

INSWEB CORP  
Form 10-Q  
November 12, 2008  
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# SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

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## FORM 10-Q

**X**

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

For the quarterly period ended September 30, 2008

Or

**O**

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

For the transition period from    to

Commission file number 0-26083

## INSWEB CORPORATION

(Exact name of Registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**94-3220749**  
(IRS Employer  
Identification Number)

**11290 Pyrites Way, Suite 200 Gold River, California 95670**  
(Address of principal executive offices)

**(916) 853-3300**  
(Registrant's telephone number, including area code)

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Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Sections 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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐  
(Do not check if a smaller reporting company)

Smaller reporting company ☒

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

The number of outstanding shares of the Registrant's Common Stock, par value \$0.001 per share, on October 30, 2008 were 4,779,874 shares.

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Table of Contents**PART I: FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****INSWEB CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEETS***(in thousands)**(unaudited)*

	September 30, 2008	December 31, 2007
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 9,125	\$ 10,777
Accounts receivable, net	2,410	2,428
Related party receivables	302	48
Prepaid expenses and other current assets	1,240	548
Total current assets	13,077	13,801
Property and equipment, net	284	257
Other assets	281	75
Total assets	\$ 13,642	\$ 14,133
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 2,338	\$ 2,118
Accrued expenses	1,107	1,426
Deferred revenue	267	246
Total current liabilities	3,712	3,790
Commitments and contingencies		
Stockholders' equity:		
Common stock	8	8
Paid-in capital	206,655	206,208
Treasury stock	(6,334)	(6,334)
Other comprehensive income (loss)	(1)	1
Accumulated deficit	(190,398)	(189,540)
Total stockholders' equity	9,930	10,343
Total liabilities and stockholders' equity	\$ 13,642	\$ 14,133

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See accompanying notes.

[Table of Contents](#)**INSWEB CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS***(in thousands, except per share amounts)**(unaudited)*

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Revenues:				
Transaction fees	\$ 8,955	\$ 9,167	\$ 30,677	\$ 25,273
Other	55	64	174	197
Total revenues	9,010	9,231	30,851	25,470
Operating expenses:				
Direct marketing	6,497	5,899	22,040	15,024
Sales and marketing	1,505	1,251	4,233	4,056
Technology	774	691	2,401	2,344
General and administrative	877	1,034	3,276	3,259
Total operating expenses	9,653	8,875	31,950	24,683
Income (loss) from operations	(643)	356	(1,099)	787
Interest income	47	108	196	287
Other income				6
Income (loss) before income taxes	(596)	464	(903)	1,080
Income tax benefit	44		44	
Net income (loss)	\$ (552)	\$ 464	\$ (859)	\$ 1,080
Net income (loss) per share:				
Basic	\$ (0.12)	\$ 0.10	\$ (0.18)	\$ 0.25
Diluted	\$ (0.12)	\$ 0.08	\$ (0.18)	\$ 0.21
Weighted-average shares used in computing per share amounts				
Basic	4,703	4,495	4,677	4,331
Diluted	4,703	5,515	4,677	5,108

See accompanying notes.

Table of Contents**INSWEB CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS***(in thousands)**(unaudited)*

	<b>Nine Months Ended September 30,</b>	
	<b>2008</b>	<b>2007</b>
Cash flows from operating activities:		
Net income (loss)	\$ (859)	\$ 1,080
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Share-based compensation	576	838
Depreciation and amortization	119	121
Net changes in operating assets and liabilities:		
Accounts receivable	18	(2,300)
Interest receivable on notes due from employees	(2)	
Prepaid expenses and other current assets	(356)	(50)
Other assets		1
Accounts payable	220	479
Accrued expenses	(319)	244
Deferred revenue	21	(46)
Net cash provided by (used in) operating activities	(582)	367
Cash flows from investing activities:		
Purchases of property, equipment and intangibles	(354)	(15)
Notes receivable from employees	(252)	
Net cash used in investing activities	(606)	(15)
Cash flows from financing activities:		
Proceeds from issuance of common stock through stock plans	386	1,389
Settlement of equity awards	(850)	
Net cash provided by (used in) financing activities	(464)	1,389
Net increase (decrease) in cash and cash equivalents	(1,652)	1,741
Cash and cash equivalents, beginning of period	10,777	6,750
Cash and cash equivalents, end of period	\$ 9,125	\$ 8,491

See accompanying notes.

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**INSWEB CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

*(unaudited)*

**1. Business of InsWeb**

InsWeb Corporation operates an online insurance marketplace that enables consumers to obtain multiple insurance quotes for a variety of insurance products, including automobile, homeowners and term life. InsWeb's marketplace electronically matches consumers and insurance providers. InsWeb has combined knowledge of the insurance industry, technological expertise and close relationships with insurance companies, agents and other providers to develop an integrated online marketplace. InsWeb's marketplace enables consumers to research insurance-related topics, search for, analyze and compare insurance products, and apply for and receive quotes for coverage for automobile, homeowners and term life insurance. Management believes that InsWeb provides insurance providers with pre-qualified consumers at attractive acquisition costs, with the scalable, cost-efficient distribution capabilities of InsWeb's Internet-based model.

InsWeb is subject to all of the risks inherent in the electronic commerce industry and special risks related to the online insurance industry. These risks include, but are not limited to, uncertain economic conditions which could result in lower growth rates, the changing nature of the electronic commerce industry, variations in the availability and cost of acquiring consumer traffic, unpredictability of future revenues, reliance on key customers' insurance carriers, agents and other providers who are themselves subject to volatility in their operating cycles, and reliance on a third party intermediary who provides leads to local insurance agents on InsWeb's behalf. These risks and uncertainties, among others, could cause InsWeb's actual results to differ materially from historical results or those currently anticipated. In light of InsWeb's ongoing modifications to its business model to better capitalize on its position as a leading insurance portal, InsWeb believes that period-to-period comparisons of its operating results are not necessarily meaningful and should not be relied upon as an indication of future performance. Moreover, there is no assurance that InsWeb will be able to return to and sustain profitability.

**2. Basis of Presentation**

The condensed consolidated financial statements include the accounts of InsWeb Corporation and its wholly-owned subsidiaries, InsWeb Insurance Services, Inc. and Goldrush Insurance Services, Inc. (InsWeb or the Company). All significant inter-company accounts and transactions have been eliminated in the consolidated financial statements.

The accompanying unaudited interim financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not contain all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, the accompanying unaudited interim condensed consolidated financial statements reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly InsWeb's financial position as of September 30, 2008 and the results of operations and



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cash flows for the three and nine months ended September 30, 2008 and 2007. The financial data and other information disclosed in these notes to the condensed consolidated financial statements related to these periods are unaudited. The results for the three and nine months ended September 30, 2008 are not necessarily indicative of the results to be expected for any future period.

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in InsWeb's Annual Report on Form 10-K and other information as filed with the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations. The September 30, 2008 condensed consolidated balance sheet was derived from unaudited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States. However, the Company believes the disclosures are adequate to make the information presented not misleading.

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**INSWEB CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

*(unaudited)*

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ( Statement 157 ). Statement 157 does not require any new fair value measurements but clarifies the fair value definition, establishes a fair value hierarchy that prioritizes the information used to develop assumptions used for measuring fair value, and expands disclosures about fair value measurements. Statement 157 clarifies that fair value is the exchange price in an orderly transaction between market participants to sell the asset or transfer the liability in the market. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data, for example, the reporting entity's own data. It emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and a fair value measurement should therefore be based on the assumptions that market participants would use in pricing the asset or liability. Statement 157 expands disclosures about the use of fair value to measure assets and liabilities in interim and annual periods subsequent to initial recognition, including the inputs used to measure fair value and the effect of such measurements on earnings for the period.

At its February 6, 2008 meeting, the FASB decided to (i) partially defer the effective date of Statement 157 for one year for certain nonfinancial assets and nonfinancial liabilities and (ii) remove certain leasing transactions from the scope of Statement 157. The partial deferral is applicable to nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. Companies will still need to apply Statement 157's recognition and disclosure requirements for financial assets and financial liabilities or for nonfinancial assets or nonfinancial liabilities that are remeasured at least annually. The FASB also decided to amend Statement 157 to exclude Statement No. 13, *Accounting for Leases*, and its related interpretive accounting pronouncements that address leasing transactions. The exclusion does not apply to fair value measurements of assets and liabilities recorded as a result of a lease transaction but measured pursuant to other pronouncements within the scope of Statement 157.

Statement 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. InsWeb adopted Statement 157 at the beginning of 2008. There was no material impact to the Company's financial statements due to the adoption of Statement 157.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment of FASB Statement No. 115* ( Statement 159 ). Statement 159 allows entities to voluntarily choose to measure many financial assets and financial liabilities as well as certain nonfinancial instruments that are similar to financial instruments (collectively, eligible items) at fair value (the fair value option). The election is made on an instrument-by-instrument basis and is irrevocable. If the fair value option is elected for an instrument, Statement 159 specifies that all subsequent changes in fair value for that instrument shall be reported in earnings and is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Upon initial adoption, Statement 159 provides entities with a one-time chance to elect the fair value option for eligible items. The effect of the first measurement to fair value should be reported as a cumulative-effect adjustment to the opening balance of retained earnings or accumulated deficit in the year the statement is adopted. InsWeb adopted Statement 159 at the beginning of 2008 and did not make any elections for fair value accounting. Therefore, InsWeb did not record a cumulative-effect adjustment to its opening accumulated deficit balance.

### 3. Share-Based Payments

InsWeb maintains a stock option plan and an employee stock purchase plan. The following table sets forth the total share-based compensation expense relating to these plans included in InsWeb's operating expenses in its condensed consolidated statements of operations for the three and nine months ended September 30, 2008 and 2007 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Technology	\$ 2	\$ 21	\$ 57	\$ 70
Sales and marketing	21	65	152	179
General and administrative	141	178	367	589
	\$ 164	\$ 264	\$ 576	\$ 838

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**INSWEB CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

*(unaudited)*

**4. Concentration of Risk    Significant Customers**

For the three and nine months ended September 30, 2008, three customers accounted for 15%, 14% and 10% and 16%, 15%, and 11% of total revenues, respectively. For the three and nine months ended September 30, 2007, two customers accounted for 17% and 16% and three customers accounted for 16%, 13% and 12% of total revenues, respectively. At September 30, 2008 three customers each accounted for 18%, 17% and 15% of accounts receivable, respectively, At December 31, 2007, two customers each accounted for 17% of accounts receivable, respectively.

**5. Related party receivables**

As of September 30, 2008, related party receivables relate to promissory notes totaling \$300,000 received from three non-officer employees of InsWeb in exchange for cash. These notes are unsecured loans with a per annum rate of 2.42%. Principal and interest are payable in full on or before July, 2011.

As of December 31, 2007, related party receivables relate to amounts paid by InsWeb to the respective governmental agencies on behalf of the Chairman and CEO to cover his portion of withholding taxes for exercises of non-qualified stock options. This amount was subsequently repaid by the Chairman and CEO to InsWeb in January 2008.

**6. Prepaid expenses and other current assets**

Prepaid expenses and other current assets consist of the following (in thousands):

**September 30,  
2008**

**December 31,  
2007**

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Prepaid software licenses	345	28
Prepaid insurance	199	151
Prepaid rent and current portion of lease deposits	134	158
Other prepaid and current assets	562	211
	\$ 1,240	\$ 548

**7. Accrued Expenses**

Accrued expenses consist of the following (in thousands):

	September 30, 2008	December 31, 2007
Amounts due to fee sharing partners	\$ 494	\$ 373
Deferred rent	290	374
Accrued employee compensation	315	402
Accrued lease obligations		248
Other	8	29
	\$ 1,107	\$ 1,426

Table of Contents**INSWEB CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)***(unaudited)***8. Comprehensive Income (Loss)**

Total comprehensive income (loss) was as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Net income (loss)	\$ (552)	\$ 464	\$ (859)	\$ 1,080
Other comprehensive income - change in unrealized gain or loss on investments	(1)	1	(2)	1
Comprehensive income (loss)	\$ (553)	\$ 465	\$ (861)	\$ 1,081

**9. Net Income (Loss) Per Share**

Basic net income (loss) per share is computed using the weighted-average number of shares of common stock outstanding. Diluted earnings per share is a measure of the potential dilution that would occur if stock options had been exercised.

The following table reconciles the numerator and denominator used to calculate basic and diluted net income per share of common stock:

(In thousands, except per share amounts)	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Numerator for basic and diluted net income (loss) per share:				
Net income (loss) available to common stockholders	\$ (552)	\$ 464	\$ (859)	\$ 1,080
Denominator for net income (loss) per share:				
Basic weighted average shares of common stock outstanding	4,703	4,495	4,677	4,331
Dilutive effect of employee stock options	699	1,020	914	777

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Diluted		5,402		5,515		5,591		5,108
Net income (loss) per share:								
Basic as reported	\$	(0.12)	\$	0.10	\$	(0.18)	\$	0.25
Diluted as reported	\$	(0.12)	\$	0.08	\$	(0.18)	\$	0.21

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**INSWEB CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

*(unaudited)*

**10. Commitments and Contingencies**

**Securities Class Action**

A securities class action lawsuit was filed on December 5, 2001 in the United States District Court for the Southern District of New York, (the Court) purportedly on behalf of all persons who purchased our common stock from July 22, 1999 through December 6, 2000. The complaint named as defendants InsWeb, certain current and former officers and directors, and three investment banking firms that served as underwriters for InsWeb's initial public offering in July 1999. The complaint, as subsequently amended, alleges violations of Sections 11 and 15 of the Securities Act of 1933 and Sections 10 and 20 of the Securities Exchange Act of 1934, on the grounds that the prospectuses incorporated in the registration statements for the offering failed to disclose, among other things, that (i) the underwriters had solicited and received excessive and undisclosed commissions from certain investors in exchange for which the underwriters allocated to those investors material portions of the shares of our stock sold in the offerings and (ii) the underwriters had entered into agreements with customers whereby the underwriters agreed to allocated shares of the stock sold in the offering to those customers in exchange for which the customers agreed to purchase additional shares of InsWeb stock in the aftermarket at pre-determined prices. No specific damages are claimed. Similar allegations have been made in lawsuits relating to more than 300 other initial public offerings conducted in 1999 and 2000, all of which have been consolidated for pretrial purposes. In October 2002, all claims against the individual defendants were dismissed without prejudice. In February 2003, the Court dismissed the claims in the InsWeb action alleging violations of the Securities Exchange Act of 1934 but allowed the plaintiffs to proceed with the remaining claims. In June 2003, the plaintiffs in all of the cases presented a settlement proposal to all of the issuer defendants. Under the proposed settlement, the plaintiffs would dismiss and release all claims against participating defendants in exchange for a contingent payment guaranty by the insurance companies collectively responsible for insuring the issuers in all the related cases, and the assignment or surrender to the plaintiffs of certain claims the issuer defendants may have against the underwriters. InsWeb and most of the other issuer defendants have accepted the settlement proposal. While the District Court was considering final approval of the settlement, the Second Circuit Court of Appeals vacated the class certification of plaintiffs' claims against the underwriters in six cases designated as focus or test cases. On December 14, 2006, the District Court ordered a stay of all proceedings in all of the lawsuits pending the outcome of plaintiffs' petition to the Second Circuit for rehearing en banc and resolution of the class certification issue. On April 6, 2007, the Second Circuit denied plaintiffs' petition for rehearing, but clarified that the plaintiffs may seek to certify a more limited class in the District Court. Because of the significant technical barriers presented by the Court's decision, the parties withdrew the proposed settlement and the plaintiffs filed an amended complaint. Following the District Court's denial of the defendants' motions to dismiss the amended complaint, the parties filed briefs on plaintiff's renewed motion for class certification. There is no assurance that a new settlement will be negotiated, and then approved. If the settlement is not negotiated and subsequently approved, InsWeb intends to defend the lawsuit vigorously. The litigation and settlement process is inherently uncertain and management cannot predict the outcome, though, if unfavorable, it could have a material adverse effect on InsWeb's financial condition, results of operations and cash flows.



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**INSWEB CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

*(unaudited)*

**10. Commitments and Contingencies (continued)**

**Section 16(b) Lawsuit**

On October 12, 2007, Vanessa Simmonds, a purported stockholder of InsWeb, filed a complaint in the United States District Court for the Western District of Washington, against InsWeb and two investment banking firms that served as underwriters for the initial public offering of our common stock in July 1999. The complaint alleges that: (i) the defendants, other underwriters of the offering, and unspecified officers, directors and principal stockholders of InsWeb constituted a group that owned in excess of 10% of InsWeb's outstanding common stock between July 23, 1999 and July 20, 2000; (ii) the defendants were therefore subject to the short swing prohibitions of Section 16(b) of the Securities Exchange Act of 1934; and (iii) the defendants engaged in purchases and sales, or sales and purchases, of the Company's common stock within periods of less than six months in violation of the provisions of Section 16(b). The complaint seeks disgorgement of all profits allegedly received by the defendants, with interest and attorneys fees, for transactions in violation of Section 16(b). InsWeb, as the statutory beneficiary of any potential Section 16(b) recovery, is named as a nominal defendant in the complaint. A number of similar lawsuits against underwriters of other public offerings have recently been filed by the same plaintiff and law firm. On February 11, 2008, the court approved a stipulated order that InsWeb need not answer or otherwise respond to the complaint. On February 28, 2008, the plaintiff filed an amended complaint, and InsWeb has again been excused from filing an answer. Consolidated motions to dismiss are expected to be filed on behalf of the issuer and underwriter defendants. InsWeb intends to defend the lawsuit vigorously. The litigation and settlement process is inherently uncertain and management cannot predict the outcome, though, if unfavorable, it could have a material adverse effect on InsWeb's financial condition, results of operations and cash flows.

**Patent Litigation**

On November 30, 2007, Autobyte, Inc. filed a complaint in the United States District Court for the Eastern District of Texas against InsWeb and three other defendants. The complaint alleges that InsWeb and the other defendants infringed U.S. Patent No. 6,282,517 (the '517 patent), which appears to disclose a method and apparatus to allow a potential automobile purchaser to create and submit a purchase request for a new or used automobile over a computer network. The complaint contains generic allegations that InsWeb infringed the '517 patent by making, using, offering to sell and selling systems and/or methods that embody the invention claimed in the '517 patent and/or actively inducing and/or contributing to others' infringement of such inventions. The complaint seeks unspecified monetary damages and injunctive relief. On February 25, 2008, InsWeb filed an answer and counterclaim denying infringement of the '517 patent and asserting invalidity of the patent and other affirmative defenses. The court set May 2, 2011 as the trial date.

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On March 11, 2008, InsWeb filed a complaint in the United States District Court for the Southern District of California against Autobyte, Inc., Autobyte I Corporation (formerly known as AVV, Inc.) and Dominion Enterprises. InsWeb filed an amended complaint on July 3, 2008 adding OneCommand, Inc. as a defendant. The amended complaint alleges that the defendants have infringed InsWeb's U.S. Patent No. 6,898,597, which relates to an event logging system that monitors for the occurrence of predefined website usage events. Defendant Autobyte, through its wholly-owned subsidiary AVV, marketed and sold a product known as WebControl that embodies the invention claimed in the '597 patent. In January 2008, Autobyte sold AVV, including the WebControl product, to Dominion Enterprises. Autobyte also owned an asset named Retention Performance Marketing (RPM) that embodied the invention claimed in InsWeb's patent. Autobyte sold the RPM asset to OneCommand in July 2007. The amended complaint also adds Internet Brands, Inc., Leadpoint, Inc., and Auto Internet Marketing, Inc. as co-plaintiffs with InsWeb following InsWeb's assignment of a partial interest in the '597 Patent to these companies. InsWeb and its co-plaintiff are seeking monetary damages in an amount to be determined at trial from each defendant and a permanent injunction against further acts of infringement.

InsWeb intends to vigorously defend the Texas lawsuit and prosecute the California action. The litigation and settlement process is inherently uncertain and management cannot predict the outcome, though, if unfavorable, it could have a material adverse effect on InsWeb's financial condition, results of operations and cash flows.

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*This Quarterly Report on Form 10-Q, and in particular Management's Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements with respect to InsWeb's future financial performance. The words or phrases "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," and similar expressions are generally intended to identify forward-looking statements. Such forward-looking statements are subject to various known and unknown risks and uncertainties, and InsWeb cautions you that any forward-looking information provided by, or on behalf of, InsWeb is not a guarantee of future performance. Actual results could differ materially from those anticipated in such forward-looking statements due to a number of factors, some of which are beyond InsWeb's control, including, but not limited to, uncertain economic conditions which could result in lower growth rates, fluctuations in revenues, anticipated and unanticipated losses, the unpredictability of consumer shopping and/or buying behavior, especially on the internet, potential increases in advertising and marketing costs on the internet, the rate of participation by insurance companies and agents, reliance on key customers, who are themselves subject to volatility in their operating cycles, reliance on a third party intermediary who provides leads to local insurance agents on InsWeb's behalf, competition, risks associated with system development and operation risks, management of potential growth and risks of new business areas, business combinations, litigation in which InsWeb is a party, and strategic alliances. These risks and uncertainties, as well as other risks and uncertainties, which are described in greater detail in InsWeb's Annual Report on Form 10-K for the year ended December 31, 2007 and other documents filed with the Securities and Exchange Commission, could cause InsWeb's actual results to differ materially from historical results or those currently anticipated. All forward-looking statements are based on information available to InsWeb on the date hereof, and InsWeb assumes no obligation to update such statements.*

**Overview**

InsWeb (the "Company," "InsWeb," "we," "us," or "our") operates an online insurance marketplace that enables consumers to comparison shop online to obtain insurance company-sponsored quotes for a variety of insurance products, including automobile, homeowners and term life. InsWeb's marketplace electronically matches consumers and insurance providers. InsWeb has combined extensive knowledge of the insurance industry, technological expertise and close relationships with a significant number of insurance companies, agents and insurance providers to develop an integrated online marketplace.

For the automobile and homeowners insurance products, our principal source of revenues is transaction fees from participating insurance providers. While quotes obtained through our online insurance marketplace are provided to consumers free of charge, we earn revenues when a qualified lead is delivered to a participating insurance provider or local agent. In certain instances, consumers are provided the opportunity to link directly to a third party insurance provider's website. In these situations, we will be paid a fee for that consumer link or click-through whether or not the consumer completes the third party's online application.

For term life insurance, the majority of our revenues prior to April 2007 consisted of commissions earned by our insurance agency subsidiary, InsWeb Insurance Services, Inc., upon the sale of a term life insurance policy. We discontinued the term life agency operation in April 2007 but continued to earn commissions throughout 2007 (in decreasing amounts) on a limited number of policies written prior to the discontinuation of the agency operations. Beginning in 2008, substantially all of our term life insurance were being generated by the sale of leads to third parties and to local agents.

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Beginning in 2008, InsWeb also generates revenue from the sale of both subscription and display advertising on its Agent Directory pages. These pages display listings of several insurance companies and not more than eight local agents for the consumer to contact.

For a variety of other insurance products, including renters and health insurance, we are paid a fee for the click through of a consumer from our website to a third party's website.

We have focused our efforts on automobile insurance, which accounted for approximately 84% of our transaction revenues in 2007, and 76% in 2006. For the nine month period ending September 30, 2008, automobile insurance accounted for 85% of our transaction revenues. We anticipate that automobile insurance will continue to account for a substantial portion of our revenues for the foreseeable future.

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Financial highlights and key metrics are as follows:

	Three months Ended		Nine months Ended	
	September 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
Revenues (in thousands):				
Auto	\$ 7,574	\$ 7,995	\$ 26,036	\$ 20,972
Home/condo/renters	862	554	2,807	1,331
Term life	377	611	1,222	2,933
Agent Directory	134		590	
Other	8	7	22	37
Total transaction fees	\$ 8,955	\$ 9,167	\$ 30,677	\$ 25,273
# of consumers (in thousands):				
Auto	2,245	1,802	7,140	4,568
Home/condo/renters	212	150	607	297
Term life	17	14	42	88
Agent Directory	383	N/A	1,579	N/M
Total	2,857	1,966	9,368	4,953
Transaction revenue per consumer:				
Auto	\$ 3.37	\$ 4.44	\$ 3.64	\$ 4.59
Home/condo/renters	\$ 4.06	\$ 3.69	\$ 4.62	\$ 4.48
Auto Segment B revenue per click:				
Avg. times lead sold (auto and home):	3.93	N/M	3.78	N/M
Agent network (auto and home):				
AgentInsider approved agents	6,775	4,902	6,775	4,902
Direct marketing costs (in thousands):				
Marketing costs per consumer:				
Total	\$ 2.27	\$ 3.00	\$ 2.35	\$ 3.03
Excluding Agent Directory	\$ 2.59	\$ 3.00	\$ 2.75	\$ 3.03
Direct marketing costs as a percent of revenues:	73%	64%	72%	59%
Cash and cash equivalents (in thousands):				
Account receivable (in thousands):	\$ 9,125	\$ 8,491	\$ 9,125	\$ 8,491
Day sales outstanding (DSO):	24	43	24	43
Staffing:	89	59	89	59

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Definitions:

# of consumers	Represents consumers acquired from marketing activities
Per consumer information	Represents revenues earned or marketing costs incurred per consumer who has started an InsWeb quote form
Segment B	Auto insurance consumers classified as non-standard (bad driving record, not enough experience, or not permanently insured for 3 years)
Avg. times lead sold	Total # of times a lead is sold, including leads sold by NetQuote on our behalf
AgentInsider approved agents	# of agents approved to buy leads through AgentInsider
Direct marketing costs	Represents expenses incurred by InsWeb to acquire the consumers to InsWeb's online insurance marketplace
N/M	Information not meaningful
N/A	Information not applicable

**Transaction Fees.** Automobile insurance transaction fees (consisting of lead fees and click through fees) decreased to \$7.6 million for the three months ended September 30, 2008 from \$8.0 million for the three months ended September 30, 2007 due to a reduction in leads from several direct auto carriers. Automobile insurance transaction fees for the automobile product increased to \$26.0 million for the nine months ended September 30, 2008, from \$21.0 million for the nine months ended September 30, 2007, due to improvements to our lead generation program and a 56% increase in traffic from the comparable period in 2007. With the significant increase in traffic, our agent network's ability to absorb the traffic decreased, and as a result, our revenue per consumer decreased to \$3.37 and \$3.64 for the three and nine months ended September 30, 2008, from \$4.44 and \$4.59 for the comparable periods in 2007.

Homeowners, condominium and renters transaction fees (consisting primarily of lead fees) were \$0.9 million and \$2.8 million for the three and nine months ended September 30, 2008, as compared to \$0.6 million and \$1.3 million for the comparable periods in 2007. The increases for the three and nine months ended September 30, 2008 were primarily the result of our increased marketing efforts to attract more consumers for homeowners, condominium and renters. We expect revenue from the property insurance marketplace to decrease during the remainder of 2008 due to traditional seasonality factors.

Term life insurance transaction fees (consisting primarily of lead fees) decreased to \$0.4 million and \$1.2 million for the three and nine months ended September 30, 2008, from \$0.6 million and \$2.9 million for the comparable periods in 2007. The decrease in term life revenues is attributable to the absence of commission based revenue following our decision in April 2007 to wind-down our term life agency in order to focus on lead generation opportunities. Beginning in 2008, term life insurance products are being offered to our consumers only through our online insurance marketplace, using a lead generation model.

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Agent directory fees (consisting of both advertising revenues as well as subscription revenues) were \$0.1 million and \$0.6 million for the three and nine months ended September 30, 2008, as compared to \$0 for the comparable periods in 2007.

Table of Contents**Operating Expenses**

(in thousands, except percentages)	Three months ended September 30,		Percentage change from prior period
	2008	2007	
Operating expenses:			
Direct marketing	\$ 6,497	\$ 5,899	10%
Sales and marketing	1,505	1,251	20
Technology	774	691	12
General and administrative	877	1,034	(15)

(in thousands, except percentages)	Nine months ended September 30,		Percentage change from prior period
	2008	2007	
Operating expenses:			
Direct marketing	\$ 22,040	\$ 15,024	47%
Sales and marketing	4,233	4,056	4
Technology	2,401	2,344	2
General and administrative	3,276	3,259	1

**Direct Marketing.** Direct marketing expenses consist of advertising, promotions and fees incurred to acquire consumer traffic for the InsWeb online marketplace. Our marketing strategy is designed to increase consumer traffic to our website and to drive awareness of our insurance products and services. We employ various means of advertising, which consist primarily of online advertising, sponsored search, portal advertising, e-mail campaigns and strategic partnerships with high-profile online companies that can acquire significant traffic to the InsWeb site or the sites of other online lead generators that use our network. Fees related to our online marketing are expensed in the period in which the consumer clicks through from a partner's website to InsWeb's website, or in some cases, when the consumer's activity on the InsWeb website generates a lead to an insurance provider. Direct marketing expenses for the three and nine months ending September 30, 2008 increased to \$6.5 million and \$22.0 million from \$5.9 million and \$15.0 million for the comparable periods in 2007. Direct marketing expense as a percent of total revenues was 72% and 71% for the three and nine months ended September 30, 2008, compared to 64% and 59% for the comparable periods in 2007, which were aided in part, by revenues from the winding down of the term-life agency, with no associated marketing costs. Direct marketing expenses per consumer were \$2.27 and \$2.35 for the three and nine months ended September 30, 2008, a decrease from \$3.00 and \$3.03 for the comparable periods in 2007. Direct marketing expenses for the remainder of 2008 are expected to decrease, due to traditional seasonality factors of the business.

**Sales and Marketing.** Sales and marketing expenses consist primarily of payroll and related expenses, including employee benefits, facility costs, telecommunications and systems costs, for our sales and marketing personnel. Sales and marketing expenses increased to \$1.5 million and \$4.2 million for the three and nine months ended September 30, 2008, from \$1.3 million and \$4.1 million for the comparable periods in 2007. The increase for the three and nine months ended September 30, 2008 was primarily due to an increase in headcount related expenses. Sales and marketing expenses for the remainder of 2008 are expected to remain at current levels.



**Technology.** Technology expenses consist primarily of payroll and related expenses, including employee benefits, facility and systems costs, for product and site development personnel involved with our technology initiatives. Technology expenses increased to \$0.8 million and \$2.4 million for the three and nine months ended September 30, 2008 from \$0.7 million and \$2.3 million for the comparable periods in 2007. The increase for the three and nine months ended September 30, 2008 was primarily due to an increase in headcount related expenses. Technology expenses for the remainder of 2008 are expected to remain at current levels.

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**General and Administrative.** General and administrative expenses consist primarily of payroll and related expenses, including employee benefits, facility costs, telecommunications and systems costs, for our general management, administrative and accounting personnel, as well as other general corporate expenses. General and administrative expenses were \$0.9 million and \$3.3 million for the three and nine months ended September 30, 2008, compared to \$1.0 million and \$3.3 million for the comparable periods in 2007. General and administrative expenses decreased for the three months ended September 30, 2008 due to decrease in headcount related expenses, recruiting fees, share based compensation expense and rent, offset by legal costs associated with patent litigation.

**Interest and Other Income**

**Interest Income.** Interest income was \$47,000 and \$196,000 for the three and nine months ended September 30, 2008, a decrease from \$108,000 and \$287,000 for the comparable periods in 2007. The decrease is primarily attributed to declines in interest rates and average investment balance. Interest income represents interest earned on InsWeb's investment securities.

**Provision (Benefit) for Income Taxes**

A benefit of \$44,000 was recognized for the three and nine months ended September 30, 2008. No benefits were recognized for the comparable periods in 2007.

**Critical Accounting Policies**

InsWeb's discussion and analysis of its financial condition and results of operations are based on InsWeb's consolidated financial statements which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires InsWeb to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. InsWeb bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. InsWeb believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

**Contingencies.** As discussed in Part I, Item 3 ( Legal Proceedings ) of this report, InsWeb is a defendant in: i) a class action lawsuit has been filed that alleges InsWeb violated certain federal securities laws at the time of its initial public offering; ii) a securities lawsuit alleging certain officers and directors and significant shareholders violated the short swing trading prohibition of Section 16(b) of the Securities Exchange Act; and iii) a patent infringement lawsuit in the

Eastern district of Texas. InsWeb is a plaintiff in a patent infringement lawsuit in the Southern District of California. InsWeb cannot accurately predict the ultimate outcome of these matters at this time and therefore, cannot estimate the range of probable loss, if any, due to the inherent uncertainties of litigation. InsWeb believes it has meritorious defenses; however InsWeb cannot assure that it will prevail in any of these actions. An unfavorable outcome could have a material adverse effect on InsWeb's financial condition, results of operations and cash flows.

**Share-Based Compensation.** InsWeb accounts for share-based compensation in accordance with Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment* ( Statement 123(R) ). Under the provisions of Statement 123(R), share-based compensation cost is generally estimated at the grant date based on the award's fair value as calculated by the Black-Scholes-Merton (BSM) option-pricing model and is recognized as expense over the requisite service period. The BSM model requires various highly judgmental assumptions including expected option life, volatility, and forfeiture rates. If any of the assumptions used in the BSM model change significantly, share-based compensation expense may differ materially in the future from that recorded in the current period.

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**Income Taxes.** InsWeb accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*. The deferred tax assets and/or liabilities are determined by multiplying the differences between the financial reporting and tax reporting bases for assets and liabilities by the enacted tax rates expected to be in effect when such differences are recovered or settled.

The carrying value of our deferred tax assets, which was approximately \$73 million at December 31, 2007, is dependent upon our ability to generate sufficient future taxable income. We have established a full valuation allowance against our net deferred tax assets to reflect the uncertainty of realizing the deferred tax benefits, given historical losses. A valuation allowance is required when it is more likely than not that all or a portion of a deferred tax asset will not be realized. This assessment requires a review and consideration of all available positive and negative evidence, including our past and future performance, the market environment in which we operate, the utilization of tax attributes in the past, and the length of carry-forward periods and evaluation of potential tax planning strategies. We expect to continue to maintain a full valuation allowance until an appropriate level of profitability is sustained or we are able to develop tax strategies that would enable us to conclude that it is more likely than not that a portion of our deferred tax assets would be realizable.

Table of Contents**Liquidity and Capital Resources**

Summarized cash flow information is as follows (in thousands):

		<b>Nine months ended September 30,</b>	
	<b>2008</b>		<b>2007</b>
Cash provided by (used in) operating activities	\$	(582)	\$ 367
Cash used in investing activities		(606)	(15)
Cash provided by (used in) financing activities		(464)	1,389

At September 30, 2008, InsWeb's principal source of liquidity was \$9.1 million in cash and cash equivalents. Since inception, we have financed our operations primarily through the sale of preferred and common stock.

For the nine months ended September 30, 2008, net cash used by operating activities was \$582,000, primarily due to our net loss of \$859,000 as adjusted for non-cash share-based compensation of \$576,000, depreciation and amortization of property, equipment and intangible assets of \$119,000, a decrease in accounts receivable of \$18,000, an increase in prepaid expenses of \$356,000 and accrued expenses of \$319,000, offset by an increase in accounts payable of \$220,000. For the comparable nine month period ended September 30, 2007, net cash provided by operating activities was \$367,000 primarily consisting of our net income of \$1.1 million, increased by non-cash share-based compensation of \$838,000 and depreciation and amortization of property and equipment of \$121,000. An increase in accounts receivable of \$2.3 million decreased cash provided by operations, while an increase in accounts payable of \$479,000 increased cash provided by operations. The increase in accounts receivable was a result of the revenue growth during the year.

For the nine months ended September 30, 2008, net cash used in investing activities was \$606,000 primarily due to purchases of property, equipment and intangibles of \$354,000 and notes receivable from employees for \$252,000. For the comparable nine month period ended September 30, 2007 net cash used in investing activities was \$15,000, primarily due to purchases from property and equipment.

For the nine months ended September 30, 2008, net cash used by financing activities was \$464,000, representing principally of \$850,000 for the cash settlement of equity awards in connection with the departure of the president and COO in June, 2008, offset by proceeds from the exercise of stock options and stock issued from our employee stock purchase plan of \$386,000. For the nine months ended September 30, 2007, net cash provided by financing activities was \$1.4 million, primarily attributable to the exercise of employee stock options.

We lease office facilities under non-cancelable operating leases, which expire at various dates through April 2011, including a 10-year lease agreement through 2011 for office space in the Sacramento area which currently houses our corporate headquarters. We have options to extend the lease at the end of the lease term, and have the right of first refusal on other office space in the complex.

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Aggregate contractual cash obligations, net of contractual sublease income, as of September 30, 2008 is summarized as follows (in thousands):

Periods ending December 31,	Gross lease commitments	Sublease income	Net lease commitment
Three months ending December 31, 2008	\$ 269	\$ (30)	\$ 239
Year ending December 31, 2009	1,078	(120)	958
Year ending December 31, 2010	1,078	(120)	958
Year ending December 31, 2011	359	(20)	339
	\$ 2,784	\$ (290)	\$ 2,494

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**Liquidity and Capital Resources (continued)**

We currently anticipate that our cash and cash equivalents will be sufficient to meet our anticipated cash needs for working capital and capital expenditures for at least the next 12 months. Although we do not anticipate the need for additional financing, we nevertheless may require additional funds to meet operating needs, or to expand our business internally or through acquisition. We cannot be certain that additional financing will be available when required, on favorable terms or at all. If we are not successful in raising additional capital as required, our business could be materially harmed. If additional funds were raised through the issuance of equity securities, the percentage ownership of our then-current stockholders would be reduced.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK.**

There have been no material changes to our disclosures related to certain market risks as reported under Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in our Annual Report on Form 10-K for the year ended December 31, 2007, as filed with the U.S. Securities and Exchange Commission.

**ITEM 4T. CONTROLS AND PROCEDURES**

(a) Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this quarterly report.

(b) There has been no change in our internal control over financial reporting during the three months ended September 30, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II: OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

See Part I, Item 1, Financial Statements Note 10 Commitments and Contingencies.

**ITEM 1A. RISK FACTORS.**

Our future business, operating results and financial condition are subject to various risks and uncertainties, including those disclosed in Part I, Item 1A, Risk Factors, of our Annual Report on Form 10-K for the year ended December 31, 2007, as filed with the U.S. Securities and Exchange Commission. There have been no material changes to the risk factors as so disclosed.

**ITEM 6. EXHIBITS**

<b>Exhibit Number</b>	<b>Description of Document</b>
10.24	Amendment to InsWeb's Services Agreement between registrant and NetQuote, Inc. dated as of July 21, 2008.
31.1	Certification of Chief Executive Officer, pursuant to Exchange Act Rule 13a-14(a).
31.2	Certification of Chief Financial Officer, pursuant to Exchange Act Rule 13a-14(a).
32	Certification of Chief Executive Officer and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350.

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Confidential treatment has been requested as to a portion of this Exhibit.



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**SIGNATURE**

SIGNATURE

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In accordance with the requirements of the Securities Exchange Act of 1934, the registrant has caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: November 12, 2008

**INSWEB CORPORATION**  
**(Registrant)**

**/s/ STEVEN J. YASUDA**  
Steven J. Yasuda  
Chief Accounting Officer

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