requirements, demands, tips, and techniques required to extend their business or product to the Internet. Specifically, this instruction consists of a plain English explanation of eCommerce requirements and tools, specific details and tips on how to promote and drive traffic to a website, and techniques to increase sales from a website.

In addition to the training provided at the workshop, our customers are presented an opportunity to upgrade their StoresOnline Express license to our proprietary StoresOnline Pro software and website development platform. StoresOnline Pro software includes:

- access to an unlimited number of site keys which allow the merchant to build as many fully eCommerce-enabled websites as desired, with the option to host those websites on the Company's servers;
- library of promotional tools and strategies that provides ongoing promotional tips to optimize websites for higher

ranking in search engines and improved Web-traffic conversion;

- helpdesk technical support via on-line chat, emails, and telephone, which also includes access to our detailed Merchant Services resource center of Internet marketing information;

tracking software to monitor website traffic (hits, unique visitors, page views, referring URL, search engine and keywords used, time of visit, etc.);

- drop shipper integration which allows customers the ability to access product pictures and descriptions of thousands of products offered by drop shipping companies with which the customer may form a relationship;
- merchant accounts for real-time online credit card processing;
- testing and marketing software tools; and
- the Avail 24/7 communications package, an all-in-one email, phone, fax, and contact management solution.

As mentioned, a license to our StoresOnline Pro software and website development platform permits a customer to create as many custom websites as desired. Programming of the customer's first website is free of charge if submitted within the first 90 days after upgrading his/her software. After this time, our development team can assist with the design and setup of the website for an additional fee. Customers can choose to download the software and create websites which can be hosted by third-party providers, or host their websites with us for an additional monthly fee. Websites hosted by us allow the customers to take advantage of our hosting and support services.

Following the initial sale of the license, we seek to provide additional technology and services to our customers. Consequently, 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. For this purpose we have partnered with third-party companies who offer our customers additional marketing tools, training, and/or tax and legal services for their web-based businesses. We receive a commission from these companies when our customers purchase any of their products or services. For a commission, we allow third parties to market certain products and services which we believe are complementary to our own products and services to our customers in our Preview Training Sessions and Internet Training Workshops, and through direct marketing. Furthermore, we continually explore ideas, products and services which will enhance ongoing customer training and assistance.

Seasonality

Our revenues are 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 first few weeks of January.

Technology

We believe a key component of our success continues to come from our developed proprietary technologies. We believe these technologies distinguish our services and products from our competitors. In particular, our technologies include our website development software (StoresOnline Express and StoresOnline Pro), advanced editing capabilities in terms of content and website creation, dynamic image creation, hosting environment and infrastructure, and total customer relationship management.

Our software platform is continuously enhanced and is an innovative website-building environment. Features and functions of our StoresOnline software include:

- during website development, our customers can experience the look and feel of their websites as if they were their own customers. They can shop, navigate, order products, track orders, and more. If they want to change or add more elements, they can edit, rearrange, add, and delete the elements all within a dynamic, point-and-click environment;
- all designs are customized based on the customers' choices and arrangements. Customers can modify the look and feel of the design to complement their services or products. In addition, design modification and arrangement are executed within a streamlined, point-and-click environment;
- blogs, online journals, message boards, and forums that are easily integrated into the content of the website. As administrators, the customers have full control in terms of filtering content, allowing images, and other blog, message board, and forum permissions;
- customizable forms that address customer-specific needs. By using customized forms, our customers can set up secure, encrypted forms with improved ease to collect sensitive information from their customers. This is especially useful for service-based businesses, as these forms can be used for job, loan, insurance applications, questionnaires, bids, quotes, etc.; and
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the Avail 24/7 communications package, an all-in-one email, phone, fax, and contact management solution. This product allows businesses to manage all correspondence with customers in one easy-to-use application.

Sales and Marketing

Because a majority of our products are sold to persons who have attended both our Preview Training Session and our Internet Training Workshops, we make a significant marketing investment for potential customers. 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 customers to attend our events and to increase our value proposition to these customers.

We advertise our Preview Training Sessions mostly through direct mail. The mailing lists we use are obtained from list brokers and the Company's own database. The direct mail pieces are mailed several weeks prior to the date of the Preview Training Session.

Research and Development

During the years ended June 30, 2009, 2008, and 2007, we invested \$2,177,000, \$2,113,000, and \$1,243,000, respectively, in the research and development of our technologies. The majority of these expenditures were for our StoresOnline Pro software platform. In general, our research and development efforts during fiscal 2009 consisted of the following:

- added advanced customization to our StoresOnline Pro platform, allowing more flexibility using CSS, Java, and HTML 5.0 features;
- improved image processing features for faster image delivery;
- updated our data center facility and improved all network components;
- transitioned legacy applications to our standard Java platform; and
- launched initial development of hosted telecom solution.

In general, our research and development efforts during fiscal 2008 consisted of the following:

- integration with drop shippers allowing for seamless product delivery;
- enhanced research tools, including search engine optimization tools as well as new charting and graphing features;
- integration of Avail 24/7 into StoresOnline Pro;
- addition of social networking features such as product reviews and customer feedback; and
- single sign-on features that simplify account management.

In general, our research and development efforts during fiscal 2007 consisted of the following:

- the Avail 24/7 communications package, an all-in-one email, phone, fax, and contact management solution;
- enhanced research tools, including reverse search tools, and the search engine optimization research tool;
- integration with a variety of new payment processors including ECI-PAY2, YourPay, WorldPay, PayPalPro, PayPalPro UK, eLayaway, Eway, Enets SFA, Dynamic International Gateway, Optimal, BuyLine, and Google Checkout; and
- enhanced StoresOnline Pro price sheets, agent integration (BidFrog/ClickSellGo/MyeBiz), Google site map, RSS support, site-branded confirmation emails, order referral, and search engine optimizations on web pages.

Crexendo Business Solutions, Inc. – eCommerce Software Platform which can be offered as either a Software as a Service (SaaS) or a Licensed Software Model to the SME Business Segment

Crexendo Business Solutions (Crexendo) serves a different market segment than StoresOnline. While StoresOnline markets to entrepreneurs looking for a "do-it-yourself" option, Crexendo facilitates businesses looking for a trusted partner to manage their e-Commerce offering, web site, search engine optimization/management and online promotional needs. As a SaaS or licensed software based platform, Crexendo provides a solution to the SME market segment. These services include:

- full functioning eCommerce enabled site including integrated shopping cart and merchant account technologies;
- integrated SKU management;

- analytics set up, training, and ongoing support;

search engine optimization services including keyword research, competitive analysis, content writing, and content management;

- search engine marketing services (paid search or pay-per-click) including keyword research, ad campaign setup, and advertising management for the top paid search engines like Google, Adwords, Yahoo Search Marketing, and Bing;
- link building campaigns to build page rank and attain higher relevancy search results; and
- search engine optimization and search engine marketing training courses for businesses looking to develop that core competency in house.

These services are primarily offered through a network of value-added resellers (VARs) and online lead generation. The initial step in the sales approach typically starts with an in-depth analysis of the potential customer's website using our Crexendo Business Solutions proprietary tools and software for analyzing search demand, identification of keywords, keyword density, and effective pay-per-click strategies. Utilizing these tools allows our search engine optimization professionals to efficiently develop a long-term web-marketing strategy focused on generating qualified leads and traffic to our customers' websites.

Our Crexendo Business Services division is currently in the development phase and as of June 30, 2009 had not generated any revenues. Costs associated with the start-up of Crexendo Business Solutions for the year ended June 30, 2009 were \$253,000 and are included in the Company's 2009 consolidated statement of operations.

Crexendo Network Services

Crexendo Network Services is focused on developing, marketing, and selling telecommunication and data services and technology for Internet Protocol, or IP telephony and video applications. We currently have in development broadband digital phone service, total office hosted PBX service, trunking service, hosted key system service, Seccession Initiation Protocal (SIP) line and videophone equipment and services.

The voice and video broadband phone service will enable broadband Internet users to add digital voice and video communications services to their high-speed Internet connections. Customers can choose a direct-dial phone number from any of the rate centers offered by the service and then use Crexendo Network Services supplied IP phones to connect to a broadband Internet connection and make or receive calls to/from the Public Switched Telephone Network and other Crexendo endpoints. All Crexendo Network Services telephone accounts will come with voice mail, caller ID, call waiting, call waiting caller ID, call forwarding, hold, 3-way conferencing, web and voice-prompt access to account controls, and online billing. In addition, we have plans to offer videophones and video telephony software in conjunction with our service plans that connect to a customer's high-speed Internet network to deliver all of the voice features above, as well as unlimited video calls to any other Crexendo videophone customer in the world.

We are in the process of developing a suite of business services called Crexendo Total Office that offer feature-rich communications services to small and medium-sized businesses, eliminating the need for traditional telecommunications services and business phone systems. Our primary focus with the Crexendo Total Office service is to replace private branch exchange, or PBX, telephone systems in the small business marketplace with a hosted, Internet-based business phone service solution. When completed, Crexendo Virtual Office will completely replace a company's PBX infrastructure by delivering all telecom services over a managed Internet connection. We will also sell pre-programmed IP telephones with speakerphones and a display screen, in conjunction with our Crexendo Total Office service plans, which enable our business customers to access additional Crexendo Total Office features through on-screen phone menus.

These services will be marketed by both our StoresOnline division and Crexendo Business Solutions division.

Our Crexendo Network Services division is currently in the development phase and as of June 30, 2009 had not generated any revenues. Costs associated with the start-up of Crexendo Network Services for the year ended June 30, 2009 were \$199,000 and are included in the Company's 2009 consolidated statement of operations.

COMPETITION

Our markets are becoming increasingly competitive. Our competitors include companies which sell through workshop formats like ours, as well as portals, application service providers, software vendors, systems integrators and information technology consulting services providers.

Most of these competitors, however, do not yet offer the full range of Internet professional services we believe our target market requires. These competitors could elect to focus additional resources in our target markets, which could materially adversely

affect our business prospects, financial position and results of operations. Many of our current and potential competitors have longer operating histories, larger customer bases and longer relationships with customers as well as 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. 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 does not preclude or inhibit competitors from entering our markets. In particular, we anticipate new entrants will attempt to develop competing products and services or new forums for conducting eCommerce which could be deemed competition. Additionally, if eCommerce or Internet based enterprises with more resources and name recognition were to enter our market, they may redefine our industry and make it difficult for us to compete.

Expected technology advances associated with the Internet, increasing use of the Internet, and new software products are welcome advancements that should broaden the Internet's viability as a marketplace. We anticipate that we can compete successfully by relying on our infrastructure, marketing strategies and techniques, systems and procedures, and by adding additional products and services in the future. We believe we can continue our success by periodic review and revision to our product offerings and marketing approach.

INTELLECTUAL PROPERTY

Our success depends in part on using and protecting our proprietary technology and other intellectual property. Furthermore, we must conduct our operations without infringing on the proprietary rights of third parties. We also rely upon trade secrets and the know-how and expertise of our key employees and independent contractors. To protect our proprietary technology and other intellectual property, we rely on a combination of the protections provided by applicable copyright, trademark and trade secret laws, as well as confidentiality procedures and licensing arrangements. Although we believe we have taken appropriate steps to protect our intellectual property rights, including requiring employees and third parties who are granted access to our intellectual property to enter into confidentiality agreements, these measures may not be sufficient to protect our rights against third parties. Others may independently develop or otherwise acquire unpatented technologies or products similar or superior to ours.

We license from third parties certain software and Internet tools which we include in our services and products. If any of these licenses were 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 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 be costly and divert our attention from our business. 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 position and results of operations.

EMPLOYEES

As of August 31, 2009, we had 290 employees; 260 full time and 30 part time, including 6 executives, 84 in sales, 19 in marketing and event planning, 28 in the development of our eCommerce solutions and IT, 29 in website production, 30 in event reservations, 46 in customer support and 48 in finance, legal and general administration. We also draw from a pool of independent contractors, some of whom are guest presenters, sales consultants, and trainers. We have never experienced any labor disruption and are not party to any collective bargaining agreements. We believe that our employee relations are good.

GOVERNMENTAL REGULATION

We are generally subject to regulations applicable to businesses. 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 assert 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. In general, with the exception of California, in order to be subject to business opportunity regulations in a state, a company is typically required to provide a representation guaranteeing a return in excess of the purchase price and/or provide a marketing plan. We do neither. Various states, however, have contended we sell a business opportunity. There is no guarantee we may not be required to register as a seller of a business opportunity in some states in which we do business. The requirement to register may have an adverse impact on our business. We believe we operate in compliance with laws concerning sales practices, which laws in some jurisdictions require us to offer the customer a three-day "cooling off" or rescission

period in which customers may cancel their workshop purchases. If we are required to register as a seller of business opportunities we may be subject to rescission periods in excess of three days. Although we do not believe we are required to offer rescission rights in

most states, we voluntarily provide such rescission rights. These rights could reduce our sales if customers who purchase products and services at our workshops elected to exercise those rights.

We are also subject to an increasing number of laws and regulations directly applicable to Internet access and commerce. 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 and services. Such laws may also increase our costs of doing business or otherwise have an adverse effect on our business prospects, financial position 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, one channel we use to initially contact our customers is 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.

INTERNATIONAL OPERATIONS

For a discussion of revenues relating to our international activities, see Note 2 (r), entitled *Segment Information*, in our consolidated financial statements.

ITEM 1A. RISK FACTORS.

In addition to factors discussed elsewhere in this 10-K, the following are important risks which could adversely affect our future results. Additional risks and uncertainties not presently known to us or that we currently do not deem material may also impair our business operations. If any of the risks we describe below occur, or if any unforeseen risk develops, our operating results may suffer, our financial condition may deteriorate, the trading price of our common stock may decline and our investors could lose all or part of their investment.

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

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

We have been subject to a number of claims by governmental agencies that we are required to register as a seller of business opportunities, including actions seeking restraining orders or injunctions, and adverse decisions in these matters could adversely affect our business.

We have been subject to a number of claims by governmental agencies which claim that we are required to register as a seller or provider of business opportunities. We have successfully defended such claims, except in the State of California which has a statute with different requirements than other jurisdictions. No assurances can be given that there will not be other jurisdictions which may bring actions on similar grounds, or that such claims may be successfully defended. We assert we do not sell a business opportunity and have not therefore registered as a seller under the various statutes (other than California). Any new actions filed against the Company could also have a material negative impact on sales and operations of the Company. If it is determined in any other state that we are required to register as a seller of business opportunities in order to engage in business in that state, the requirement to do so could materially impair us and/or force us to change our business model and consequently may adversely affect our revenue, increase our compliance costs, and reduce our profitability.

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

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

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

financial results or ability to conduct business.

From time to time, we receive inquiries from federal, state, city and local government officials in the various jurisdictions in which we operate. These inquiries and investigations generally concern compliance with various city, county, state and/or federal

regulations involving sales, representations made, customer service, refund policies, and marketing practices. We 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. See Part I, Item 3, *Legal Proceedings*, for a discussion of some of these pending matters. 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. During the ordinary course of business we also receive a number of complaints and inquiries from customers, governmental and private entities. In some cases these complaints and inquiries have ended up in civil court. While we attempt to resolve these matters on a mutually satisfactory basis, there can be no assurance that the ultimate resolution of these matters will not have a material adverse effect on our business or results of operations.

We also are subject to various claims and legal proceedings covering matters which arise in the ordinary course of business. We believe the resolution of these other cases will not have a material adverse effect on our business, financial position, or results of operations.

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

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

We may be required to reduce our prices in order to compete which could negatively impact our profitability.

As competition with our software continues to expand, we may be required to respond to additional competition which could require us to lower prices and engage in price competition. If intense price competition occurs, we may be forced to lower prices, which could result in lower revenue and gross margins.

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

We maintain credit card and other personal information in our systems. Due to the sensitive nature of retaining such information we have implanted policies and procedures to preserve and protect our data and our customers' data against loss, misuse, corruption, misappropriation caused by systems failures, unauthorized access or misuse. Notwithstanding these policies, we could be subject to liability claims by individuals and customers whose data resides in our databases for the misuse of that information.

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

On October 24, 2005, the Company announced it had been notified by the SEC that a formal order of investigation related to the Company had been issued. Prior to the order, the Company had announced a change of the independent registered public accounting firm for the Company. The Company also issued a Form 8-K of Non-Reliance on Previously Issued Financial Statements or a Related Audit Report or Completed Interim Review. Although we have cooperated with the SEC in this matter, and intend to continue to cooperate with the SEC, the SEC may find that we have violated securities laws. We cannot predict the ultimate outcome of the investigation, nor can we predict whether other federal, state or foreign governmental authorities will initiate separate investigations. The outcome of the investigation and any related legal and administrative proceedings could include the institution of administrative, civil, injunctive or criminal proceedings involving us and/or our current or former employees, officers and/or directors, the imposition of fines and other penalties, remedies and/or sanctions, modifications to business practices and compliance programs and/or referral to other governmental agencies for other actions. It is not possible to accurately predict, at this time, when matters relating to the investigation will be completed, the final outcome of the investigation, or what, if any, actions may be taken by the SEC or by other governmental agencies in federal, state or foreign jurisdictions. Such actions may negatively impact our consolidated financial statements, results of operations, business prospects or liquidity.

We are subject to claims that our software is "defective" and difficult to use and that a substantial number of our customers do not activate their web pages.

We have been subject to claims by purchasers that our software is "defective" and difficult to use. Our software is hosted remotely on our servers in Orem, Utah, and as such cannot be selectively defective, but the continual claims of defective software could have a negative effect on our ability to sell licenses. We have also been subject to various claims that our software is hard to use.

We contend our software is interactive, and can be used properly by our customers. However, the claims of it being difficult to use are investigated by various regulatory agencies, and the persistence of such claims by regulatory agencies, in the news media, and on the Internet, may have a substantial negative impact on our ability to transact business. The claims that a substantial number of our customers do not activate their websites may impact the manner in which we conduct our seminars and may have a negative impact on our operations.

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 relating to Crexendo Business Solutions and Crexendo Network Services and (ii) the emerging nature of the markets in which we compete. Our future results will fluctuate, and those results may fall below the expectations of investors and may cause the trading price of our common stock to fall. This may impair our ability to raise capital, should we seek to do so. Our quarterly results may fluctuate based on, but not limited to, the following factors:

- our ability to attract and retain customers;
- negative publicity about our industry, events, or products;
- one-time events that negatively impact attendance and sales at our Preview Training Sessions and Internet Training Workshops;
- seasonal fluctuations in our business;
- number of workshops in a given period;
- intense competition;
- changes in pricing policies;
- regulatory actions and legal proceedings;
- Internet and online services usage levels and the rate of market acceptance of these services for transacting commerce;
- our ability to timely and effectively upgrade and develop our systems and infrastructure;
- changes to our business model resulting from regulatory requirements;
- our ability to control certain costs;
- our ability to attract, train and retain skilled management, as well as 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.

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

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

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

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

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

As of June 30, 2009, the Company had net operating loss (NOL) carryforwards of approximately \$20,632,000. All of the NOL carryforwards are subject to an annual limitation under Section 382. Section 382 imposes limitations on a corporation's ability to

utilize its NOL carryforwards. As a result of an "ownership change" in fiscal 2002 the Company is unable to utilize approximately \$14,641,000 of its NOL carryforwards. In general terms, an ownership change results from transactions increasing the ownership of certain stockholders in the stock of a corporation by more than 50% over a three-year period. Since our formation, we have issued a significant number of shares, and purchasers of those shares have sold some of them, resulting in two ownership changes, as defined by Section 382. As a result of the most recent ownership change, utilization of our NOL is subject to an annual limitation determined

by multiplying the value of our stock at the time of the ownership change by the applicable federal long-term tax-exempt rate. We estimate the annual limitation to be approximately \$461,000. Any limited amounts may be carried over into 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). Future changes in ownership of more than 50% may also limit the use of these remaining NOL carryforwards. Our earnings, if any, and cash resources will be materially and adversely affected if we cannot receive the full benefit of the remaining NOL carryforwards. An ownership change could occur as a result of circumstances that are not within our control.

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

We depend on the continued services of our key personnel, including but not limited to our Chief Executive Officer, Steven G Mihaylo, Chief Financial Officer, Jonathan Erickson, Chief Technical Officer, David Rosenvall, Chief Administrative Officer, David Krietzberg, Chief Legal Officer, Jeffery Korn, and Sr. Vice President, Clint Sanderson, as well as certain speakers at our Preview Training Sessions and Internet Training Workshops. Each of these individuals has acquired specialized knowledge and skills with respect to our operations. The loss of one or more of these key personnel could negatively impact our performance. In addition, we expect to hire additional personnel as we continue to execute our strategic plan, particularly if we are successful in expanding our operations. 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 are dependent on credit card issuers who provide us with merchant accounts that are used to receive payments from our customers and if we cannot maintain these merchant accounts our business would be harmed.

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

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

We intend to continue to make investments to support business growth and may require additional funds to respond to business opportunities and challenges, which include the opportunity to increase our revenue by increasing the number of customer installment contracts that we retain 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. However, equity and debt financing might not be available when needed or, if available, might not be available on terms satisfactory to us. If we are unable to obtain financing or financing on terms satisfactory to us, our ability to continue to support our business growth and to respond to business challenges could be significantly limited.

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

Substantially our entire 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.

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

We rely on frequent presentations of our Preview Training Sessions and Internet Training Workshops by a limited number of persons in various cities and these persons generally travel by air. In addition, these Preview Training Sessions and Internet Training

Workshops involve large groups of persons in upscale and sometimes marquee hotel facilities. Our business would be materially and adversely affected by air travel becoming less available due to significant cutbacks 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 in 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.

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

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

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

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

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

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

- cultural, language and other differences between markets could result in lower than anticipated attendance at our Preview Training Sessions and Internet Training Workshops and/or lower than anticipated sales;
- banking and payment mechanisms that differ from those in the United States and make it more difficult for us to both accept payments by credit card and offer to customers a product that allows customers to accept credit card payments on their websites;
- unproven markets for our services and products;
- unexpected changes in regulatory requirements;
- terrorism, war and international conflict;
- potentially adverse tax environment;
- export restrictions and tariffs and other trade barriers;
- burdens of complying with applicable foreign laws and exposures to different legal standards, particularly with respect to sales and marketing practices, intellectual property, privacy and distribution of potentially offensive or unlawful content over the Internet;
- fluctuations in currency exchange rates; and
- restrictions on repatriating cash from foreign markets.

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

As eCommerce continues to evolve it is subject to increasing regulation by federal, state, and foreign agencies. Areas subject to regulation include, but may not be limited to, the use of e-mail, user privacy, pricing, content, quality of products and services, taxation, advertising, intellectual property rights, and information security. In particular, our initial contact with many of our customers is through e-mail. The use of e-mail for this purpose has become the subject of a number of recently adopted and proposed laws and regulations. In addition, laws and regulations applying to the solicitation, collection, or processing of personal or consumer information could negatively affect our activities. The perception of security and privacy concerns, whether or not valid, may indirectly inhibit market acceptance of our products. In addition, legislative or regulatory requirements may heighten these concerns if businesses must notify website users that the data captured after visiting websites may be used by marketing entities to unilaterally direct product promotion and advertising to that user. Moreover, the applicability to the Internet of existing laws governing issues such

as intellectual property ownership and infringement, copyright, trademark, trade secret, obscenity and libel is uncertain and developing. Furthermore, any regulation imposing fees or assessing taxes for Internet use could result in a decline in the use of the Internet and the viability of eCommerce. Any new legislation or regulation, or the application or interpretation of existing laws or regulations, may decrease the growth in the use of the Internet, may impose additional burdens on eCommerce or may require us to alter how we conduct our business. This could decrease the demand for our products and services increase our cost of doing business,

increase the costs of products sold through the Internet or otherwise have a negative effect on our business, results of operations and financial position.

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.

We could experience security breaches in 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.

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

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

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

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

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

The market price of our common stock could decline as a result of sales of a large number of shares of our common stock in the market or the perception that these sales could occur. These sales also might make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate. As of August 31, 2009, we had outstanding 11,446,320 shares of

common stock.

Additional dilution will result if outstanding options are exercised. As of August 31, 2009, we had outstanding stock options to purchase 675,336 shares of common stock. In addition, in the event future financings should be in the form of, convertible into or exchangeable for our equity securities, investors may experience additional dilution.

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

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

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

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

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

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

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

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

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

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

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

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

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

prices that would be difficult for us to match.

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

In March 2007, the Board of Directors of the Company authorized the initiation of a quarterly cash dividend of \$0.10 per common share with a record date of the twentieth day of the last month of each quarter. In September 2007, the Board of Directors of the Company increased the quarterly cash dividend to \$0.11. In December 2008, the Board of Directors decreased the quarterly cash dividend to \$0.02 per common share. Although we expect to continue to pay cash dividends to our stockholders, the ability to do so will depend upon our results of operations, financial conditions, cash requirements, as well as other factors. Also, there can be no assurance that we will continue to pay cash dividends even if the necessary financial conditions are met and if sufficient cash is available for distribution.

Our publicly filed SEC reports are reviewed by the SEC from time to time and any significant changes required as a result of any such review may result in material liability to us and have a material adverse impact on the trading price of our common stock.

The reports of publicly traded companies are subject to review by the SEC from time to time for the purpose of assisting companies in complying with applicable disclosure requirements and to enhance the overall effectiveness of companies' public filings. Comprehensive reviews by the SEC of such reports are now required at least every three years under the Sarbanes-Oxley Act of 2002. SEC reviews often occur at the time companies file registration statements, but reviews may be initiated at any time by the SEC. While we believe that our previously filed SEC reports comply, and we intend that all future reports will comply in all material respects with the published rules and regulations of the SEC, we could be required to modify or reformulate information contained in prior filings as a result of an SEC review. Any modification or reformulation of information contained in such reports could be significant and result in a material liability to us and have a material adverse impact on the trading price of our common stock.

Our business and results of operations are affected by general economic conditions and are dependent upon the price of postage, air transportation and food service. Continuing high postage, airfare, and food costs or further cost increases could have a material adverse effect on our operating results.

Our operating results are affected by general economic conditions, including inflation, recession and currency volatility. Currency fluctuations may make our software product less attractive to international purchasers which could negatively impact our revenues. The economic environment may cause reduced demand for our software and widespread national and international concern over instability in the economy may result in customers declining to pay for our product in cash and using financing options which could negatively impact our results of operations and financial position.

Our ability to pass along the increased costs of postage, airfare and food service to our customers is limited by the competitive nature of the software and Internet industry. Often we have not been able to increase our fees to fully offset the effect of increased costs in the past and we may not be able to do so in the future. Additional increases in postage, air transportation and food service costs or disruptions in air transportation or food service supplies could have additional negative effects on us.

We are exposed to fluctuations in currency exchange rates.

Because we conduct business outside the United States but report our results in U.S. dollars, we face exposure to adverse movements in currency exchange rates. As of June 30, 2009, we had approximately \$2,606,000 of net trade receivables denominated in foreign currencies and \$244,000 in cash and cash equivalents denominated in foreign currencies. If the U.S. dollar weakens against foreign currencies, the translation of these foreign currency denominated transactions will result in increased net revenues as cash is collected from net trade receivables and cash sales. Similarly, our net revenues as cash is collected from trade receivables and cash sales will be negatively impacted if the U.S. dollar strengthens against foreign currencies.

Examinations by relevant tax authorities may result in material changes in related tax reserves for tax positions taken in previously filed tax returns or may impact the valuation of certain deferred income tax assets, such as net operating loss carryforwards.

Based on the outcome of examinations by relevant tax authorities, or as a result of the expiration of statutes of limitations for specific jurisdictions, it is reasonably possible that the related tax reserves for tax positions taken regarding previously filed tax returns will materially change from those recorded in our financial statements. In addition, the outcome of examinations may impact the valuation of certain deferred income tax assets (such as net operating loss carryforwards) in future periods. It is not possible to estimate the impact of the amount of such changes, if any, to previously recorded uncertain tax positions.

We expect to rely on distribution partners, specifically, value added resellers (VARs.), to assist in selling our products. If we do not establish, develop and manage these relationships effectively, our ability to generate revenue and control expenses will be adversely affected.

Our success in developing our newly formed Crexendo Business Solutions division is highly dependent upon our ability to establish and maintain successful relationships with VARs. Although we have entered into some contracts with VARs and expect to

continue to add VARs to our network, our contractual arrangements are not exclusive and do not obligate our VARs to order, purchase or distribute any fixed or minimum quantities of our services or products. Under our contracts with our VARs, products or services are

generally ordered after they have sold that product or service to their customer. Accordingly, our ability to sell our products and services and generate significant revenue through our VARs is highly dependent on the continued desire and willingness of our VARs to distribute our services and products and on the continued cooperation between us, the VARs and their customers. Divergence in strategy, change in focus, competitive product offerings, potential contract defaults, and changes in ownership or management of VARs may interfere with our ability to generate sales.

Moreover, if we are unable to leverage our sales and support and services resources through our VARs, we may be unable to generate significant revenue and /or we may need to hire and train additional qualified sales and support and services personnel. There can be no assurance, however, that we will be able to generate significant revenue outside the VAR channel and/or hire additional qualified sales and support and services personnel, which may have a material adverse effect on our consolidated financial position, results of operations, and cash flows.

We may undertake acquisitions to expand our business, which may pose risks to our business and dilute the ownership of our existing stockholders.

As part of a potential growth strategy we may attempt to acquire certain businesses. Whether we realize benefits from any transaction will depend in part upon the integration of the acquired business, the performance of the acquired products, services, capacities of the technologies acquired as well as the personnel hired in connection therewith. Accordingly, our results of operations could be adversely affected from transaction-related charges, amortization of intangible assets and charges for impairment of long-term assets. While we believe that we have established appropriate and adequate procedures and processes to mitigate these risks, there can be no assurance that any potential transaction will be successful.

In addition, the financing of any acquisition may require us to raise additional funds through public or private sources. Additional funds may not be available on terms that are favorable to us and, in the case of equity financings, may result in dilution to our stockholders. Future acquisitions by us could also result in large and immediate write-offs or assumptions of debt and contingent liabilities, any of which may have a material adverse effect on our consolidated financial position, results of operations, and cash flows.

Our dependence on outside contractors and third-party agents for fulfillment of certain items and critical manufacturing services could result in product or delivery delays and/or damage our customer relations.

We outsource the manufacturing of certain products we sell and products we provide. We submit purchase orders to agents or the companies that manufacture the products. We describe, among other things, the type and quantities of products or components to be supplied or manufactured and the delivery date and other terms applicable to the products or components. Our suppliers or manufacturers potentially may not accept any purchase order that we submit. Our reliance on outside parties involves a number of potential risks, including: (1) the absence of adequate capacity, (2) the unavailability of, or interruptions in access to, production or manufacturing processes, (3) reduced control over delivery schedules, (4) errors in the product, and (5) claims of third party intellectual infringement or defective merchandise. If delays, problems or defects were to occur, it could adversely affect our business, cause claims for damages to be filed against us, and negatively impact our consolidated operations and cash flows.

If the market for our new products does not develop as we anticipate, our revenue may decline or fail to grow, which would adversely affect our operating results.

We have started to market our Crexendo Business Solutions products and services, as well as develop additional products including, but not limited to, hosted telecom. The market for these products is still evolving, and it is uncertain whether these products and services will achieve and sustain high levels of demand and market acceptance.

If potential customers do not perceive the benefits of our product lines, sales may not develop or may develop more slowly than we expect, either of which would adversely affect our operations. Because the market for new product development is difficult to predict, we may make errors in predicting and reacting to relevant business trends, which may have a material adverse effect on our consolidated financial position, results of operations, and cash flows.

Our Chief Executive Officer owns a significant amount of our common stock and could exercise substantial corporate control.

Steven G Mihaylo, our Chief Executive Officer (CEO) owns approximately 27% of our outstanding shares of common stock based on the number of shares outstanding as of August 31, 2009. As a result, the CEO may have the ability to determine the outcome of matters submitted to our stockholders for approval, including the election of directors and any merger, amalgamation, consolidation or sale of all or substantially all of our assets. The CEO may have the ability to control the management and affairs of our Company. The CEO also may have interests different than, or adverse to our other stockholders. Accordingly, even though certain transactions

may be in the best interests of other stockholders, this concentration of ownership may harm the market price of our common stock by, among other things, delaying, deferring or preventing a change in control of our Company, impeding a merger, amalgamation, consolidation, takeover or other business combination involving our Company, or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of our Company.

In addition, sales or other dispositions of our shares by our CEO may depress our stock price. Sales of a significant number of shares of our common stock in the public market could harm the market price of our common stock. As additional shares of our common stock become available for resale in the public market, the supply of our common stock will increase, which could result in a decrease in the market price of our stock.

We have incurred operating losses.

We sustained operating losses for the year ended June 30, 2009. Our ability to reestablish and sustain profitability and positive cash flows from operating activities will depend on factors including, but not limited to, our ability to (i) reduce costs, (ii) improve marketing, (iii) respond to the current economic slowdown, (iv) reach more highly qualified prospects, and (v) achieve operational improvements.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Until recently, we had experienced significant growth over the past several years and, consequently, we lease and sub-lease office and training facilities totaling approximately 80,000 square feet from unaffiliated third parties. Our corporate office and Crexendo Network Services are located at 10201 South 51st Street, Phoenix, Arizona 85044 and our StoresOnline, Inc. and Crexendo Business Solutions office is located at 1303 North Research Way, Orem, Utah 84097. The lease for our StoresOnline and Crexendo Business Solutions office terminates on September 30, 2013 and the lease for our training facility located in Salt Lake City, UT terminates on July 31, 2013. Our lease for the corporate and Crexendo Network Services office terminates on April 30, 2010. The annual rent for all of our office space and training facilities will be approximately \$1,557,000 for the fiscal year ending June 30, 2010. We maintain tenant fire and casualty insurance on our assets 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 at which we host our Preview Training Sessions and Internet Training Workshops. We are under no long-term obligations related to the hotel facilities.

ITEM 3. LEGAL PROCEEDINGS

On October 9, 2007, the Federal Court of Australia New South Wales District Registry (the Court) set a hearing on a request for an injunction by the Australian Competition and Consumer Commission (ACCC). The ACCC sought a temporary injunction barring the Company from conducting business in Australia until such time as a permanent injunction is entered which would require certain actions on the part of the Company. The ACCC has alleged that the Company failed to comply with the terms of a previous agreement by: (i) failing to have notified the ACCC of seminars which were being held in Australia; (ii) failing to provide copies of tapes of seminars to the ACCC which were requested; (iii) failing to notify purchasers of the three-day cooling-off period (right to rescind); and (iv) failing to provide certain disclosures relating to the software, which were enumerated in the previous agreement. The Company admitted that it did not notify the ACCC, in a timely manner, of seminars which were previously held due to the failure of a former employee of the Company. Additionally, the Company also admitted that it was not able to provide one of several tapes requested by the ACCC. The Company disputed that it had failed to notify customers of the cooling-off period or to provide the specified disclosures. The Court found that the Company did breach some of the terms of the previous agreement regarding the notification and the tapes. The Court also was not certain if all disclosures regarding the software were made in the terms required by the previous agreement. The Court declined to enter an injunction which barred the Company from conducting business in Australia. Consequently, the Company was not required to cancel any scheduled workshops, and has continued to transact sales in Australia. The Court did require certain disclosures on the part of the Company and required compliance with the previous agreement. The Court indicated failure to follow the Court's requirements could be deemed contempt. The parties have completed discovery and providing evidence. The Court has not yet scheduled a final hearing on the ACCC's claims as well as the demand for fees and damages. A trial could be held as early as December 2009; however, it is more likely that a trial would occur in 2010. The Company expects that there will be mediation set prior to a trial. The Company is not precluded from conducting business in Australia.

On August 6, 2009, a Final Judgment and Consent Decree ("Judgment") was agreed to between the Company and the State of Washington. The Judgment is awaiting entry by the Court and is filed in the King County Superior Court, entitled "State of Washington v. iMergent, Inc., Stores Online, Inc." The Judgment stemmed from a non-public investigation by the Attorney General of Washington commenced several years ago claiming violations of the Business Opportunity Statute and certain consumer protection statutes. The Company agreed to pay a total settlement of \$175,000. The Company had accrued the settlement amount in a previous

period. The settlement amount includes refunds to certain Washington customers who may file claims. To the extent that filed claims exceed the refund amount, refunds will be paid on a pro-rata basis. The State of Washington will be entitled to retain any monies not claimed. There are no further costs or fees required to be paid by the Company. In addition, the Company also agreed to certain actions intended to clarify the business practices of the Company. The Company is not required to register as a seller of a business opportunity. The settlement does not limit the Company's ability to conduct business in the State of Washington.

On August 4, 2008, the Company and the State of North Carolina agreed to a Consent Judgment ("North Carolina Judgment"). The North Carolina Judgment was a consequence of a preliminary injunction order (the "Order") entered in the State of North Carolina. The Order required that the Company not market or sell in the State of North Carolina. In the North Carolina Judgment, the Company agreed to pay fees totaling \$90,000. The Company also agreed that it would refund any customers in the State of North Carolina who filed claims within 60 days of entry of the North Carolina Judgment. The claim had to include a declaration issued under penalty of perjury that the customer had been unable to activate a website and get it fully operational. The State of North Carolina also notified certain customers of the right to the refund. As a result of the North Carolina Judgment, the injunction issued under the Order was lifted and the Company was permitted to immediately schedule seminars in the State of North Carolina. There was no finding that the Company is a seller of a "Business Opportunity." The Company also agreed to certain actions intended to clarify the business practices of the Company. The North Carolina Judgment does not otherwise limit the Company's ability to conduct business in the State of North Carolina. The Company received a substantial number of claims which included an untrue (according to the records of the Company) declaration under penalty of perjury that the customer attempted to activate a website and also attempted to contact customer service. The Company notified the State of North Carolina that it did not believe it was obligated to pay claims made under penalty of perjury which were not factually accurate. On August 10, 2009, the North Carolina Court entered an Order requiring the Company to pay all claims filed, the North Carolina Court ruling that the filing of the declaration was determinative not the truth of the statement made under penalty of perjury. The Company believes that under North Carolina law it should not be obligated to pay claims it believes it can show are false. The Company has filed a notice of appeal of the August 10, 2009 order. The Company also may file actions against those who filed false declarations. The Company has reserved the amounts paid by customers who filed the false claims.

On October 24, 2005, the Company announced it had been notified by the Securities and Exchange Commission (SEC) that it had issued a formal order of investigation related to the Company. Prior to the order, the Company had announced a change of the independent registered public accounting firm for the Company. The Company also issued a Form 8-K with notification of Non-Reliance on Previously Issued Financial Statements or a Related Audit Report or Completed Interim Review. The Company has fully cooperated with the SEC in this matter and has had no communication with the SEC related to this matter since 2006.

In addition to the foregoing proceedings, from time to time the Company receives inquiries from federal, state, city and local government officials in the various jurisdictions in which the Company operates. These inquiries and investigations generally concern compliance with various city, county, state and/or federal regulations involving sales, representations made, customer service, refund policies, and marketing practices. The Company responds to these inquiries and has generally been successful in addressing the concerns of these persons and entities, without a formal complaint or charge being made, although there is often no formal closing of the inquiry or investigation. There can be no assurance that the ultimate resolution of these or other inquiries and investigations will not have a material adverse effect on the Company's business or operations, or that a formal complaint will not be initiated. The Company also receives complaints and inquiries in the ordinary course of its 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. There can be no assurance that the ultimate resolution of these matters will not have a material adverse effect on the Company's business or results of operations.

The Company also is subject to various claims and legal proceedings covering matters that arise in the ordinary course of business. The Company believes that the resolution of these other cases will not have a material adverse effect on its business, financial position, or 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, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

MARKET INFORMATION

Our common stock began trading on the American Stock Exchange on August 16, 2004 under the symbol "IIG." The following table sets forth the range of high and low bid prices as reported on the American Stock Exchange for the periods indicated.

	High	Low
Fiscal 2009		
Fourth Quarter	\$ 8.50	\$ 4.00
Third Quarter	5.90	3.10
Second Quarter	11.10	3.46
First Quarter	12.15	9.15
Fiscal 2008		
Fourth Quarter	13.02	10.60
Third Quarter	13.67	8.48
Second Quarter	24.99	9.59
First Quarter	24.72	16.90

SECURITY HOLDERS

There were 341 holders of record of our shares of common stock as of August 31, 2009. The number of holders does not include individual participants in security positions listings.

DIVIDENDS

The following table sets forth information regarding cash dividends declared by the Company's board of directors for the years ended June 30, 2009 and 2008:

Declaration Date	Per Share Dividend	Record Date	Total Amount	Payment Date
<i>(Fiscal year 2009)</i>				
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
December 19, 2008	\$ 0.02	January 4, 2009	\$ 227,000	January 20, 2009
September 3, 2008	\$ 0.11	September 20, 2008	\$ 1,259,000	September 26, 2008
<i>(Fiscal year 2008)</i>				
June 10, 2008	\$ 0.11	June 20, 2008	\$ 1,261,000	June 30, 2008
March 10, 2008	\$ 0.11	March 20, 2008	\$ 1,261,000	March 28, 2008
December 10, 2007	\$ 0.11	December 20, 2007	\$ 1,294,000	December 29, 2007
September 4, 2007	\$ 0.11	September 20, 2007	\$ 1,316,000	September 28, 2007

There are no contractual restrictions on dividends declared for the years ended June 30, 2009 and 2008.

RECENT SALES OF UNREGISTERED SECURITIES

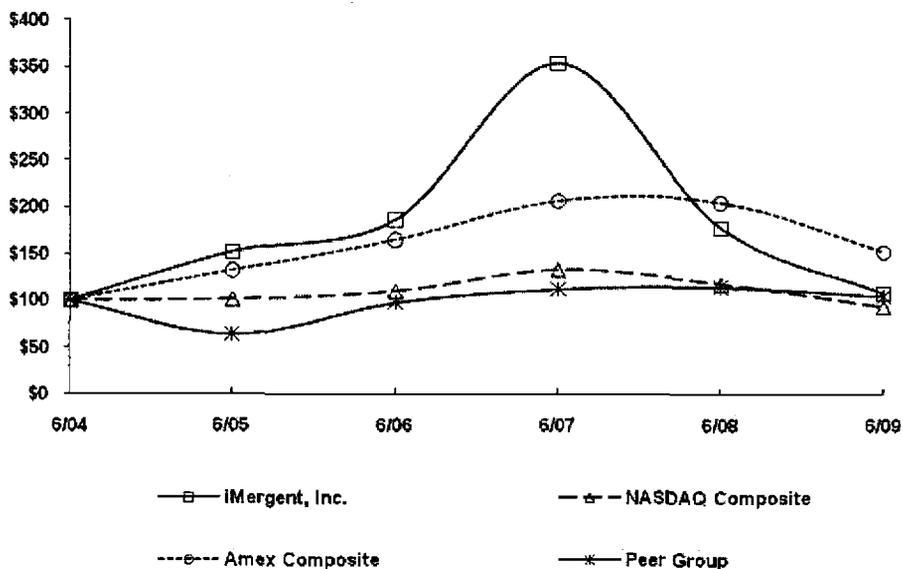
None

PERFORMANCE GRAPH

The following graph compares the cumulative 5-year total return provided stockholders on iMergent, Inc.'s common stock relative to the cumulative total returns of the NASDAQ Composite index, the AMEX Composite index and a customized peer group of four companies that includes: Art Technology Group Inc, Broadvision Inc, Cybersource Corp. and Vignette Corp. An investment of \$100 (with reinvestment of all dividends) is assumed to have been made in our common stock, in each index and in the peer group on June 30, 2004 and its relative performance is tracked through June 30, 2009.

COMPARISON OF 5-YEAR CUMULATIVE TOTAL RETURN*

Among iMergent, Inc., The NASDAQ Composite Index,
The Amex Composite Index and a Peer Group



*\$100 invested on 6/30/04, including reinvestment of dividends. Fiscal year ended June 30.

	6/04	6/05	6/06	6/07	6/08	6/09
iMergent, Inc.	100.00	151.86	186.25	353.55	177.09	106.68
NASDAQ Composite	100.00	101.09	109.49	132.47	117.33	92.91
AMEX Composite	100.00	131.88	164.58	205.93	204.46	151.95
Peer Group	100.00	63.57	97.59	111.74	114.04	104.54

The stock price performance included in this graph is not necessarily indicative of future stock price performance. The Company will neither make nor endorse any predictions as to future stock performance.

ITEM 6.

SELECTED FINANCIAL DATA

The following selected financial data should be read in conjunction with the consolidated financial statements and the notes thereto, as well as the discussion under Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, included in this Form 10-K. The consolidated statement of operations data for each of the years in the three-year period ended June 30, 2009, and the consolidated balance sheet data as of June 30, 2009 and 2008 are derived from our audited consolidated financial statements included elsewhere in this Form 10-K. The consolidated statement of operations data for the years ended June 30, 2006 and 2005 and the consolidated balance sheet data as of June 30, 2007, 2006 and 2005 are derived from audited consolidated financial statements not included in this Form 10-K. Historical results are not necessarily indicative of the results to be expected in the future.

	Years ended June 30,				
	2009	2008	2007	2006	2005
	(in thousands, except share and per share amounts)				
Consolidated Statement of Operations Data:					
Revenue	\$ 94,411	\$ 128,048	\$ 151,617	\$ 185,089	\$ 39,075
Net income (loss)	\$ (7,542)	\$ 3,142	\$ 24,001	\$ 110,622	\$ (29,517)
Net income (loss) per common share:					
Basic	\$ (0.66)	\$ 0.27	\$ 1.94	\$ 9.09	\$ (2.49)
Diluted	\$ (0.66)	\$ 0.26	\$ 1.87	\$ 8.76	\$ (2.49)
Dividends per common share	\$ 0.17	\$ 0.44	\$ 0.20	\$ —	\$ —
Weighted average common shares outstanding:					
Basic	11,371,000	11,676,000	12,344,000	12,164,000	11,835,000
Diluted	11,371,000	11,858,000	12,830,000	12,625,000	11,835,000

	As of June 30,				
	2009	2008	2007	2006	2005
	(in thousands)				
Consolidated Balance Sheet Data: (1)					
Cash and cash equivalents	\$ 20,474	\$ 26,184	\$ 36,859	\$ 30,023	\$ 10,691
Working capital (deficit)	16,337	20,558	35,755	19,492	(6,212)
Total assets	67,354	86,614	96,710	66,012	38,927
Deferred revenue	33,863	43,191	42,455	28,757	114,050
Debt and collateralized borrowings	115	179	—	—	763
Capital lease obligations	—	—	—	91	170
Stockholders' equity (deficit)	24,400	32,475	44,408	29,979	(83,603)

(1) In December 2005, the Company changed its business model to: (1) limit certain "free" services to a period of one year for all customers who purchased the StoresOnline software prior to December 20, 2005, and (2) begin charging customers for those services as part of customer support. This change in business model resulted in the recognition of previously deferred product and other revenue of \$108 million in December 2005, which would have been recognized in future periods had the change in business model not occurred. Subsequent to the change in business model in December 2005, cash sales of the StoresOnline

Software ("SOS") licenses and other products are recognized as revenue, net of expected customer refunds, upon expiration of the customers' rescission period, which occurs three days after the licenses and products are delivered. Fees for SOS licenses sold under extended payment term arrangements ("EPTAs") are recognized as revenue as cash payments are received from the customer and not at the time of sale.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

OVERVIEW

Our Business, Industry and Target Market

iMergent, Inc. is incorporated under the laws of Delaware and is an eServices company that provides eCommerce technology, training and a variety of web-based technologies and resources including search engine optimization and search engine management services to entrepreneurs and small, medium, and large enterprises. Our eServices offerings leverage industry and client practices and are designed to help increase the predictability of success for Internet merchants. Our services are also designed to help decrease the risks associated with eCommerce implementation by providing low-cost, scalable solutions with ongoing industry updates and support. Our strategic vision is to remain an eCommerce provider focused on our target markets. We sell and market our products and services in the United States and international (English-speaking) markets, including Canada, the UK, Australia, New Zealand, and Singapore.

Fluctuations in Quarterly Results and Seasonality

In view of our revenue recognition policies as required by U.S. generally accepted accounting principles (US GAAP) 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 revenues and cash flows, are not necessarily meaningful and should not be relied upon as an indication of future performance. We operate with a June 30 fiscal year end and we experience seasonality in our business. Historically, revenues from our core business during the first fiscal quarter were lower than revenues during our second, third and fourth fiscal quarters. We believe this to be attributable to summer vacations that occur during our first fiscal quarter. We strive to mitigate seasonal fluctuations in our business by conducting workshops in non-seasonal markets throughout the world during periods of seasonality in our primary markets.

Developments Impacting Results of Operations and Cash Flows

In September 2006, the Board of Directors authorized the repurchase of up to \$20,000,000 of the Company's common stock. In September 2007, the Company's Board of Directors authorized the repurchase of an additional \$50,000,000 of the Company's common stock, bringing the total amount authorized for repurchase to \$70,000,000 through September 2012. During the years ended June 30, 2009, 2008 and 2007, the Company repurchased 109,100, 948,297 and 654,398 shares of common stock for \$734,000, \$12,581,000 and \$13,745,000, respectively. As of June 30, 2009, \$42,940,000 remained of the \$70,000,000 approved repurchase amount.

In March 2007, the Board of Directors authorized the initiation of a quarterly cash dividend of \$0.10 per common share. In September 2007, the Board of Directors increased the quarterly cash dividend to \$0.11 per common share. In December 2008, the Board of Directors decreased the quarterly cash dividend to \$0.02 per common share. For the years ended June 30, 2009, 2008, and 2007, \$1,943,000, \$5,113,000, and \$2,442,000 of dividends were declared and paid to common stockholders.

Temporary Injunction in California

In August 2007, the Superior Court of California, County of Ventura, issued a temporary restraining order against us which prohibited us from conducting business in the State of California until, among other things, we register under the California Seller Assisted Marketing Plans ("SAMP") Act. In March 2009, the Company and the Office of the District Attorney of Ventura County, California and the Attorney General of the State of California agreed on a settlement in which the Company agreed to register as a SAMP seller and agreed to certain actions intended to clarify its business practices as well as provide certain notices and information to the State of California. The Company is no longer limited in its ability to conduct business in the State of California. For the year ended June 30, 2007, sales in California represented approximately 12% of our total revenue. For the years ended June 30, 2009 and 2008, we had an insignificant amount of sales in California.

Launch of Crexendo Business Solutions Division

In March 2009, we launched our Crexendo Business Solutions division with a focus on providing customized website design, hosting, search engine optimization and search engine management services to the small, medium, and large enterprises. Unlike our StoresOnline division, which utilizes a two-step training event go to market strategy, Crexendo Business Solutions' go-to market

strategy utilizes a network of value added resellers ("VARs") along with inside telephone sales reps to reach our target market. As of June 30, 2009, we have reseller agreements with 10 VARs. No revenue was generated from our Crexendo Business Solutions division for the year ended June 30, 2009.

Launch of Crexendo Network Services

In February 2009, we launched our Crexendo Network Services division with a focus on providing hosted telecom solutions to the small, medium, and large enterprises. Crexendo Network Services is in the development phase with an anticipated product launch in calendar 2010. Crexendo Network Services will be marketed through both our Crexendo Business Solutions and StoresOnline divisions. No revenue was generated from our Crexendo Network Services division for the year ended June 30, 2009.

Reduction in Staff

In December 2007, we reduced the number of workshop teams from nine to six and reduced our total employee base by 20% in an effort to streamline the launch of StoresOnline Express, visit targeted markets less frequently to cultivate greater demand, and reduce overall Company expenses. In January 2009, we reduced the number of workshop teams from six to four and reduced our total employee base by 20% in response to current market conditions and our increased focus on the small to medium enterprise market.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our consolidated financial statements have been prepared in accordance with US GAAP and form the basis for the following discussion and analysis on critical accounting policies and estimates. The preparation of these financial statements requires 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. Estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Management has discussed the development, selection and disclosure of these estimates with the Board of Directors and its Audit Committee.

A summary of our significant accounting policies is provided in Note 2 to our consolidated financial statements. We believe the critical accounting policies and estimates described below reflect our more significant estimates and assumptions used in the preparation of our 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

The Company sells licenses to customers to use the Company's StoresOnline Software (SOS). The SOS is a web-based software product that enables customers to develop Internet websites for commerce without requiring additional assistance from the Company, if the customers desire. When customers purchase an SOS license at one of the Company's Internet preview seminars or workshops, they receive a license, site key, password, and instructions which allow immediate access to the Company's website and servers where all of the necessary software programs and tools are located to be downloaded or to complete the construction of their websites on the Company's servers. Additionally, the Company provides website setup services and customer support for incremental fees. When customers complete their websites, those websites can be hosted with the Company or any other provider of such services at the customers' option. If the customers choose to host with the Company, the Company will host the websites for an additional fee. Customers have the option to create their websites completely on their own without access to the Company website and the option to host their websites with another hosting service.

The Company also sells website design services, search engine optimization and search engine management services through the Crexendo Business Solutions platform. Revenue for these services is recognized, net of expected refunds, when persuasive evidence of an arrangement exists, work has been completed, the fee is fixed or determinable, and collectability is probable.

Product and Other Revenue

Cash sales of SOS licenses are recognized as revenue, net of expected customer refunds, upon expiration of the customers' rescission period, which typically occurs three days after the licenses and products are delivered or when the Internet training workshop takes place, whichever occurs later.

Fees for SOS licenses sold under extended payment term arrangements (EPTAs) are recognized as revenue upon receipt of cash from customers and not at the time of sale. Although the Company is able to reasonably estimate the collectability of its receivables based upon its long history of offering EPTAs, the American Institute of Certified Public Accountants Statement of Position 97-2, *Software Revenue Recognition (SOP 97-2)*, requires revenue to be deferred until customer payments are received if

collection of the original principal balance is not probable. Additionally, if the Company subsequently sells the receivables on a non-recourse basis, SOP 97-2 requires that the related revenue be deferred until the customer makes cash payments to the third-party purchaser of the receivables.

Fees collected related to sales tax and other government assessed taxes are recognized on a net basis.

Commission and Other Revenue

The Company has contracts with third-party entities with respect to telemarketing product sales to the Company's customers following the sale of the initial software licenses. These products and services are intended to assist the customers with their Internet businesses. These products are sold and delivered completely by third parties. The Company receives commissions from these third parties, and recognizes the commissions as revenue as the commissions are received in cash, net of expected customer refunds, in accordance with Emerging Issues Task Force (EITF) No. 99-19, *Reporting Revenue Gross as a Principal versus Net as an Agent*.

Fees collected for services, including customer support and website hosting, are recognized as revenue, net of expected customer refunds, over the period during which the services are expected to be performed, based upon the vendor specific objective evidence (VSOE) of fair value for such services. Fees related to EPTA contracts are deferred and recognized as revenue during the service period or when cash is collected, whichever occurs later.

In April 2007, the Company began marketing and selling Avail 24/7, an all-in-one communications service which assists small businesses and entrepreneurs to manage phone menus, voicemail, email, and fax in one online application. Customers purchasing the Avail product are charged a non-refundable activation fee along with a monthly service fee. The non-refundable activation fee is deferred and recognized ratably over the estimated customer life, which is currently estimated to be four and one half years. The monthly service fee is recognized ratably over the service period.

Allowance for Doubtful Accounts

Since 1999, the Company has offered to its customers the option to finance, through EPTAs, purchases made at the Internet training workshops. The Company records the receivable and deferred revenue, along with an allowance for doubtful accounts, at the time the EPTA contract is perfected. The allowance represents estimated losses resulting from the customers' failure to make required payments. The allowances for doubtful accounts for EPTAs retained by the Company are netted against the current and long-term trade receivable balances in the consolidated balance sheets. All allowance estimates are based on historical collection experience, specific identification of probable bad debts based on collection efforts, aging of trade receivables, customer payment history, and other known factors, including current economic conditions. If allowances prove inadequate, additional allowances would be required. Because revenue generated from customers financing through EPTAs is deferred and not recognized prior to the collection of cash, adjustments to allowances for doubtful accounts are made through deferred revenue and do not impact operating income or loss. Trade receivables are written-off against the allowance when the related customers are no longer making required payments and the trade receivables are determined to be uncollectible, typically 90 days past their original due date.

Income Taxes

In preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating current income tax liabilities together with assessing temporary differences resulting from differing treatment of items for tax and financial reporting purposes. These temporary differences result in deferred income tax assets and liabilities. Our deferred income tax assets consist primarily of the future benefit of net operating loss carryforwards, certain deferred revenue, accrued expenses and tax credit carryforwards. Under FIN No. 48, we may recognize the tax benefits from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position.

RESULTS OF OPERATIONS

Fiscal year ended June 30, 2009 compared to fiscal year ended June 30, 2008

Revenues

Revenues for the fiscal year ended June 30, 2009 ("fiscal 2009") decreased 26% to \$94,411,000 from \$128,048,000 for the fiscal year ended June 30, 2008 ("fiscal 2008"). Product and other revenue decreased 29% to \$68,664,000 for fiscal 2009 from \$97,141,000 for fiscal 2008. The following table summarizes the activity within deferred revenue for the years ended June 30:

	2009	2008
	(in thousands)	
Deferred revenue, beginning of year	\$ 43,191	\$ 42,455
Add: EPTA contract sales in current year, net of bad debt expense	23,874	34,062
Less: Cash collected in current year on EPTA contract sales	(30,131)	(33,970)
Remaining net change in deferred revenue	(3,071)	644
Deferred revenue, end of year	\$ 33,863	\$ 43,191

Fees for SOS licenses sold under EPTAs are recognized as revenue as cash payments are received from the customer and not at the time of sale. Revenues related to cash collected under EPTA agreements included in product and other revenue decreased to \$30,131,000 for fiscal 2009 compared to \$33,970,000 for fiscal 2008. The remaining decrease in product and other revenues from fiscal 2009 compared to fiscal 2008 is primarily related to a decrease in cash sales of SOS licenses at workshop and preview events which decreased to \$37,395,000 in fiscal 2009 compared to \$61,487,000 in fiscal 2008. The decrease is attributable to: (1) The number of Internet Training Workshops conducted during fiscal 2009 decreased 24% to 783 (including 81 that were held outside the United States) compared to 1,028 (including 184 that were held outside the United States) during fiscal 2008, (2) The average number of buying units in attendance at our workshops during fiscal 2009 was relatively constant at 85 compared to 84 during fiscal 2008. 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, (3) Approximately 28% of the buying units made a purchase at the workshops during fiscal 2009, which is comparable to fiscal 2008, and (4) Cash purchases as a percentage of total workshop purchases decreased to 41% in fiscal 2009 compared to 52% in fiscal 2008.

Revenues were reduced by \$1,840,000 during fiscal 2009 and \$998,000 during fiscal 2008 as a result of various legal matters discussed elsewhere within this document in which agreements were reached, or expected to be reached, allowing for customer refunds.

Commission and other revenue decreased 17% to \$25,747,000 in fiscal 2009 compared to \$30,907,000 in fiscal 2008. The decrease was primarily attributable to a decrease in commission from third parties as a result of fewer leads sent to third parties due to a decrease in the Company's product and other sales.

Cost of Product and Other Revenues

Cost of product and other revenues consists primarily of the cost to conduct Internet Training Workshops, credit card fees and the cost of products sold. Cost of product and other revenues for fiscal 2009 decreased 29% to \$29,138,000 from \$41,191,000 for fiscal 2008. The decrease in cost of product and other revenues is primarily attributable to the decrease in workshop revenue along with the implementation of cost saving measures designed to reduce travel and event costs. Trends in cost of product and other revenues will not always be consistent with the trends in revenue due to the fact that cost of product and other revenues is typically recognized at the time of sale and no later than the expiration of the customer's three-day cancellation period, but the related revenue is often deferred in accordance with SOP 97-2.

Selling and Marketing

Selling and marketing expenses consist of payroll and related expenses for sales and marketing activities, advertising, and promotional and public relations expenses. Selling and marketing expenses for fiscal 2009 decreased 25% to \$52,434,000 from \$69,787,000 for fiscal 2008. The decrease in selling and marketing expenses is primarily attributable to a 24% decrease in the number of Internet Training Workshops conducted during fiscal 2009 compared to fiscal 2008. The increase in selling and marketing expense as a percentage of workshop revenue, to 76% in fiscal 2009 from 72% in fiscal 2008, is primarily related to a lower response to our marketing efforts at the preview training sessions due to several factors including the unfavorable global economic environment which resulted in a cutback in consumer and business spending. Trends in selling and marketing expenses will not always be consistent with the trends in revenues due to the fact that selling and marketing expenses are typically recognized when incurred, at the time of sale,

and no later than the expiration of the customer's three-day cancellation period, but the related revenues are often deferred in accordance with SOP 97-2.

General and Administrative

General and administrative expenses consist of payroll and related expenses for executive, accounting and administrative personnel, legal, accounting and other professional fees, finance company service fees, and other general corporate expenses. General and administrative expenses in fiscal 2009 increased 2% to \$18,541,000 from \$18,210,000 in fiscal 2008. The small increase in general and administrative expenses is primarily due to an increase in professional fees related to the IRS audit as discussed in Note 6 to the consolidated financial statements.

Interest Income

Interest income is primarily derived from the EPTA contracts, which generally carry an 18% simple interest rate. Interest income for fiscal 2009 decreased 23% to \$6,799,000 compared to \$8,858,000 for fiscal 2008. The decrease is attributable to the decrease in the collection of trade receivables.

Income Tax Provision

During fiscal 2009, we recorded an income tax provision of \$5,681,000. This compares to an income tax provision of \$3,039,000 during fiscal 2008. Income taxes are based on the estimated effective federal, state and foreign income tax rates. The income tax provision recorded in fiscal 2009 is higher than federal, state, and foreign statutory rates as a result of our settlement with the Internal Revenue Service ("IRS") and the creation of a valuation allowance on certain deferred tax assets.

In August 2009, we reached a settlement with the IRS resulting from its audit of our income tax returns for fiscal years 2007, 2006, and 2005. The settlement with the IRS related to the follow items:

- the deductibility, under the provisions of Internal Revenue Code Section 274 ("Section 274"), of 50% of the cost of meals provided to attendees at our preview and workshop training sessions. The settlement reached with the IRS appeals office allows us to deduct 100% of all meals provided to attendees at both the preview and workshop training sessions. Therefore, no liabilities are recognized in the consolidated financial statements related to this issue.
- limitations imposed by Internal Revenue Code Section 382 ("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. From the time of our formation through fiscal 2002, we issued a significant number of shares, resulting in two changes of control, as defined by Section 382. As a result of the most recent ownership change, utilization of our pre-ownership change NOL carryovers are subject to an annual limitation under Section 382. The annual limitation is determined by multiplying the value of our stock at the time of the ownership change by the applicable federal long-term tax-exempt rate. Any unused annual limitation may be carried over to later years (until those NOLs expire), 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"). We had previously determined we had sufficient built-in gains to offset future income without limitation. As a result of the settlement reached with the IRS, we conceded that the fiscal 2002 ownership change resulted in a Section 382 limitation of \$461,000 per year and that there were not sufficient built-in gains to offset future income. Based on this settlement, we have determined that it is more likely than not that approximately \$14,641,000 of our federal NOL carry forwards will expire unutilized. Accordingly, during fiscal 2009, we recorded a valuation allowance of \$5,124,000 related to these federal NOL carry forwards.
- the IRS argued to re-open our income tax returns for the fiscal years ended June 30, 2004 and 2003, both of which are closed from examination. The IRS argued that under Section 481(a) there was a change in "method of accounting" with respect to our recognized built-in-gains described above. As part of the settlement, the IRS appeals office found no merit to the assertion that Section 481(a) can be applied to the fiscal 2004 and 2003 tax returns. Therefore, no liabilities are recognized in the consolidated financial statements related to this issue.

Fiscal year ended June 30, 2008 compared to fiscal year ended June 30, 2007

Revenues

Revenues for the fiscal year ended June 30, 2008 ("fiscal 2008") decreased 16% to \$128,048,000 from \$151,617,000 for the fiscal year ended June 30, 2007 ("fiscal 2007"). Product and other revenues decreased 23% to \$97,141,000 for fiscal 2008 from \$125,552,000 for fiscal 2007. The following table summarizes the activity within deferred revenue for the years ended June 30:

	2008	2007
	(in thousands)	
Deferred revenue, beginning of year	\$ 42,455	\$ 28,757
Add: EPTA contract sales in current year, net of bad debt expense	34,062	38,333
Less: Cash collected in current year on EPTA contract sales	(33,970)	(21,775)
Remaining net change in deferred revenue	644	(2,860)
Deferred revenue, end of year	\$ 43,191	\$ 42,455

Revenues related to cash collected under EPTA agreements included in product and other revenues increased to \$33,970,000 in fiscal 2008 compared to \$21,775,000 in fiscal 2007. This increase was offset by a decrease in product and other revenues from fiscal 2008 compared to fiscal 2007 and are primarily related to a decrease in cash sales of SOS licenses at workshop and preview events which decreased to \$61,487,000 in fiscal 2008 compared to \$91,222,000 in fiscal 2007. The decrease in revenues from fiscal 2008 compared to fiscal 2007 is attributable to the following factors: (1) The number of Internet Training Workshops conducted during fiscal 2008 decreased to 1,028 (including 184 that were held outside the United States) compared to 1,193 (including 264 that were held outside the United States) during fiscal 2007, (2) The average number of buying units in attendance at our workshops during fiscal 2008 was 84 compared to 95 during fiscal 2007. 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, (3) Approximately 28% of the buying units made a purchase at the workshops during fiscal 2008, which is comparable to fiscal 2007, and (4) Purchases under EPTAs as a percentage of total workshop purchases increased to 48% in fiscal 2008 compared to 40% in fiscal 2007. Revenues were reduced by \$998,000 during fiscal 2008 as a result of various legal matters discussed elsewhere within this document in which agreements were reached, or expected to be reached, allowing for customer refunds.

Commission and other revenues increased 19% to \$30,907,000 for fiscal 2008 compared to \$26,065,000 for fiscal 2007. The increase was primarily attributable to an increase in commissions from third parties as a result of an increase in strategic partnerships.

Cost of Product and Other Revenue

Cost of product and other revenue consists primarily of the cost to conduct Internet Training Workshops, credit card fees and the cost of products sold. Cost of product and other revenue for fiscal 2008 decreased 15% to \$41,191,000 from \$48,720,000 for fiscal 2007. The decrease in cost of product and other revenue is primarily attributable to the decrease in product and other revenue. Trends in cost of product and other revenue will not always be consistent with the trends in revenue due to the fact that cost of product and other revenue is typically recognized at the time of sale and no later than the expiration of the customers' three-day cancellation period, but the related revenue is often deferred in accordance with SOP 97-2.

Selling and Marketing

Selling and marketing expenses consist of payroll and related expenses for sales and marketing activities, advertising, and promotional and public relations expenses. Selling and marketing expenses for fiscal 2008 increased 18% to \$69,787,000 from \$66,744,000 for fiscal 2007. The increase in selling and marketing expenses is primarily attributable to lower response rates to our selling and marketing activities due to negative economic conditions as well as negative media reports about the Company. Additionally, salaries and wages increased over fiscal 2007 despite a decrease in sales due to larger preview sales teams as a result of

the implementation of StoresOnline Express during the third quarter of fiscal 2008. Increases in postage on the Company's direct mail materials also caused an increase in advertising expense. Selling and marketing expenses were also negatively impacted by increased travel costs associated with higher fuel prices. Trends in selling and marketing expenses will not always be consistent with the trends in revenues due to the fact that selling and marketing expenses are typically recognized when incurred, at the time of sale, and no later than the expiration of the customers' three-day cancellation period, but the related revenues are often deferred in accordance with SOP 97-2.

General and Administrative

General and administrative expenses consist of payroll and related expenses for executive, accounting and administrative personnel; legal, accounting and other professional fees, finance company service fees, and other general corporate expenses. General and administrative expenses in fiscal 2008 increased 18% to \$18,210,000 from \$15,480,000 in fiscal 2007. The increase in general and administrative expenses during fiscal 2008 is primarily attributable to an increase in legal fees of \$900,000 associated with various legal actions and an increase in financial servicing fees of \$1,119,000 as a result of higher collections of accounts receivable. The balance of the increase in general and administrative expenses is the result of the general increase in costs for items such as insurance, rent, telephone, office supplies and other expenses.

Interest Income

Interest income is primarily derived from the EPTA contracts, which generally carry an 18% simple interest rate. Interest income for fiscal 2008 increased 25% to \$8,858,000 compared to \$7,079,000 for fiscal 2007. The increase is attributable to the increase in the collections of trade receivables.

Income Tax Provision

During fiscal 2008, we recorded an income tax provision of \$3,039,000 compared to \$2,686,000 during fiscal 2007. Income taxes are based on the estimated annual effective federal, state and foreign income tax rates. The income tax provision recorded in fiscal 2008 is higher than federal, state, and foreign statutory rates as a result of changes in estimates of state net operating loss apportionments and as a result of stock-based compensation expense for incentive stock options which is not deductible for income tax purposes.

In December 2005, we determined that it was more-likely-than-not that \$11,877,000 of our net deferred income tax assets would be realized. Due to our increased taxable earnings projections and discrete event developments in the resolution of certain contingencies during fiscal 2007, we determined that it was more-likely-than-not that our remaining deferred income tax assets of \$7,746,000 would be realized. The benefit resulting from the removal of the corresponding valuation allowance was offset by an income tax provision of \$10,432,000, resulting in a net income tax provision of \$2,686,000 during fiscal 2007.

LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2009, we had working capital of \$16,337,000 compared to working capital of \$20,558,000 as of June 30, 2008. As of June 30, 2009, we had working capital, excluding deferred revenue, of \$39,964,000 compared to \$53,417,000 as of June 30, 2008. Deferred revenue balances represent historical sales for which the Company cannot immediately recognize revenue. The costs and expenses we incur as these deferred revenue amounts are recognized as product and other revenues are expected to be insignificant. Consequently, we do not consider deferred revenue to be a factor that impacts our liquidity or future cash requirements.

Cash and Cash Equivalents

As of June 30, 2009, we had \$20,474,000 of cash and cash equivalents compared to \$26,184,000 as of June 30, 2008. During fiscal 2009 we used \$6,985,000 in cash for operating activities. During fiscal 2008 and 2007, we generated positive cash flows from operating activities of \$10,361,000, and \$22,554,000, respectively.

Available-For-Sale Securities

As of June 30, 2009, we held no available-for-sale securities compared to \$3,800,000 as of June 30, 2008. Available-for-sale securities consisted primarily of auction rate securities ("ARS"). These were long-term variable rate bonds tied to short-term interest rates that reset through a "dutch auction" process, historically occurring every 7 to 35 days, and other variable rate debt and equity securities, which were held by Merrill Lynch. In January 2009, we liquidated all of our ARS at par value.

Trade Receivables

Trade receivables and long-term trade receivables, net of allowance for doubtful accounts, totaled \$30,756,000 as of June 30, 2009, compared to \$38,568,000 as of June 30, 2008. Long-term trade receivables, net of allowance for doubtful accounts, were \$9,985,000 as of June 30, 2009 compared to \$9,845,000 as of June 30, 2008. We offer our customers a 24-month installment contract as one of several payment options. The payments that become due more than 12 months after the end of the fiscal period are classified as long-term trade receivables.

We have sold some of our domestic trade receivables in the past. In the future, we may evaluate agreements with third-party financing companies for the sale of our international and domestic trade receivables.

Accounts Payable

Accounts payable as of June 30, 2009 totaled \$2,266,000, compared to \$4,760,000 as of June 30, 2008. The aging of accounts payable as of June 30, 2009 and 2008 was generally within our vendors' terms of payment.

Capital Requirements – Contractual Obligations

The following table summarizes our significant contractual obligations as of June 30, 2009:

	Payments due by Period (1)				
	Total	Less than 1 year	1 to 3 years	3 to 5 years	5 years and thereafter
			(in thousands)		
Operating leases (2)	\$ 6,880	\$ 1,557	\$ 4,846	\$ 477	\$ —
Advertising commitments (3)	329	329	—	—	—
Consulting agreements (4)	474	294	180	—	—
Total contractual cash obligations	\$ 7,683	\$ 2,180	\$ 5,026	\$ 477	\$ —

- (1) Payments are included in the period in 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 2013. Payments due reflect cash to be paid for rent.
- (3) Represents our commitments associated with certain advertising contracts and includes contracts that expire in 2010.
- (4) Represents our commitments associated with certain consulting agreements and includes contracts that expire in 2010 and 2011.

Capital

As of June 30, 2009, total stockholders' equity was \$24,400,000, down 25% from \$32,475,000 as of June 30, 2008. The decrease in total stockholders' equity was attributable to a net loss of \$7,542,000, the purchase and retirement of \$734,000 of our common stock and the payment of \$1,943,000 in dividends to common stockholders. The decrease in total stockholders' equity was partially offset by \$600,000 in proceeds from the exercise of stock options and related income tax benefit, and \$1,544,000 for stock option compensation expense.

On March 7, 2007, we initiated a quarterly cash dividend of \$0.10 per common share. On September 5, 2007, we increased our quarterly cash dividend to \$0.11 per common share. On December 19, 2008, the Company announced a \$0.02 per common share quarterly cash dividend. As we experienced a net a loss in fiscal 2009, the dividend payout ratio, representing dividends per common share divided by basic and diluted net income per common share, is not a meaningful measure.

Common Stock Repurchase Program

On September 5, 2006, the Company's board of directors authorized the repurchase of up to \$20,000,000 of the Company's common stock. In September 2007, the board of directors authorized the repurchase of an additional \$50,000,000 of the Company's common stock. During the years ended June 30, 2009, 2008, and 2007 the Company repurchased \$734,000, \$12,581,000, and 13,745,000 of common stock, respectively. The Company expects to purchase common stock from time to time over the next two years but may suspend or discontinue purchasing the common stock at any time. The repurchased common stock was retired.

OFF BALANCE SHEET ARRANGEMENTS

We have no off-balance sheet arrangements other than operating leases. We do not believe that these operating leases are material to our current or future financial position, results of operations, revenues or expenses, liquidity, capital expenditures or capital resources.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Recently Adopted Accounting Pronouncements

On July 1, 2008, the Company adopted SFAS No. 157, *Fair Value Measurements*, for all financial assets and liabilities and nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in U.S. generally accepted accounting

principles, and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. The adoption of SFAS No. 157 did not have a material impact on the Company's consolidated financial position or results of operations. The additional disclosures required by SFAS No. 157 are included in Note 7 to the consolidated financial statements.

SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115*, became effective for the Company on July 1, 2008. SFAS No. 159 gives the Company the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis

with the difference between the carrying value before election of the fair value option and the fair value recorded upon election as an adjustment to beginning retained earnings. The Company chose not to elect the fair value option.

In March 2008, SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133*, was issued which requires additional disclosures about the objectives of derivative instruments and hedging activities, the method of accounting for such instruments under SFAS No. 133 and its related interpretations, and a tabular disclosure of the effects of such instruments and related hedged items on the Company's financial position, financial performance, and cash flows. SFAS No. 161 was effective beginning January 1, 2009. The adoption of SFAS No. 161 did not have a material impact on the Company's consolidated financial statements.

Recent Accounting Pronouncements Not Yet Adopted

In February 2008, FASB Staff Position 157-2, *Effective Date of FASB Statement No. 157*, was issued which delays the effective date of SFAS No. 157 to July 1, 2009 for the Company, for all nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The Company believes the adoption of the delayed items of SFAS No. 157 will not have a material impact on the consolidated financial statements. In December 2007, SFAS No. 141R, *Business Combinations*, was issued which replaces SFAS No. 141. SFAS No. 141R retains the purchase method of accounting for acquisitions, but requires a number of changes, including changes in the way assets and liabilities are recognized in the purchase accounting. It also changes the recognition of assets acquired and liabilities assumed arising from contingencies, requires the capitalization of in-process research and development at fair value, and requires the expensing of acquisition-related costs as incurred. SFAS No. 141R is effective for the Company beginning July 1, 2009 and will be applied prospectively to business combinations completed on or after that date.

In December 2007, SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51*, was issued which changes the accounting and reporting for minority interests. Minority interests will be recharacterized as noncontrolling interests and will be reported as a component of equity separate from the parent's equity, and purchases or sales of equity interests that do not result in a change in control will be accounted for as equity transactions. In addition, net income attributable to the noncontrolling interest will be included in net income and, upon a loss of control, the interest sold, as well as any interest retained, will be recorded at fair value, with any gain or loss recognized in net income. SFAS No. 160 is effective for the Company beginning July 1, 2009 and will apply prospectively, except for the presentation and disclosure requirements, which will apply retrospectively. The Company believes the adoption of SFAS No. 160 will not have a material impact on the consolidated financial statements.

In June 2009, the FASB issued SFAS No. 167, *Amendment to FASB Interpretation No. 46(R)*, which amends certain requirements of FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities (VIE)*. The statement requires a qualitative rather than quantitative analysis to determine the primary beneficiary of a VIE, requires continuous assessment of whether an enterprise is the primary beneficiary of a VIE and requires enhanced disclosures about an entity's involvement with a VIE. This statement is effective for the Company in fiscal 2011 and the Company is evaluating the impact of this statement on its overall financial position.

FORWARD-LOOKING STATEMENTS AND FACTORS THAT MAY AFFECT FUTURE RESULTS AND FINANCIAL CONDITION

With the exception of historical facts, the statements contained in Management's Discussion and Analysis of Financial Condition and Results of Operations are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, which reflect our current expectations and beliefs regarding our future results of operations, performance and achievements. The section entitled "Business" above in Part I, Item 1 of this Form 10-K also includes forward-looking statements. These statements are subject to risks and uncertainties and are based upon assumptions and beliefs that may or may not materialize. These forward-looking statements include, but are not limited to, statements concerning:

- our belief that our target market will increasingly look to Internet solutions providers who leverage industry and customer practices, increase predictability of success of their Internet initiatives and decrease implementation risks by providing low-cost, scalable solutions with minimal lead time;
- our belief that we can compete successfully by relying on our infrastructure, marketing strategies as well as techniques, systems and procedures, and by adding additional products and services in the future;
- our belief that we can continue our success by periodic review and revision of our methods of doing business and by continuing our expansion into international markets;

- our belief that a key component of our success comes from a number of new, recently developed proprietary technologies and that these technologies and advances distinguish our services and products from our competitors and further help to substantially reduce our operating costs and expenses;

our contention 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;

- our belief that we operate in compliance with laws concerning sales practices and more particularly that we are not obligated to offer more than a three-day right of rescission;
- our belief there is a large, fragmented and under-served population of small businesses and entrepreneurs searching for professional services firms that offer business-to-consumer eCommerce solutions coupled with support and continuing education;
- our belief that continuously testing and implementing changes to our business model may further reduce the level of investment necessary to get customers to attend our events and to increase our value proposition to these customers;
- our expectation that our offering of products and services will evolve as some products are replaced by new and enhanced products intended to help our customers achieve success with their Internet-related businesses;
- our expectation that Crexendo Network Services will have a product launch in calendar 2010; and
- our expectation that the costs and expenses we incur will be insignificant as deferred revenue amounts are recognized as product and other revenues when cash is collected.

We caution readers that our operating results are subject to various risks and uncertainties that could cause our actual results and outcomes to differ materially from those discussed or anticipated, including changes in economic conditions and internet technologies, fluctuations in weather patterns, interest rate fluctuations, and the factors set forth in the section entitled, “Risk Factors,” under Part I, item 1A of this Form 10-K. We also advise readers not to place any undue reliance on the forward-looking statements contained in this report, which reflect our beliefs and expectations only as of the date of this report. We assume no obligation to update or revise these forward-looking statements to reflect new events or circumstances or any changes in our beliefs or expectations, other than as required by law.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

We are exposed to market risk from changes in interest and foreign exchange rates.

As of June 30, 2009, we had approximately \$20,474,000 of cash and cash equivalents. These amounts were invested primarily in money market funds, U.S. government securities, corporate bonds and commercial paper. We believe that while the instruments we hold are subject to changes in the financial standing of the issuer of such securities, we are not subject to any material risks arising from changes in interest rates, commodity prices or other market changes that affect market risk sensitive instruments. However, should interest rates decline, our future interest income will decrease. If overall interest rates had fallen by 10% in the twelve months ended June 30, 2009, our interest income would have decreased by approximately \$31,000 assuming consistent levels of interest-bearing instruments.

As of June 30, 2009, we had approximately \$2,606,000 of net trade receivables denominated in foreign currencies with maturity dates between 2009 and 2010. These trade receivables are translated into U.S. dollars at the exchange rates as of each balance sheet date and the corresponding adjustments are recorded in deferred revenue. As amounts are collected on our foreign denominated trade receivables, future revenues and cash flows may be adversely impacted by fluctuations in foreign currency exchange rates. If the U.S. dollar had strengthened overall by 1% as of June 30, 2009, our net trade receivable balance would have decreased by approximately \$26,000.

As of June 30, 2009, we had approximately \$244,000 of cash and cash equivalents denominated in foreign currencies. These cash and cash equivalent balances are translated into U.S. dollars at the exchange rates as of each balance sheet date and the corresponding adjustments are recorded in other income, net. Future earnings and cash and cash equivalent balances may be adversely impacted by fluctuations in foreign currency exchange rates. If the U.S. dollar had strengthened overall by 1% as of June 30, 2009, our cash and cash equivalents would have decreased by approximately \$2,000.

ITEM 8.

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Financial Statements

iMergent, Inc. and Subsidiaries

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Financial Statement Schedule

iMergent, Inc. and Subsidiaries

The following consolidated financial statement schedule of iMergent, Inc. and subsidiaries 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.

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Exhibits. The exhibits listed in 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.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
iMergent, Inc.

We have audited the accompanying consolidated balance sheets of iMergent, Inc. and subsidiaries (collectively, the Company) as of June 30, 2009 and 2008, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended June 30, 2009. Our audits also included the financial statement schedule listed in the Index at Item 15(2). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. 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 financial position of iMergent, Inc. and subsidiaries as of June 30, 2009 and 2008, and the results of their operations and their cash flows for each of the years in the three-year period ended June 30, 2009, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ Tanner LC

Salt Lake City, Utah
September 1, 2009

IMERGENT, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
(Dollars in thousands, except per share data)

	June 30, 2009	June 30, 2008
Assets		
Current assets:		
Cash and cash equivalents	\$ 20,474	\$ 26,184
Restricted cash	1,802	—
Trade receivables, net of allowance for doubtful accounts of \$9,670 as of June 30, 2009 and \$13,797 as of June 30, 2008	20,771	28,723
Inventories	256	627
Income tax receivable	1,826	793
Deferred income tax assets, current portion	2,171	3,891
Prepaid expenses and other	1,524	3,849
Total current assets	48,824	64,067
Certificate of deposit	500	500
Available-for-sale securities	—	3,800
Long-term trade receivables, net of allowance for doubtful accounts of \$4,437 as of June 30, 2009 and \$4,786 as of June 30, 2008	9,985	9,845
Property and equipment, net	1,322	1,672
Deferred income tax assets, net of current portion	4,975	4,385
Intangible assets	1,400	1,831
Merchant account deposits and other	348	514
Total Assets	\$ 67,354	\$ 86,614

Liabilities and Stockholders' Equity

Current liabilities:		
Accounts payable	\$ 2,265	\$ 4,760
Accrued expenses and other	6,257	5,614
Dividend payable	229	—
Income taxes payable	41	212
Deferred revenue, current portion	23,627	32,859
Note payable, current portion	68	64
Total current liabilities	32,487	43,509
Deferred revenue, net of current portion	10,236	10,332
Note payable, net of current portion	47	115
Other long-term liabilities	184	183
Total liabilities	42,954	54,139

Commitments and contingencies (Note 9)

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; 11,425,320 and 11,304,410 shares outstanding as of June 30, 2009 and June 30, 2008, respectively	11	11
Additional paid-in capital	52,782	53,315
Accumulated deficit	(28,393)	(20,851)
Total stockholders' equity	<u>24,400</u>	<u>32,475</u>
Total Liabilities and Stockholders' Equity	<u>\$ 67,354</u>	<u>\$ 86,614</u>

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

IMERGENT, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
(Dollars in thousands, except per share data)

	Years Ended June 30,		
	2009	2008	2007
Revenues:			
Product and other	\$ 68,664	\$ 97,141	\$ 125,552
Commission and other	25,747	30,907	26,065
Total revenues	94,411	128,048	151,617
Operating expenses:			
Cost of product and other revenues	29,138	41,191	48,720
Selling and marketing	52,434	69,787	66,744
General and administrative	18,541	18,210	15,480
Research and development	2,177	2,113	1,243
Total operating expenses	102,290	131,301	132,187
Income (loss) from operations	(7,879)	(3,253)	19,430
Other income (expense):			
Interest income	6,799	8,858	7,079
Interest expense	(13)	(3)	(3)
Other income (expense), net	(768)	579	181
Total other income, net	6,018	9,434	7,257
Income (loss) before income tax provision	(1,861)	6,181	26,687
Income tax provision	(5,681)	(3,039)	(2,686)
Net income (loss)	\$ (7,542)	\$ 3,142	\$ 24,001
Net income (loss) per common share:			
Basic	\$ (0.66)	\$ 0.27	\$ 1.94
Diluted	\$ (0.66)	\$ 0.26	\$ 1.87
Dividends per common share	\$ 0.17	\$ 0.44	\$ 0.20
Weighted-average common shares outstanding:			
Basic	11,371,303	11,676,188	12,344,306
Diluted	11,371,303	11,857,808	12,829,873

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

IMERGENT, INC. AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity
Years Ended June 30, 2009, 2008, and 2007
(Dollars in thousands)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
Balance, July 1, 2006	12,375,313	\$ 12	\$ 77,762	\$ (47,795)	\$ 29,979
Expense for stock options granted to consultants	—	—	34	—	34
Expense for stock options granted to employees	—	—	2,035	—	2,035
Stock issued under stock award plans (net of forfeitures) and related income tax benefit of \$2,048	385,792	—	4,546	—	4,546
Repurchase of common stock	(654,398)	—	(13,745)	—	(13,745)
Dividends declared	—	—	(2,442)	—	(2,442)
Net income	—	—	—	24,001	24,001
Balance, June 30, 2007	12,106,707	12	68,190	(23,794)	44,408
FIN 48 cumulative adjustment	—	—	—	(199)	(199)
Expense for stock options granted to employees	—	—	1,902	—	1,902
Stock issued under stock award plans (net of forfeitures) and related income tax benefit of \$263	146,000	—	916	—	916
Repurchase of common stock	(948,297)	(1)	(12,580)	—	(12,581)
Dividends declared	—	—	(5,113)	—	(5,113)
Net income	—	—	—	3,142	3,142
Balance, June 30, 2008	11,304,410	11	53,315	(20,851)	32,475
Expense for stock options granted to employees	—	—	1,544	—	1,544
Stock issued under stock award plans (net of forfeitures) and related income tax benefit of \$1	230,010	—	600	—	600
Repurchase of common stock	(109,100)	—	(734)	—	(734)
Dividends declared	—	—	(1,943)	—	(1,943)
Net loss	—	—	—	(7,542)	(7,542)
Balance, June 30, 2009	11,425,320	\$ 11	\$ 52,782	\$ (28,393)	\$ 24,400

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

iMERGENT, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(Dollars in thousands)

Increase (decrease) in cash and cash equivalents	Years Ended June 30,		
	2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	\$ (7,542)	\$ 3,142	\$ 24,001
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:			
Depreciation and amortization	1,468	1,196	620
Expense for stock options issued to employees	1,544	1,902	2,035
Expense for stock options issued to consultants	—	—	34
Changes in assets and liabilities:			
Trade receivables	7,812	342	(17,983)
Inventories	371	(200)	(276)
Prepaid expenses and other	2,325	307	(1,417)
Restricted cash	(1,802)	—	—
Merchant account deposits and other	166	251	235
Income tax receivable	(1,033)	(498)	(295)
Deferred income tax asset	1,130	2,460	(760)
Other long-term liabilities	1	(16)	—
Accounts payable, accrued expenses and other	(1,926)	2,451	1,086
Deferred revenue	(9,328)	736	13,698
Income taxes payable	(171)	(1,712)	1,576
Net cash provided by (used for) operating activities	<u>(6,985)</u>	<u>10,361</u>	<u>22,554</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property and equipment	(613)	(604)	(1,710)
Issuance of note receivable	—	—	(1,000)
Repayment of note receivable	—	167	—
Purchase of intangible assets	—	—	(1,276)
Purchase of available-for-sale securities	—	(3,800)	—
Sale of available-for-sale securities	3,800	—	—
Net cash provided by (used for) investing activities	<u>3,187</u>	<u>(4,237)</u>	<u>(3,986)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Repurchase of common stock	(734)	(12,581)	(13,745)
Proceeds from exercise of options and related income tax benefit	600	916	4,546
Principal payments on capital lease obligations	—	—	(91)
Principal payments on note payable	(64)	(21)	—
Dividend payments	(1,714)	(5,113)	(2,442)
Net cash used for financing activities	<u>(1,912)</u>	<u>(16,799)</u>	<u>(11,732)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(5,710)	(10,675)	6,836

CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	26,184	36,859	30,023
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CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	\$ 20,474	\$ 26,184	\$ 36,859
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The accompanying notes are an integral part of these consolidated financial statements.

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

Increase (decrease) in cash and cash equivalents	Years Ended June 30,		
	2009	2008	2007
Supplemental disclosures of non-cash transactions:			
Dividends declared	\$ 229	\$ —	\$ —
Cumulative effect of adoption of FIN 48	—	199	—
Conversion of note receivable to intangible asset	—	833	—
Purchase of property and equipment with note payable	—	200	—
Cash paid during the year for:			
Interest	7	3	67
Income taxes	5,790	2,546	333

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

iMERGENT, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

1. Description of Business

iMergent, Inc. is incorporated in the state of Delaware. As used hereafter in the notes to consolidated financial statements, the "Company" refers to iMergent, Inc. and its wholly owned subsidiaries. The Company is 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. The Company's services are designed to help decrease the risks associated with eCommerce implementation by providing low-cost, scalable solutions and providing support and information regarding industry developments.

The consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP") and pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). These consolidated financial statements reflect the results of operations, financial position, changes in stockholders' equity, and cash flows of iMergent, Inc. and its wholly owned subsidiaries.

2. Summary of Significant Accounting Policies

(a) Principles of Consolidation

The consolidated financial statements include the accounts and operations of iMergent, Inc. and its wholly owned subsidiaries, which include Avail 24/7 Inc., Crexendo Business Solutions, Inc., Galaxy Mall, Inc., StoresOnline Inc., StoresOnline International Canada, StoresOnline International, Inc., StoresOnline International Ltd., ULC and Internet Training Group, Inc. All significant intercompany account balances and transactions have been eliminated in consolidation.

(b) Cash and Cash Equivalents

The Company considers all highly liquid, short-term investments with maturities of three months or less at the time of purchase to be cash equivalents. As of June 30, 2009, the Company has cash and cash equivalents in financial institutions in excess of federally insured limits in the amount of \$20,107,000. The Company classified \$1,802,000 and \$0 as restricted cash as of June 30, 2009 and 2008, respectively, to reflect the compensating balance requirement of its merchant account and purchasing card agreements.

(c) Trade Receivables

The Company offers to its customers the option to finance, through extended payment term arrangements ("EPTAs"), purchases made at its Internet Training Workshops. EPTAs are reflected as short-term and long-term trade receivables, as applicable, if the Company has the intent and ability to hold the receivables for the foreseeable future, until maturity or payoff.

The Company records an appropriate allowance for doubtful accounts at the time the EPTA contract is perfected. The allowance represents estimated losses resulting from customers' failure to make required payments. The allowance for doubtful accounts for EPTAs retained by the Company is netted against the current and long-term trade receivables balances. All allowance estimates are based on historical collection experience, specific identification of probable bad debts based on collection efforts, aging of trade receivables, customer payment history, and other known factors, including current economic conditions. The Company believes that the allowance for doubtful accounts is adequate based on the Company's assessment to date, however, actual collection results may differ materially from the Company's expectations. Because revenue generated from customers financing through EPTAs is deferred and not recognized prior to the collection of cash, adjustments to the allowance for doubtful accounts increase or decrease deferred revenue, but do not impact operating income or loss. Trade receivables are written off against the allowance when the related customers are no longer making required payments and the trade receivables are determined to be uncollectible, typically 90 days past their original due date.

Interest income is primarily earned from EPTA contracts. EPTA contract terms generally contain an 18% simple interest rate. Interest income is recognized on these accounts only to the extent cash is received. For the years ended June 30, 2009, 2008, and 2007, the Company recognized \$6,799,000, \$8,858,000, and \$7,079,000 in interest income, respectively.

(d) Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market. Inventories primarily consist of products provided in conjunction with the Internet Training Workshops. During the year ended June 30, 2009, the Company wrote off \$445,000 of inventory as a result of changing market conditions. The change in market conditions resulted in the Company carrying excess

inventory.

(e) Certificate of Deposit

The Company holds a \$500,000 certificate of deposit, which automatically renews every 16 months. The certificate of deposit is classified as long-term in the consolidated balance sheets.

(f) Available-for-Sale Securities

Available-for-sale securities, consisting of equity and debt securities, are carried at their fair value at year end. Accordingly, unrealized gains and losses, net of income taxes, are computed on the basis of specific identification and included in other accumulated comprehensive income (loss) in stockholders' equity until realized. The Company periodically evaluates whether any declines in the fair values of its available-for-sale securities are other than temporary. This evaluation consists of: a review of qualitative and quantitative factors, including available quoted market prices; recent financial results and operating trends of the company that issued the securities; other publicly available information; implied values from any recent financings by the company that issued the securities; or other conditions that indicate the value of the investments. Available-for-sale securities at fair value, which approximates amortized cost, consisted of the following as of June 30:

	2009	2008
	(in thousands)	
Federal, state and municipal debt securities	\$ —	\$ 2,800
Corporate debt securities	—	1,000
Total	\$ —	\$ 3,800

(g) Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization expense is computed using 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 two to five years. The cost of leasehold improvements is amortized using the straight-line method over the shorter of the estimated useful life of the asset or the term of the related lease. Depreciation and amortization expense is included in general and administrative expenses and totaled \$1,037,000, \$918,000, and \$620,000 for the years ended June 30, 2009, 2008, and 2007, respectively. Depreciable lives by asset group are as follows:

Computer and office equipment	2 to 5 years
Computer software	3 years
Furniture and fixtures	4 years
Leaschold improvements	2 to 5 years

Maintenance and repairs are charged to costs and expenses as incurred. The cost and accumulated depreciation of property and equipment sold or otherwise retired are removed from the accounts and any related gain or loss on disposition is reflected in net income or loss for the year. The Company capitalizes assets with a cost in excess of \$1,000 and an expected life greater than one year.

(h) Definite-Lived Intangible Assets

The Company's intangible assets consist of advertising lists. The fair value of identifiable intangible assets is based upon the lower of discounted future cash flow projections or the amount paid in an arm's length transaction. These advertising lists are amortized over six years on an accelerated basis. Amortization expense is included in sales and marketing expense of \$432,000, \$278,000, and \$0 for the years ended June 30, 2009, 2008, and 2007, respectively. The average remaining useful life of the intangible assets was 54 months as of June 30, 2009.

The Company periodically reviews the estimated useful lives of its intangible assets and reviews these assets for impairment whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. The determination of impairment is based on estimates of future undiscounted cash flows. If an intangible asset is considered to be impaired, the amount of the impairment will be equal to the excess of the carrying value over the fair value of the asset.

(i) Impairment of Long-Lived Tangible Assets

The Company reviews long-lived tangible 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 cash flows projected to be generated by the asset. If these 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 disposal costs.

(j) Use of Estimates

In the preparation of financial statements in conformity with US GAAP, estimates and assumptions must be made that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the balance sheet dates, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. The Company has recorded a liability of approximately \$1,304,000 and \$685,000 as of June 30, 2009 and June 30, 2008, respectively, for estimated credit card charge-backs and customer returns within accrued liabilities. The Company has recorded a liability of approximately \$2,182,000 and \$1,460,000 as of June 30, 2009 and June 30, 2008, respectively, for estimated losses resulting from various legal proceedings against the Company. Attorney fees associated with the various legal proceedings are expensed as incurred. Other key estimates are discussed elsewhere in these notes to consolidated financial statements.

(k) Revenue Recognition

Product and Other Revenues

Cash sales of StoresOnline software (SOS) licenses are recognized as revenue, net of expected customer refunds, upon expiration of the customers' rescission period, which typically occurs three days after the licenses and products are delivered or when the Internet Training Workshop takes place, whichever occurs later.

Fees for SOS licenses sold under EPTAs are recognized as revenue as cash payments are received from the customer and not at the time of sale. Although the Company is able to reasonably estimate the collectability of its receivables based upon its long history of offering EPTAs, the American Institute of Certified Public Accountants Statement of Position 97-2, *Software Revenue Recognition* (SOP 97-2), requires revenue to be deferred until customer payments are received if collection of the original principal balance is not probable. Additionally, if the Company subsequently sells the receivables on a non-recourse basis, SOP 97-2 requires that the related revenue be deferred until the customer makes cash payments to the third-party purchaser of the receivables.

Fees collected related to sales tax and other government assessed taxes are recognized on a net basis.

Commission and Other Revenues

The Company has contracts with third-party entities with respect to telemarketing product sales to the Company's customers following the sale of the initial software licenses. These products and services are intended to assist the customers with their Internet businesses. These products are sold and delivered completely by third parties. The Company receives commissions from these third parties, and recognizes the commissions as revenue as the commissions are received in cash, net of expected customer refunds, in accordance with Emerging Issues Task Force (EITF) No. 99-19, *Reporting Revenue Gross as a Principal versus Net as an Agent*.

Fees collected for services, including customer support and website hosting, are recognized as revenue, net of expected customer refunds, over the period during which the services are expected to be performed, based upon the vendor specific objective evidence (VSOE) of fair value for such services. Fees related to EPA contracts are deferred and recognized as revenue during the service period or when cash is collected, whichever occurs later.

In April 2007, the Company began marketing and selling Avail 24/7, an all-in-one communications service which assists entrepreneurs and small businesses to manage phone menus, voicemail, email, and fax in one online application. Customers purchasing the Avail product are charged a non-refundable activation fee along with a monthly service fee. The non-refundable activation fee is deferred and recognized ratably over the estimated customer life, which is estimated to be four and one half years. The monthly service fee is recognized ratably over the service period.

(l) Advertising Costs

The Company expenses costs of advertising and promotions as incurred, with the exception of direct-response advertising costs. SOP 93-7, *Reporting on Advertising Costs*, provides that direct-response advertising costs that meet specified criteria should be reported as assets and amortized over the estimated benefit period. The conditions for reporting the direct-response advertising costs as assets include evidence that customers have responded specifically to the advertising, and that the advertising results in probable future benefits. The Company uses direct-response advertising to register customers for its workshops. The Company is able to document the responses of each customer to the advertising that elicited the response. Due to declining conditions in certain markets, the Company has elected not to return to these markets for the foreseeable future. Consequently, during the year ended June 30, 2009, the Company wrote off approximately \$420,000 in prepaid advertising costs associated with those markets. Advertising expenses, including the write-off of certain prepaid advertising costs, included in selling and marketing expenses for fiscal 2009, 2008, and 2007 were approximately \$22,808,000, \$33,556,000, and \$32,044,000, respectively. As of June 30, 2009 and 2008, the Company recorded

approximately \$551,000 and \$2,610,000, respectively, of direct-response advertising related to future workshops as prepaid expenses. Amounts recorded as prepaid advertising expenses are amortized over the estimated benefit period, typically three months.

(m) Research and Development

Research and development costs are expensed as incurred. Costs related to internally developed software are expensed as research and development expense until technological feasibility has been achieved, after which the costs are capitalized. As of June 30, 2009 and 2008, no amounts have been capitalized related to internally developed software due to the short time frame between technological feasibility and product launch.

(n) Financial Instruments

The carrying values of cash and cash equivalents, restricted cash, certificates of deposit, available-for-sale securities, merchant account deposits, trade receivables, accounts payable, and notes payable approximated their fair values due to either the short maturity of the instruments or the recent date of the initial transaction.

(o) Income Taxes

The Company recognizes a liability or asset for the deferred tax consequences of all temporary differences between the tax basis of assets and liabilities and their reported amounts in the consolidated financial statements that will result in taxable or deductible amounts in future years when the reported amounts of the assets and liabilities are recovered or settled. Accruals for uncertain tax positions are provided for in accordance with the requirements of FIN No. 48, *Accounting for Uncertainty in Income Taxes – An interpretation of FASB Statement No. 109*. Under FIN No. 48, the Company may recognize the tax benefits from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. FIN No. 48 also provides guidance on derecognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, and income tax disclosures. Judgment is required in assessing the future tax consequences of events that have been recognized in the financial statements or tax returns. Variations in the actual outcome of these future tax consequences could materially impact the Company's financial position, results of operations, and cash flows.

Interest and penalties associated with income taxes are classified as income tax expense in the consolidated statements of operations.

The Company does not intend to permanently reinvest the undistributed earnings of its United Kingdom subsidiary in those businesses outside of the United States and, therefore, has provided for U.S. deferred income taxes on such undistributed foreign earnings.

(p) Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with Statement of Financial Accounting Standards (SFAS) No. 123(R), *Share-Based Payment*. Under the fair value recognition provisions of this statement, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the applicable vesting period of the stock award (generally four to five years) using the straight-line method.

(q) Net Income (loss) Per Common Share

Basic net income (loss) per common share is computed by dividing the net income (loss) for the year by the weighted-average number of common shares outstanding during the year. Diluted net income (loss) per common share is computed giving effect to all dilutive common stock equivalents, consisting of common stock options. Diluted net loss per common share for the year ended June 30, 2009 is the same as basic net loss per common share because the common share equivalents were anti-dilutive. The following table sets forth the computation of basic and diluted net income (loss) per common share for the years ended June 30:

	2009	2008	2007
Net income (in thousands)	\$ (7,542)	\$ 3,142	\$ 24,001
Weighted-average common shares outstanding			

Basic	11,371,303	11,676,188	12,344,306
Employee stock options	—	181,620	485,567

Diluted	11,371,303	11,857,808	12,829,873
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Net income per common share:

Basic	\$ (0.66)	\$ 0.27	\$ 1.94
Diluted	\$ (0.66)	\$ 0.26	\$ 1.87

Weighted average anti-dilutive common share equivalents not included in the calculation of diluted net loss per common share for the years ended June 30, 2009, 2008, and 2007 totaled 675,336, 497,071, and 40,705, respectively.

(r) 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 stockholders. SFAS No. 131 also establishes standards for related disclosure about products and services, geographic areas and major customers. The Company generates over 90% of its total revenue from StoresOnline customers within North America (United States and Canada) and less than 10% of its total revenues from customers in other parts of the world. Crexendo Business Solutions and Crexendo Network Services division are currently in the development phase and as of June 30, 2009 and have not realized any revenue. Costs associated with the start-up of Crexendo Business Solutions and Crexendo Network Services for the year ended June 30, 2009 were \$253,000 and \$199,000, respectively, and are included in the Company's consolidated statement of operations.

(s) Subsequent Events

The Company evaluated events occurring between the end of its most recent fiscal year and September 1, 2009, the date the financial statements were issued.

(t) Recently Adopted Accounting Pronouncements

On July 1, 2008, the Company adopted SFAS No. 157, *Fair Value Measurements*, for all financial assets and liabilities and nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in U.S. generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. The adoption of SFAS No. 157 did not have a material impact on the Company's consolidated financial position or results of operations. The additional disclosures required by SFAS No. 157 are included in Note 4.

SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115*, became effective for the Company on July 1, 2008. SFAS No. 159 gives the Company the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis with the difference between the carrying value before election of the fair value option and the fair value recorded upon election as an adjustment to beginning retained earnings. The Company chose not to elect the fair value option.

In March 2008, SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133*, was issued which requires additional disclosures about the objectives of derivative instruments and hedging activities, the method of accounting for such instruments under SFAS No. 133 and its related interpretations, and a tabular disclosure of the effects of such instruments and related hedged items on the Company's financial position, financial performance, and cash flows. SFAS No. 161 was effective beginning January 1, 2009. The adoption of SFAS No. 161 did not have a material impact on the Company's consolidated financial statements.

(u) Recent Accounting Pronouncements Not Yet Adopted

In February 2008, FASB Staff Position 157-2, *Effective Date of FASB Statement No. 157*, was issued which delays the effective date of SFAS No. 157 to July 1, 2009 for the Company, for all nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The Company believes the adoption of the delayed items of SFAS No. 157 will not have a material impact on the consolidated financial statements. In December 2007, SFAS No. 141R, *Business Combinations*, was issued which replaces SFAS No. 141. SFAS No. 141R retains the purchase method of accounting for acquisitions, but requires a number of changes, including changes in the way assets and liabilities are recognized in the purchase accounting. It also changes the recognition of assets acquired and liabilities assumed arising from contingencies, requires the capitalization of in-process research and development at fair value, and requires the expensing of acquisition-related costs as incurred. SFAS No. 141R is effective for the Company beginning July 1, 2009 and will be applied prospectively to business combinations completed on or after that date.

In December 2007, SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51*, was issued which changes the accounting and reporting for minority interests. Minority interests will be recharacterized as noncontrolling interests and will be reported as a component of equity separate from the parent's equity, and purchases or sales of equity interests that do not result in a change in control will be accounted for as equity transactions. In addition, net income

attributable to the noncontrolling interest will be included in net income and, upon a loss of control, the interest sold, as well as any interest retained, will be recorded at fair value, with any gain or loss recognized in net income. SFAS No. 160 is effective for the Company beginning July 1, 2009 and will apply prospectively, except for the presentation and disclosure requirements, which will apply retroactively. The Company believes the adoption of SFAS No. 160 will not have a material impact on the consolidated financial statements.

In June 2009, the FASB issued SFAS No. 167, *Amendment to FASB Interpretation No. 46(R)*, which amends certain requirements of FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities (VIE)*. The statement requires a qualitative rather than quantitative analysis to determine the primary beneficiary of a VIE, requires continuous assessment of whether an enterprise is the primary beneficiary of a VIE and requires enhanced disclosures about an entity's involvement with a VIE. This statement is effective for the Company in fiscal 2011 and the Company is evaluating the impact of this statement on its overall financial position.

(v) **Reclassifications**

Certain payroll costs that were previously classified as general and administrative expenses in prior years' financial statements have been reclassified as cost of product and other revenues to conform to the 2009 financial statement presentation. These reclassifications did not have any impact on net income (loss), cash flows, total assets or total liabilities.

3. Property and Equipment

Property and equipment consisted of the following as of June 30:

	2009	2008
	(in thousands)	
Software	\$ 2,617	\$ 2,446
Computers and office equipment	2,566	2,136
Leasehold improvements	101	101
Furniture and fixtures	152	77
Less accumulated depreciation and amortization	(4,114)	(3,088)
	<u>\$ 1,322</u>	<u>\$ 1,672</u>

4. Fair Value Measurements

As discussed in Note 2, the Company adopted SFAS No. 157, subject to the deferral provisions of FSP No. 157-2, on July 1, 2008. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosure requirements about fair value measurements. SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value hierarchy prescribed by SFAS No. 157 contains three levels as follows:

Level 1 — Unadjusted quoted prices that are available in active markets for the identical assets or liabilities at the measurement date.

Level 2 — Other observable inputs available at the measurement date, other than quoted prices included in Level 1, either directly or indirectly, including:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets in non-active markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3 — Unobservable inputs that cannot be corroborated by observable market data and reflect the use of significant management judgment. These values are generally determined using pricing models for which the assumptions utilize management's estimates of market participant assumptions.

The fair value hierarchy requires the use of observable market data when available. In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset or liability. The following table sets forth, by level within the fair value hierarchy, the financial assets and liabilities that were accounted for at fair value on a recurring basis as of June 30, 2009, according to the valuation techniques used to determine their fair

values.

	Fair Value as of	Fair Value Measurements Using Inputs Considered as		
	June 30, 2009	Level 1	Level 2	Level 3
ASSETS				
Cash equivalents (in thousands)	\$ 19,361	\$ 19,361	\$ —	\$ —

The following table provides a reconciliation between the beginning and ending balances of items measured at fair value on a recurring basis that used significant unobservable inputs (Level 3) (in thousands).

	Debt Securities- Auction-Rate Securities Only			Total
	Student Loan Bonds	Municipal Revenue Bonds	Auction Preferred Securities	
Balances as of June 30, 2008	\$ 1,000	\$ —	\$ 2,800	\$ 3,800
Realized gain (loss) included in earnings	—	—	—	—
Unrealized gain (loss) included in other comprehensive income	—	—	—	—
Purchases, sales and settlements, net	(1,000)	—	(2,800)	(3,800)
Interest accrued (received), net	—	—	—	—
Transfers in and/or (out) of Level 3	—	—	—	—
Balances as of June 30, 2009	\$ —	\$ —	\$ —	\$ —

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Cash Equivalents. The carrying value of cash equivalents approximates fair value as maturities are within three months or less. Fair values of cash equivalent instruments that do not trade on a regular basis in active markets are classified as Level 2. The Company's cash equivalents are comprised of money market funds.

Assets and Liabilities that are Measured at Fair Value on a Nonrecurring Basis. During the years ended June 30, 2009 and 2008, the Company had no significant assets or liabilities that are measured at fair value (as defined in SFAS No. 157) on a nonrecurring basis subsequent to their initial recognition. The effective date of SFAS No. 157 was deferred under FSP No. 157-2. SFAS No. 157 relates to nonfinancial assets and liabilities that are measured at fair value, but are recognized or disclosed at fair value on a nonrecurring basis. This deferral applies to such items as nonfinancial assets and liabilities initially measured at fair value in a business combination (but not measured at fair value in subsequent periods) or nonfinancial long-lived asset groups measured at fair value for an impairment assessment. For fiscal 2009, the measurements of fair value affected by the deferral under FSP No. 157-2 related to customer lists acquired in June 2007 and June 2008.

5. Stock-Based Compensation

The Company has various incentive stock-based compensation plans that provide for the grant of up to 2,000,000 shares to eligible employees, consultants and directors of stock options and other share-based awards. As of June 30, 2009, the Company had 982,472 shares remaining in the plans for grant.

The Company accounts for employee stock-based awards under SFAS No. 123(R), "Share-Based Payment," using the modified prospective transition method, which requires measurement and recognition over the service period of: (a) compensation cost of all stock-based payments granted prior to, but not yet vested as of, July 1, 2005 (based on grant-date fair values estimated in accordance with the original provisions of SFAS No. 123, "Accounting for Stock Based Compensation", and previously presented in the pro-forma note disclosures), and (b) compensation cost for all stock-based payments granted subsequent to July 1, 2005 that are expected to vest (based on the grant-date fair values estimated in accordance with the provisions of SFAS No. 123(R)).

The following table summarizes the statement of operations effect of SFAS No. 123(R) for the years ended June 30, 2009, 2008, and 2007:

	Years Ended June 30,		
	2009	2008	2007
Stock option compensation expense recognized:			

(Dollars in thousands, except per share data)

Cost of product and other revenues	\$ 124	\$ 176	\$ 85
Research and development	279	302	219
Selling and marketing	146	231	107
General and administrative	995	1,193	1,624
Total stock option compensation expense recognized	1,544	1,902	2,035
Related deferred income tax benefit	(767)	(936)	(786)
Decrease in net income or increase in net loss	\$ 777	\$ 966	\$ 1,249
Impact on basic net income (loss) per common share	\$ 0.07	\$ 0.09	\$ 0.10
Impact on diluted net income (loss) per common share	\$ 0.07	\$ 0.08	\$ 0.10

The Company granted 368,000, 231,000, and 267,500 options during the years ended June 30, 2009, 2008 and 2007, respectively. The weighted-average fair value of stock options on the date of grant and the assumptions used to estimate the fair value of stock options granted during the years ended June 30, 2009, 2008 and 2007 using the Black-Scholes option-pricing model were as follows:

	Years Ended June 30,		
	2009	2008	2007
Weighted-average fair value of options granted	\$ 2.70	\$ 11.17	\$ 8.70
Expected volatility	71 %	67 %	78 %
Expected life (in years)	3.61	3.29	3.20
Risk-free interest rate	1.92 %	4.83 %	5.03 %
Expected dividend yield	1.63 %	1.64 %	0.00 %

The expected volatility of the option is determined using historical volatilities based on historical stock prices. The expected life of the options granted is based on the Company's historical share option exercise experience. The risk-free interest rate is determined using the yield available for zero-coupon U.S. government issues with a remaining term equal to the expected life of the option. On March 7, 2007, the Company announced a \$0.10 per common share quarterly cash dividend. Prior to March 7, 2007, the Company had never paid a dividend. On September 5, 2007, the Company announced a \$0.11 per common share quarterly cash dividend. On December 19, 2008, the Company announced a \$0.02 per common share quarterly cash dividend.

During the year ended June 30, 2009, the Company granted 108,000 shares of restricted stock to the Company's employees and directors under the 2003 Equity Incentive Plan. The restricted stock has one and two-year vesting periods for directors and employees, respectively, during which the recipient must remain employed with the Company or its subsidiaries. The weighted average fair value of the restricted stock on the dates of grant made during the year ended June 30, 2009 was \$12.15 per share. The following table summarizes the restricted stock activity as of June 30, 2009 (for the years ended June 30, 2008 and 2007, there was no outstanding or issued restricted stock):

	Number of Shares	Weighted-Average Grant-Date Fair Value
Non-vested shares outstanding as of June 30, 2008	—	\$ —
Granted	108,000	12.15
Vested	(49,849)	12.15
Forfeited	(33,099)	12.15
Non-vested shares outstanding as of June 30, 2009	25,052	12.15

The following table summarizes the stock option activity for all plans for the years ended June 30, 2009, 2008 and 2007:

	2009				2008		2007	
	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (\$000)	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding at beginning of year	804,417	\$ 14.68	3.4 years	\$ 1,947	805,806	\$ 10.06	984,551	\$ 10.75
Granted	368,000	5.56			231,000	24.43	267,500	15.67
Exercised	(154,651)	3.86			(146,000)	4.58	(385,792)	6.48

Cancelled	(342,430)	15.06		(86,389)	14.79	(60,453)	69.05
Outstanding at end of year	675,336	11.99	6.8 years	690	804,417	14.66	805,806
Exercisable as of June 30, 2009	299,127	16.85	3.8 years	144			
Exercisable as of June 30, 2008	565,685	12.65	2.8 years	\$ 1,844			

The total intrinsic value of options exercised during the years ended June 30, 2009, 2008 and 2007 was \$279,000, \$1,050,000 and \$6,938,000, respectively.

The following table summarizes stock activity for all plans during the year ended June 30, 2009:

	Shares	Weighted Average Grant-Date Fair Value
Stock awards:		
Nonvested balance, beginning of year	239,336	\$ 9.59
Granted	368,000	2.62
Vested	(148,063)	6.94
Forfeited	(83,064)	8.77
Nonvested balance, end of year	376,209	4.00

As of June 30, 2009, the total future compensation expense related to nonvested options not yet recognized in the statements of operations was approximately \$1,776,000 and the weighted-average period over which these awards are expected to be recognized was approximately 16 months.

6. Income Taxes

The provision (benefit) for income taxes consisted of the following for the years ended June 30:

	2009	2008	2007
	(in thousands)		
Current income tax provision:			
Federal	\$ 4,451	\$ 367	\$ 1,861
State and local	101	206	571
Foreign	—	6	1,014
Current income tax provision	4,552	579	3,446
Deferred income tax provision (benefit):			
Federal	992	1,643	(1,092)
State and local	137	817	332
Deferred income tax provision (benefit)	1,129	2,460	(760)
Total income tax provision	\$ 5,681	\$ 3,039	\$ 2,686

The income tax provision attributable to income (loss) before income tax provision for fiscal 2009, 2008 and 2007 differed from the amounts computed by applying the U.S. federal statutory tax rate of 35% for fiscal 2009, 2008 and 2007 as a result of the following:

2009	2008	2007
------	------	------

	(in thousands)		
Computed "expected" income tax provision (benefit)	\$ (651)	\$ 2,163	\$ 9,266
Increase (decrease) in income tax provision (benefit) resulting from:			
State and local income tax provision, net of federal effect	154	327	491
Changes in state NOL apportionments	—	339	—
Change in the valuation allowance for deferred income tax assets	5,124	—	(7,274)
Settlements	795		
All other, net	259	210	203
Income tax provision	\$ 5,681	\$ 3,039	\$ 2,686

Deferred income tax assets and liabilities are determined based on the differences between the financial reporting and tax reporting bases of assets and liabilities using enacted income tax rates expected to apply when the differences are settled or realized. As of June 30, 2009 and 2008, significant components of net deferred income tax assets and liabilities were as follows:

	2009		2008	
	Current	Non-current	Current	Non-current
	(in thousands)			
Deferred income tax assets:				
Accrued expenses	\$ 1,584	\$ —	\$ 982	\$ —
Deferred revenue	1,312	—	1,609	—
Net operating loss carryforwards	—	7,852	3,036	520
Foreign tax credits	—	1,407	—	2,298
AMT credit	—	—	—	605
Stock based compensation	—	1,555	—	1,233
Other	—	230	—	117
Subtotal	2,896	11,044	5,627	4,773
Valuation allowance	—	(5,670)	—	—
Total deferred income tax assets	2,896	5,374	5,627	4,773
Deferred income tax liabilities:				
Property and equipment	—	(71)	—	(37)
Prepaid expenses and other	(725)	(328)	(1,736)	(351)
Total deferred income tax liabilities	(725)	(399)	(1,736)	(388)
Net deferred income tax assets	\$ 2,171	\$ 4,975	\$ 3,891	\$ 4,385

As of June 30, 2009, the Company has net operating loss (“NOL”) and foreign tax credit carryforwards for U.S. federal income tax reporting purposes of approximately \$20,632,000 and \$1,407,000, respectively, which will begin to expire in 2017, if not utilized. The Company expects that approximately \$14,641,000 of its NOL carryforwards will expire unused. The NOLs are expected to expire unused due to an ownership change limitation imposed by Internal Revenue Code Section 382 (“Section 382”) (see additional discussion below).

The Company also has state NOL carryforwards of approximately \$7,521,000, which expire on specified dates as set forth in the rules of the various states to which the carryforwards relate. The Company expects that approximately \$6,176,000 of its NOL carryforwards will expire unused. The NOLs are expected to expire unused due to an ownership change limitation imposed by Section 382 as adopted by certain states.

SFAS No. 109, “Accounting for Income Taxes,” requires that a valuation allowance be established when it is more likely than not that all or a portion of net deferred income tax assets will not be realized. A valuation allowance was recorded in fiscal 2009 as a result of the settlement with the IRS on the utilization of the Company’s pre-ownership change NOL carryforwards. Section 382 imposes limitations on a corporation’s ability to utilize its NOL carryforwards if it experiences an “ownership change.” In general terms, an ownership change results from transactions increasing the ownership of certain stockholders in the stock of a corporation by more than 50 percentage points over a three-year period. From the time of formation through fiscal 2002, the Company issued a significant number of shares, resulting in two changes of control, as defined by Section 382. As a result of the most recent ownership change, utilization of the Company’s pre-ownership change NOL carryovers is subject to an annual limitation under Section 382. The annual limitation is determined by multiplying the value of the Company’s stock at the time of the ownership change by the applicable federal long-term tax-exempt rate. Any unused annual limitation may be carried over to later years until the pre-ownership change NOLs are either utilized or expired. The Company has determined that its annual Section 382 limitation is approximately \$461,000 a year.

The Company adopted FIN 48 on July 1, 2007. This interpretation clarifies the accounting for uncertain tax positions and requires companies to recognize the impact of a tax position in their financial statements, if that position is more likely than not of being sustained on audit, based on the technical merits of the position.

Although we believe our estimates are reasonable, we can make no assurance that the final tax outcome of these matters will not be different from that which we have reflected in our historical income tax provisions and accruals. Such difference could have a material impact on our income tax provision and operating results in the period in which we make such determination.

The aggregate changes in the balance of unrecognized tax benefits during the year ended June 30, 2009 were as follows (in thousands):

Balance as of June 30, 2008	\$ 161
Increases for tax positions related to the current year	43
Increases for tax positions related to the prior years	8,700
Decreases for tax positions related to prior years	—
Settlements	(8,700)
Reductions due to lapsed statute of limitations	(75)
Balance as of June 30, 2009	<u>\$ 129</u>

As of June 30, 2009, the Company has unrecognized tax benefits of \$148,000, which if recognized, would reduce the Company's effective tax rate.

Estimated interest and penalties related to the underpayment or late payment of income taxes are classified as a component of income tax provision (benefit) in the consolidated statements of operations. Accrued interest and penalties were approximately \$358,000 and \$29,000 as of June 30, 2009 and 2008, respectively.

The Company's U.S. federal income tax returns for fiscal 2006 through 2009 are open tax years. The IRS recently completed its audit of fiscal years 2005 through 2007. The Company also files in various state and foreign jurisdictions. With few exceptions, the Company is no longer subject to state and non-U.S. income tax examinations by tax authorities for years prior to fiscal 2006.

The settlement with the IRS related to the following items:

- the deductibility, under the provisions of Internal Revenue Code Section 274 ("Section 274"), of 50% of the cost of meals provided to attendees at our preview and workshop training sessions. The settlement reached with the IRS appeals office allows us to deduct 100% of all meals provided to attendees at both the preview and workshop training sessions. Therefore, no liabilities are recognized in the consolidated financial statements related to this issue.
- limitations imposed by Internal Revenue Code Section 382 ("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. From the time of our formation through fiscal 2002, we issued a significant number of shares, resulting in two changes of control, as defined by Section 382. As a result of the most recent ownership change, utilization of our pre-ownership change NOL carryovers are subject to an annual limitation under Section 382. The annual limitation is determined by multiplying the value of our stock at the time of the ownership change by the applicable federal long-term tax-exempt rate. Any unused annual limitation may be carried over to later years (until those NOLs expire), 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"). We had previously determined we had sufficient built-in gains to offset future income without limitation. As a result of the settlement reached with the IRS, we conceded that the fiscal 2002 ownership change resulted in a Section 382 limitation of \$461,000 per year and that there were not sufficient built-in gains to offset future income. Based on this settlement, we have determined that it is more likely than not that approximately \$14,641,000 of our federal NOL carry forwards will expire unutilized. Accordingly, during fiscal 2009, we recorded a valuation allowance of \$5,124,000 related to these federal NOL carry forwards.
- the IRS argued to re-open our income tax returns for the fiscal years ended June 30, 2004 and 2003, both of which are closed from examination. The IRS argued that under Section 481(a) there was a change in "method of accounting" with respect to our recognized built-in-gains described above. As part of the settlement, the IRS appeals office found no merit to the assertion that Section 481(a) can be applied to the fiscal 2004 and 2003 tax returns. Therefore, no liabilities are recognized in the consolidated financial statements related to this issue.

7. Note Payable

As of June 30, 2009, the Company had a collateralized note payable of \$115,000. The note is collateralized by certain computer equipment with a net carrying amount of approximately \$111,000 as of June 30, 2009 and bears an interest rate of 5% per year maturing in March 2011. Future principal payments on the note payable as of June 30, 2009 are as follows:

Year ending June 30,	Principal payments on note payable	
	(in thousands)	
2010	\$	68
2011		47
Total	\$	115

8. Intangible Assets

On June 29, 2007, the Company purchased certain advertising lists for \$1,276,000. On June 30, 2008, the Company purchased an additional \$833,000 in advertising lists. The Company has historically rented these lists for use in the Company's direct advertising campaigns. The Company has the right to lease these lists to other third parties. The Company amortizes the advertising lists over six years on an accelerated basis. The net carrying amount and future estimated amortization expense as of June 30, 2009 and 2008 is as follows:

	2009	2008
	(in thousands)	
Advertising list	\$ 2,109	\$ 2,109
Less accumulated amortization	(709)	(278)
	\$ 1,400	\$ 1,831

Year ending June 30,	Estimated Amortization Expense	
	(in thousands)	
2010	\$	390
2011		351
2012		305
2013		260
Thereafter		94
Total	\$	1,400

9. Commitments and Contingencies

Operating Leases

The Company leases certain of its equipment and corporate offices under noncancelable operating lease agreements expiring at various dates through 2014. The operating leases for the Company's corporate offices and training center facility contain customary

escalation clauses. Future aggregate minimum lease obligations under operating leases as of June 30, 2009, exclusive of taxes and insurance, are as follows:

<u>Year ending June 30,</u>	<u>Amounts</u>
	(in thousands)
2010	\$ 1,557
2011	1,568
2012	1,615
2013	1,663
2014	477
Total	\$ 6,880

Rental expense for fiscal 2009, 2008 and 2007 was approximately \$1,881,000, \$952,000, and \$705,000, respectively.

Consulting and Advertising Agreements

The Company has entered into certain consulting and advertising agreements expiring at various dates through 2011. Future aggregate minimum obligations under consulting and advertising agreements as of June 30, 2009 are as follows:

<u>Year ending June 30,</u>	<u>Amounts</u>
	(in thousands)
2010	\$ 623
2011	180
Total	\$ 803

Legal Proceedings

On October 9, 2007, the Federal Court of Australia New South Wales District Registry (the Court) set a hearing on a request for an injunction by the Australian Competition and Consumer Commission (ACCC). The ACCC sought a temporary injunction barring the Company from conducting business in Australia until such time as a permanent injunction is entered which would require certain actions on the part of the Company. The ACCC has alleged that the Company failed to comply with the terms of a previous agreement by: (i) failing to have notified the ACCC of seminars which were being held in Australia; (ii) failing to provide copies of tapes of seminars to the ACCC which were requested; (iii) failing to notify purchasers of the three-day cooling-off period (right to rescind); and (iv) failing to provide certain disclosures relating to the software, which were enumerated in the previous agreement. The Company admitted that it did not notify the ACCC, in a timely manner, of seminars which were previously held due to the failure of a former employee of the Company. Additionally, the Company also admitted that it was not able to provide one of several tapes requested by the ACCC. The Company disputed that it had failed to notify customers of the cooling-off period or to provide the specified disclosures. The Court found that the Company did breach some of the terms of the previous agreement regarding the notification and the tapes. The Court also was not certain if all disclosures regarding the software were made in the terms required by the previous agreement. The Court declined to enter an injunction which barred the Company from conducting business in Australia. Consequently, the Company was not required to cancel any scheduled workshops, and has continued to transact sales in Australia. The Court did require certain disclosures on the part of the Company and required compliance with the previous agreement. The Court indicated failure to follow the Court's requirements could be deemed contempt. The parties have completed discovery and providing evidence. The Court has not yet scheduled a final hearing on the ACCC's claims as well as the demand for fees and damages. A trial could be held as early as December 2009; however, it is more likely that a trial would occur in 2010. The Company expects that there will be mediation set prior to a trial. The Company is not precluded from conducting business in Australia.

On August 6, 2009, a Final Judgment and Consent Decree ("Judgment") was agreed to between the Company and the State of Washington. The Judgment is awaiting entry by the Court and is filed in the King County Superior Court, entitled "State of Washington v. iMergent, Inc., Stores Online, Inc." The Judgment stemmed from a non-public investigation by the Attorney General of Washington commenced several years ago claiming violations of the Business Opportunity Statute and certain consumer protection statutes. The Company agreed to pay a total settlement of \$175,000. The Company had accrued the settlement amount in a previous period. The settlement amount includes refunds to certain Washington customers who may file claims. To the extent that claims exceed the refund amount, refunds will be paid on a pro-rata basis. The State of Washington will be entitled to retain any monies not claimed. There are no further costs or fees required to be paid by the Company. In addition, the Company also agreed to certain actions intended to clarify the business practices of the Company. The Company is not required to register as a seller of a business opportunity. The settlement does not limit the Company's ability to conduct business in the State of Washington.

On August 4, 2008, the Company and the State of North Carolina agreed to a Consent Judgment ("North Carolina Judgment"). The North Carolina Judgment was a consequence of a preliminary injunction order (the "Order") entered in the State of North Carolina. The Order required that the Company not market or sell in the State of North Carolina. In the North Carolina Judgment, the Company agreed to pay fees totaling \$90,000. The Company also agreed that it would refund any customers in the State of North Carolina who filed claims within 60 days of entry of the North Carolina Judgment. The claim had to include a declaration issued under penalty of perjury that the customer had been unable to activate a website and get it fully operational. The State of North Carolina also notified certain customers of the right to the refund. As a result of the North Carolina Judgment, the injunction issued under the Order was lifted and the Company was permitted to immediately schedule seminars in the State of North Carolina. There

was no finding that the Company is a seller of a "Business Opportunity." The Company also agreed to certain actions intended to clarify the business practices of the Company. The North Carolina Judgment does not otherwise limit the Company's ability to conduct business in the State of North Carolina. The Company received a substantial number of claims which included an untrue (according to the records of the Company) declaration under penalty of perjury that the customer attempted to activate a website and also attempted to contact customer service. The Company notified the State of North Carolina that it did not believe it was obligated to pay claims made under penalty of perjury which were not factually accurate. On August 10, 2009, the North Carolina Court entered an Order requiring the Company to pay all claims filed, the North Carolina Court ruling that the filing of the declaration was determinative not the truth of the statement made under penalty of perjury. The Company believes that under North Carolina law it should not be obligated to pay claims it believes it can show are false. The Company has filed a notice of appeal of the August 10,

2009 order. The Company also may file actions against those who filed false declarations. The Company has reserved the amounts paid by customers who filed the false claims.

On October 24, 2005, the Company announced it had been notified by the Securities and Exchange Commission (SEC) that it had issued a formal order of investigation related to the Company. Prior to the order, the Company had announced a change of the independent registered public accounting firm for the Company. The Company also issued a Form 8-K with notification of Non-Reliance on Previously Issued Financial Statements or a Related Audit Report or Completed Interim Review. The Company has fully cooperated with the SEC in this matter and has had no communication with the SEC related to this matter since 2006.

In addition to the foregoing proceedings, from time to time the Company receives inquiries from federal, state, city and local government officials in the various jurisdictions in which the Company operates. These inquiries and investigations generally concern compliance with various city, county, state and/or federal regulations involving sales, representations made, customer service, refund policies, and marketing practices. The Company responds to these inquiries and has generally been successful in addressing the concerns of these persons and entities, without a formal complaint or charge being made, although there is often no formal closing of the inquiry or investigation. There can be no assurance that the ultimate resolution of these or other inquiries and investigations will not have a material adverse effect on the Company's business or operations, or that a formal complaint will not be initiated. The Company also receives complaints and inquiries in the ordinary course of its 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. There can be no assurance that the ultimate resolution of these matters will not have a material adverse affect on the Company's business or results of operations.

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

10. Dividends

During the years ended June 30, 2009, 2008, and 2007, the Company's board of directors declared the following cash dividends:

Declaration Date	Per Share Dividend	Record Date	Total Amount	Payment Date
<i>(Fiscal year 2009)</i>				
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
December 19, 2008	\$ 0.02	January 4, 2009	\$ 227,000	January 20, 2009
September 3, 2008	\$ 0.11	September 20, 2008	\$ 1,259,000	September 26, 2008
<i>(Fiscal year 2008)</i>				
June 10, 2008	\$ 0.11	June 20, 2008	\$ 1,261,000	June 30, 2008
March 10, 2008	\$ 0.11	March 20, 2008	\$ 1,261,000	March 28, 2008
December 10, 2007	\$ 0.11	December 20, 2007	\$ 1,294,000	December 29, 2007
September 4, 2007	\$ 0.11	September 20, 2007	\$ 1,316,000	September 28, 2007
<i>(Fiscal year 2007)</i>				
June 15, 2007	\$ 0.10	June 20, 2007	\$ 1,261,000	June 29, 2007
March 7, 2007	\$ 0.10	March 20, 2007	\$ 1,261,000	June 29, 2007

11. Stockholders' Equity

On September 4, 2007, the Company's Board of Directors authorized the repurchase of up to an additional \$50,000,000 of the Company's common stock, bringing the total amount authorized for repurchase to \$70,000,000 through September 2012. The Company's share purchase program was originally announced on September 5, 2006. The Company expects to repurchase the common stock over 5 years but may suspend or discontinue repurchasing the common stock at any time. During the years ended June 30, 2009, 2008 and 2007, the Company repurchased 109,100, 948,297 and 654,398 shares of common stock for \$734,000, \$12,581,000 and \$13,745,000, respectively. As of June 30, 2009, \$42,940,000 remained of the \$70,000,000 approved repurchase amount.

12. Employee Benefit Plan

In August 2004, the Company established a retirement savings plan for eligible employees. The plan allows employees to contribute a portion of their pre-tax compensation in accordance with specified guidelines. The Company may make discretionary profit-sharing contributions. The Company began making contributions to the plan in July 2006. For the years ended June 30, 2009, 2008, and 2007, the Company contributed approximately \$339,000, \$336,000, and \$241,000 to the retirement savings plan, respectively.

13. Quarterly Financial Information (unaudited)

	Year ended June 30, 2009			
	For the three months ended			
	September 30, 2008	December 31, 2008	March 31, 2009	June 30, 2009
	(Dollars in thousands, except share and per share data)			
Revenues	\$ 27,266	\$ 26,854	\$ 20,921	\$ 19,370
Cost of product and other revenues	8,367	9,436	5,802	5,533
Selling and marketing	17,066	17,580	9,336	8,452
General and administrative	4,512	6,267	4,051	3,711
Research and development	583	497	515	582
Income (loss) from operations	(3,262)	(6,926)	1,217	1,092
Total other income	1,644	1,246	1,561	1,567
Income (loss) before income taxes	(1,618)	(5,680)	2,778	2,659
Income tax benefit (provision)	(5,881)	(4,450)	(1,226)	5,876
Net income (loss)	\$ (7,499)	\$ (10,130)	\$ 1,552	\$ 8,535
Basic net income (loss) per common share	\$ (0.66)	\$ (0.89)	\$ 0.14	\$ 0.75
Diluted net income (loss) per common share	\$ (0.66)	\$ (0.89)	\$ 0.14	\$ 0.74
Weighted-average common shares outstanding:				
Basic	11,338,917	11,362,190	11,366,853	11,416,723
Diluted	11,338,917	11,362,190	11,426,307	11,496,482

	Year ended June 30, 2008			
	For the three months ended			
	September 30, 2007	December 31, 2007	March 31, 2008	June 30, 2008
	(Dollars in thousands, except per share data)			
Revenues	\$ 32,462	\$ 38,916	\$ 27,557	\$ 29,113
Cost of product and other revenues	11,704	12,281	6,737	7,433
Selling and marketing	18,210	20,985	14,482	16,110
General and administrative	5,479	5,280	5,014	5,474
Research and development	479	513	587	534
Income (loss) from operations	(3,410)	(143)	737	(438)
Total other income	2,372	2,634	2,258	2,171
Income (loss) before income taxes	(1,038)	2,491	2,995	1,733
Income tax benefit (provision)	238	(844)	(1,253)	(1,179)
Net income (loss)	\$ (800)	\$ 1,647	\$ 1,742	\$ 554

Basic net income (loss) per common share	\$	(0.07)	\$	0.14	\$	0.15	\$	0.05
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Diluted net income (loss) per common share	\$	(0.07)	\$	0.14	\$	0.15	\$	0.05
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Weighted-average common shares outstanding:

Basic	12,065,099	11,855,533	11,484,336	11,293,998
Diluted	12,065,099	12,015,048	11,672,142	11,439,503

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

iMERGENT, INC. AND SUBSIDIARIES
Schedule II- Valuation and Qualifying Accounts
Years Ended June 30, 2009, 2008 and 2007

	<u>Balance at</u> <u>Beginning</u> <u>of Period</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at</u> <u>End of</u> <u>Period</u>
	(in thousands)			
Year ended June 30, 2009				
Deducted from accounts receivable:				
Allowance for doubtful accounts receivable	\$ 18,583	\$ 24,448	\$ (28,924)	\$ 14,107
Deferred income tax asset valuation allowance	—	5,124	—	5,186
Year ended June 30, 2008				
Deducted from accounts receivable:				
Allowance for doubtful accounts receivable	17,514	24,144	(23,075)	18,583
Deferred income tax asset valuation allowance	—	—	—	—
Year ended June 30, 2007				
Deducted from accounts receivable:				
Allowance for doubtful accounts receivable	11,011	27,886	(21,383)	17,514
Deferred income tax asset valuation allowance	7,746	—	(7,746)	—

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")). Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective.

REPORT OF MANAGEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) under the Securities Exchange Act of 1934 (the "Exchange Act"). Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that:

- (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles;
- (iii) provide reasonable assurance that receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- (iv) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as of June 30, 2009. There were no changes in our internal control over financial reporting during the quarter ended June 30, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. This 10-K does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the company to provide only management's report in this 10-K.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information with respect to this item will be set forth in the definitive proxy statement to be delivered to stockholders in connection with the 2009 Annual Meeting of Stockholders (the "Proxy Statement"). Such information is incorporated herein by reference.

We have adopted a code of ethics that applies to all employees, including employees of our subsidiaries, as well as each member of our Board of Directors. The code of ethics is available at our website at www.imergentinc.com.

We intend to satisfy any disclosure requirement under Item 5.05 of Form 8-K regarding an amendment to, or waiver from, a provision of this code of ethics by posting such information on our website, at the address specified above.

ITEM 11. EXECUTIVE COMPENSATION

Information with respect to this item will be set forth in the Proxy Statement under the heading "Executive Compensation and Other Matters," and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDERS MATTERS

Information with respect to this item will be set forth in the Proxy Statement under the heading "Beneficial Ownership of Shares," and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information with respect to this item will be set forth in the Proxy Statement under the heading "Corporate Governance" and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information with respect to this item will be set forth in the Proxy Statement under the headings "Fees of Independent Registered Public Accounting Firm" and "Pre-Approval Policies and Procedures," and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

Documents filed as part of this Report:

1. Financial Statements – consolidated financial statements of iMergent, Inc. and subsidiaries as set forth under Item 8 of this Report.
2. The Financial Statement Schedule on page 52 of this Report.
3. Exhibit Index as seen below.

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	10.2	
10.3*	Amended and Restated 1999 Stock Option Plan for Non-Executives	10-K	9/29/03	10.3	
10.5*	2003 Equity Incentive Plan	10-K	9/10/04	10.11	
10.6	Lease Agreement dated as of March 18, 2008 by and between iMergent, Inc. and Canyon Park Management Company	10-Q	5/6/08	10.1	
<u>21.1</u>	Subsidiaries of iMergent, Inc.				X
<u>23.1</u>	Consent of Independent Registered Public Accounting Firm				X
<u>31.1</u>	Certification Pursuant to Rules 13a-14(a) under the Securities Exchange Act of 1934 as amended				X
<u>31.2</u>	Certification Pursuant to Rules 13a-14(a) under the Securities Exchange Act of 1934 as amended				X
<u>32.1</u>	Certification Pursuant to 18 U.S.C. Section 1350				X
<u>32.2</u>	Certification Pursuant to 18 U.S.C. Section 1350				X

* Indicates a management contract or compensatory plan or arrangement.

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.

Date: September 1, 2009

By: /s/ STEVEN G MIHAYLO
Steven G Mihaylo
Chief Executive Officer

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

Date: September 1, 2009

By: /s/ STEVEN G MIHAYLO
Steven G Mihaylo
Chief Executive Officer,
Director

Date: September 1, 2009

By: /s/ JONATHAN R. ERICKSON
Jonathan R. Erickson
Chief Financial Officer

Date: September 1, 2009

By: /s/ TODD GOERGEN
Todd Goergen
Chairman of the Board of
Directors

Date: September 1, 2009

By: /s/ CRAIG RAUCHLE
Craig Rauchle
Director

Date: September 1, 2009

By: /s/ ROBERT KAMM
Robert Kamm
Director

Date: September 1, 2009

By: /s/ DAVID WILLIAMS
David Williams
Director

Date: September 1, 2009

By: /s/ ANIL PURI

Anil Puri
Director

SUBSIDIARIES OF THE REGISTRANT

<u>Name of subsidiary</u>	<u>State of their jurisdiction of incorporation or organization</u>	<u>Other names under which subsidiary does business</u>
StoresOnline, Inc.	Delaware	None
StoresOnline International, Inc.	Delaware	None
StoresOnline International, Ltd.	United Kingdom	None
StoresOnline International Canada, ULC	Alberta, Canada	None
Galaxy Mall, Inc.	Wyoming	None
Avail 24/7, Inc.	Delaware	None
Internet Training Group, Inc.	Delaware	None
Crexendo Business Solutions, Inc.	Arizona	None

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
iMergent, Inc.

We consent to the incorporation by reference in Registration Statements No. 333-95205, No. 333-120432, and No. 333-120433 on Form S-8 of iMergent, Inc. of our report dated September 1, 2009 with respect to the consolidated financial statements and financial statement schedule of iMergent, Inc. contained in iMergent, Inc.'s Annual Report on Form 10-K for the year ended June 30, 2009.

/s/ Tanner LC

Salt Lake City, Utah
September 1, 2009

I, Steven G Mihaylo, certify that:

1. I have reviewed this annual report on Form 10-K of iMergent, Inc.;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer(s) 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and 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, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) 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
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) 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 the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control 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 control over financial reporting.

Date: September 1, 2009

/s/ STEVEN G MIHAYLO

Steven G Mihaylo

Chief Executive Officer

I, Jonathan R. Erickson, certify that:

1. I have reviewed this annual report on Form 10-K of iMergent, Inc.;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer(s) 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and 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, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) 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
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) 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 the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control 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 control over financial reporting.

Date: September 1, 2009

/s/ JONATHAN R.
ERICKSON

Jonathan R.

Erickson
Chief Financial
Officer

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, 2009 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Steven G Mihaylo, 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 1, 2009

/s/ STEVEN G MIHAYLO

Steven G Mihaylo
Chief Executive
Officer

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, 2009 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Jonathan R. Erickson, 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 1, 2009

/s/ JONATHAN R.
ERICKSON

Jonathan R.
Erickson

Chief Financial
Officer

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E - Arizona Projections

- A. Projected total intrastate revenue for the first 12 months of service: **\$25,000.00**
(Telecommunication only, does not include SEO)
- B. Projected value of total intrastate operating expenses for the first 12 months of service: **\$20,000.00 (operating expenses not R&D)**
- C. Projected net book value of all Arizona jurisdictional assets to be used to provide telecommunications services to Arizona customers for the first 12 months of service: **\$10,000.00**
- D. Current net book value: **\$100,000.00**