

INFOSPACE INC  
Form 10-Q/A  
November 14, 2011  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q/A**  
**Amendment No. 2 to 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 March 31, 2011

or

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

For the transition period from            to

Commission File Number: 000-25131

**INFOSPACE, INC.**

Edgar Filing: INFOSPACE INC - Form 10-Q/A

(Exact name of registrant as specified in its charter)

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

**601 108th Avenue NE, Suite 1200**  
**Bellevue, Washington**  
(Address of principal executive offices)

**91-1718107**  
(I.R.S. Employer  
Identification No.)

**98004**  
(Zip Code)

**Registrant's telephone number, including area code: (425) 201-6100**

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 web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at April 29, 2011
Common Stock, Par Value \$0.0001	37,034,841

**Table of Contents**

**INFOSPACE, INC.**

**FORM 10-Q/A**

**TABLE OF CONTENTS**

<u>Explanatory Note</u>	3
<b>PART I FINANCIAL INFORMATION</b>	
Item 1. <u>Financial Statements</u>	4
<u>Unaudited Condensed Consolidated Balance Sheets as of March 31, 2011 (as Restated) and December 31, 2010</u>	4
<u>Operations and Comprehensive Income for the Three Months ended March 31, 2011 (as Restated) and 2010</u>	5
<u>Unaudited Condensed Consolidated Statements of Cash Flows for the Three Months ended March 31, 2011 (as Restated) and 2010</u>	6
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	15
Item 4. <u>Controls and Procedures</u>	24
<b>PART II OTHER INFORMATION</b>	
Item 6. <u>Exhibits</u>	25
<u>Signature</u>	26

## Table of Contents

### Explanatory Note

InfoSpace, Inc. (the *Company*, *InfoSpace*, *our*, or *we* ) is filing this Amendment No. 2 (this *Amendment No. 2* ) to its Quarterly Report on Form 10-Q/A for the period ended March 31, 2011, as originally filed with the Securities and Exchange Commission ( *SEC* ) on May 6, 2011 (the *Original Quarterly Report* ) and as amended by Amendment No. 1 on Form 10-Q/A as filed with the SEC on August 30, 2011, for the purpose of restating its unaudited condensed consolidated financial statements for the first quarter of 2011. As we reported in our Current Report on Form 8-K filed with the Commission on November 3, 2011, we have identified an error related to our accounting for goodwill in connection with our acquisition of the Make The Web Better assets in April 2010, and as a result, we are restating our unaudited condensed consolidated financial statements to correct this error.

On April 1, 2010, we purchased assets consisting of internet properties and licenses for content and technology from Make The Web Better, a developer of online products used on social networking sites and a member of our search distribution network. We purchased these assets for \$13.0 million, and allocated \$12.7 million of the purchase price to goodwill. We have determined that this \$12.7 million should have been allocated to an intangible asset consisting of an installed code base technology that directs Make The Web Better users to use our search services. As a result of this determination, the Company is restating all periods since the second quarter of 2010 to amortize that intangible asset. We have recorded this amortization as an expense to cost of sales. For further detail on this restatement, please see Note 1: The Company and Basis of Presentation of the Notes to Unaudited Condensed Consolidated Financial Statements (Item 1 of Part I of this report).

This Amendment No. 2 contains another change in presentation for discontinued operations from the previously filed Quarterly Report on Form 10-Q that is not a restatement or connected to the restatement described above, but is an appropriate change given the re-issuance of the information contained in this report. For further detail on this presentation change, please see Note 8: Discontinued Operations of the Notes to Unaudited Condensed Consolidated Financial Statements (Item 1 of Part I of this report).

We are amending and restating in their entirety all of Items 1, 2 and 4 of Part I and Item 6 of Part II in this Amendment No. 2 to reflect the restatement of the above-referenced financial statements and the other changes to presentation and classification as described herein. There have been no changes to the Original Quarterly Report other than those specifically described in this Amendment No. 2.

Amendment No. 1 to the originally filed quarterly report on Form 10Q was filed August 30, 2011 in response to communications received from staff of the SEC regarding a confidential treatment request creating Exhibit 10.2. Yahoo! Publisher Network Contract #1-23975446.

**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements****INFOSPACE, INC.****UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

(amounts in thousands, except share data)

	March 31, 2011 (as Restated)	December 31, 2010
<b><u>ASSETS</u></b>		
Current assets:		
Cash and cash equivalents	\$ 149,053	\$ 155,645
Short-term investments, available-for-sale	100,713	98,091
Accounts receivable, net of allowance of \$7 and \$15	20,331	19,189
Other receivables	951	1,185
Prepaid expenses and other current assets	1,812	2,163
Net assets of discontinued operations	16,040	16,161
<b>Total current assets</b>	<b>288,900</b>	<b>292,434</b>
Property and equipment, net	7,243	7,304
Goodwill	44,815	44,815
Other intangible assets, net	2,952	3,910
Other long-term assets	4,334	4,257
<b>Total assets</b>	<b>\$ 348,244</b>	<b>\$ 352,720</b>
<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>		
Current liabilities:		
Accounts payable	\$ 11,737	\$ 2,699
Accrued expenses and other current liabilities	21,760	39,518
Liabilities of discontinued operations	5,125	7,777
<b>Total current liabilities</b>	<b>38,622</b>	<b>49,994</b>
Long-term liabilities	1,016	955
<b>Total liabilities</b>	<b>39,638</b>	<b>50,949</b>
Commitments and contingencies (Note 5)		
Stockholders' equity:		
Common stock, par value \$0.0001 authorized, 1,800,000,000 shares; issued, 36,502,257 shares; and outstanding, 36,088,646 shares	4	4
Additional paid-in capital	1,327,748	1,322,265
Accumulated deficit	(1,019,173)	(1,020,496)
Accumulated other comprehensive income (loss)	27	(2)
<b>Total stockholders' equity</b>	<b>308,606</b>	<b>301,771</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 348,244</b>	<b>\$ 352,720</b>

See accompanying notes to Unaudited Condensed Consolidated Financial Statements.



**Table of Contents****INFOSPACE, INC.****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****AND COMPREHENSIVE INCOME**

(amounts in thousands, except per share data)

	Three months ended March 31,	
	2011 (as Restated)	2010
Revenues:	\$ 51,650	\$ 61,773
Cost of sales:	32,674	43,559
Gross profit	18,976	18,214
Expenses and other income:		
Engineering and technology	1,664	1,906
Sales and marketing	6,967	6,482
General and administrative	5,160	6,755
Depreciation	662	820
Other loss (income), net	(75)	137
Total expenses and other income	14,378	16,100
Income from continuing operations before income taxes	4,598	2,114
Income tax expense	(1,702)	(570)
Income from continuing operations	2,896	1,544
Discontinued operations:		
Loss from discontinued operations, net of taxes	(1,573)	
Net income	\$ 1,323	\$ 1,544
Income (loss) per share Basic		
Income from continuing operations	\$ 0.08	\$ 0.04
Loss from discontinued operations	(0.04)	
Basic net income per share	\$ 0.04	\$ 0.04
Weighted average shares outstanding used in computing basic income (loss) per share	36,339	35,466
Income (loss) per share Diluted		
Income from continuing operations	\$ 0.08	\$ 0.04
Loss from discontinued operations	(0.04)	
Diluted net income per share	\$ 0.04	\$ 0.04
Weighted average shares outstanding used in computing diluted income (loss) per share	37,084	37,059
Other comprehensive income:		
Net income	\$ 1,323	\$ 1,544

Edgar Filing: INFOSPACE INC - Form 10-Q/A

Foreign currency translation adjustment		(171)
Unrealized gain on investments, available-for-sale, included in net income	29	63
Other comprehensive income (loss)	29	(108)
Comprehensive income	\$ 1,352	\$ 1,436

See accompanying notes to Unaudited Condensed Consolidated Financial Statements.



**Table of Contents****INFOSPACE, INC.****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(amounts in thousands)

	<b>Three months ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
	<b>(as Restated)</b>	
<b>Operating activities:</b>		
Net income	\$ 1,323	\$ 1,544
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss from discontinued operations	1,573	
Stock-based compensation	2,033	2,280
Depreciation and amortization of intangible assets	2,409	1,763
Earn-out contingent liability adjustments	1,500	
Gain on resolution of contingent liability	(1,500)	
Excess tax benefits from stock-based award activity	(787)	(509)
Amortization of premium on investments, net	105	509
Other	(32)	219
Cash provided (used) by changes in operating assets and liabilities:		
Accounts receivable	(1,117)	4,099
Other receivables	235	(263)
Prepaid expenses and other current assets	351	(27)
Other long-term assets	(245)	201
Accounts payable	8,950	(1,459)
Accrued expenses and other current and long-term liabilities	(16,326)	(3,005)
<b>Net cash provided (used) by operating activities of continuing operations</b>	<b>(1,528)</b>	<b>5,352</b>
<b>Investing activities:</b>		
Purchases of property and equipment	(1,191)	(742)
Other long-term assets	168	
Proceeds from maturities of investments	30,486	5,570
Purchases of investments	(33,186)	(61,879)
<b>Net cash used by investing activities of continuing operations</b>	<b>(3,723)</b>	<b>(57,051)</b>
<b>Financing activities:</b>		
Earn-out payments for business acquisitions	(423)	
Proceeds from stock option exercises	2,266	1,303
Proceeds from issuance of stock through employee stock purchase plan	207	169
Excess tax benefits from stock-based award activity	787	509
Tax payments from shares withheld upon vesting of restricted stock units	(299)	(973)
Repayment of capital lease obligation	(151)	(146)
<b>Net cash provided by financing activities of continuing operations</b>	<b>2,387</b>	<b>862</b>
<b>Discontinued operations:</b>		
Net cash used by operating activities of discontinued operations	(3,684)	
Net cash used by investing activities of discontinued operations	(44)	
<b>Net cash used by discontinued operations</b>	<b>(3,728)</b>	
<b>Net decrease in cash and cash equivalents</b>	<b>(6,592)</b>	<b>(50,837)</b>

Edgar Filing: INFOSPACE INC - Form 10-Q/A

Cash and cash equivalents:		
Beginning of period	155,645	83,750
End of period	\$ 149,053	\$ 32,913

See accompanying notes to Unaudited Condensed Consolidated Financial Statements.

- 6 -

---

**Table of Contents**

**INFOSPACE, INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1. The Company and Basis of Presentation**

InfoSpace, Inc. (the *Company*, *InfoSpace*, *Our*, or *We* ) develops search tools and technologies that assist consumers with finding information, merchants, individuals, products, and other content on the Internet. The Company uses its metasearch technology, which selects search results from several search engine content providers, to power its own branded websites and to provide search services to distribution partners. Distribution partner versions of web offerings are generally private-labeled and delivered with each distribution partner's unique requirements. Some content providers, such as Google and Yahoo!, pay the Company to distribute their content, and we refer to those providers as search customers.

On June 22, 2011, the Company sold its Mercantila e-commerce business to Zoo Stores, Inc. Prior to the Company's disposition of its Mercantila business, the Company had two reporting segments, Core and E-commerce. As a result of the disposition of the Mercantila e-commerce business, the Company now has one reporting segment, and the operating results of the e-commerce business have been presented as discontinued operations in the accompanying unaudited Condensed Consolidated Financial Statements for all periods presented.

The Company's Chief Executive Officer, who is its chief operating decision maker, reviews financial information presented on a consolidated basis accompanied by disaggregated information for certain measures. This information is used for purposes of allocating resources and evaluating financial performance. The Company's operations are not organized into components below the consolidated unit level and operating results are not reported to the Chief Executive Officer for components below the consolidated unit level. Accordingly, the Company's management considers InfoSpace to have a single reporting segment.

*Restatement:* On April 1, 2010, the Company purchased assets consisting of internet properties and licenses for content and technology from Make The Web Better, a developer of online products used on social networking sites and a member of InfoSpace's search distribution network. InfoSpace purchased these assets for \$13.0 million, and allocated \$12.7 million of the purchase price to goodwill. In October, the Company identified an error related to its accounting for goodwill in connection with its acquisition of the Make The Web Better assets. The Company determined that \$12.7 million should have been allocated to an intangible asset consisting of an installed code base technology that directs Make The Web Better users to use InfoSpace's search services. As a result of this determination, the Company has allocated the \$12.7 million initially classified as goodwill to the installed code base technology classified as other intangibles, net, and is amortizing that intangible asset ratably as a proportion of the estimated revenue generated by the installed code base technology, as adjusted by changes in the estimated total revenue expected to be generated.

The Company believed that the error was material to the unaudited condensed consolidated financial statements for the three months ended March 31, 2011 and, therefore, the Company is restating its 2011 unaudited condensed consolidated financial statements in this Amendment No. 2 on Form 10-Q/A.

Additionally, cash equivalents and available for sale securities previously classified as Level 1 financial assets have been corrected to be classified as Level 2 in Note 2: Fair Value Measures as of March 31, 2011.

**Table of Contents**

The effects of this restatement on the unaudited condensed consolidated balance sheet as of March 31, 2011 as reported in the Company's Quarterly Report on Form 10-Q for the three months ended March 31, 2011, are as follows (in thousands):

	As previously reported and adjusted for Discontinued Operations(1)	Adjustment	As restated
Goodwill	\$ 57,465	\$ (12,650)	\$ 44,815
Other intangible assets, net	\$ 283	\$ 2,669	\$ 2,952
Total assets	\$ 358,225	\$ (9,981)	\$ 348,244
Accrued expenses and other current liabilities	\$ 21,710	\$ 50	\$ 21,760
Total current liabilities	\$ 38,572	\$ 50	\$ 38,622
Other long-term liabilities	\$ 1,025	\$ (9)	\$ 1,016
Total liabilities	\$ 39,597	\$ 41	\$ 39,638
Additional paid-in capital	\$ 1,327,935	\$ (187)	\$ 1,327,748
Accumulated deficit	\$ (1,009,338)	\$ (9,835)	\$ (1,019,173)
Total stockholders' equity	\$ 318,628	\$ (10,022)	\$ 308,606
Total liabilities and stockholders' equity	\$ 358,225	\$ (9,981)	\$ 348,244

(1) All amounts shown reflect discontinued operations for 2011.

The effects of this restatement on the unaudited condensed consolidated statement of operations for the three months ended March 31, 2011, as previously reported in the Company's Quarterly Report on Form 10-Q for the three months ended June 30, 2011, are as follows (in thousands, except per share data):

	As previously reported	Adjustment	As restated
Cost of sales	\$ 31,716	\$ 958	\$ 32,674
Gross profit	\$ 19,934	\$ (958)	\$ 18,976
Income from continuing operations before income taxes	\$ 5,556	\$ (958)	\$ 4,598
Income tax expense	\$ (1,789)	\$ 87	\$ (1,702)
Income from continuing operations	\$ 3,767	\$ (871)	\$ 2,896
Loss from discontinued operations, net of taxes	\$ (1,632)	\$ 59	\$ (1,573)
Net income	\$ 2,135	\$ (812)	\$ 1,323
Net income per share - Basic			
Income from continuing operations <sup>(1)</sup>	\$ 0.10	\$ (0.02)	\$ 0.08
Net income per share	\$ 0.06	\$ (0.02)	\$ 0.04
Net income per share - Diluted			
Income from continuing operations <sup>(1)</sup>	\$ 0.10	\$ (0.02)	\$ 0.08
Net income per share	\$ 0.06	\$ (0.02)	\$ 0.04

(1) Earnings per share amounts reflecting discontinued operations presentation for 2011 were not previously reported.

**Table of Contents**

The effects of this restatement on the unaudited condensed consolidated statement of cash flows for the three months ended March 31, 2011 are as follows (in thousands):

	As previously reported and adjusted for Discontinued Operations(1)	Adjustment	As restated
<b>Operating activities:</b>			
Net income	\$ 2,135	\$ (812)	\$ 1,323
Loss from discontinued operations	\$ 1,632	\$ (59)	\$ 1,573
Depreciation and amortization of intangible assets	\$ 1,452	\$ 957	\$ 2,409
Excess tax benefits from stock-based award activity	\$ (974)	\$ 187	\$ (787)
Other	\$ (26)	\$ (6)	\$ (32)
Other long-term assets	\$ (244)	\$ (1)	\$ (245)
Accrued expenses and other current and long-term liabilities	\$ (16,189)	\$ (137)	\$ (16,326)
Net cash used by operating activities of continuing operations	\$ (1,656)	\$ 128	\$ (1,528)
<b>Financing activities:</b>			
Excess tax benefits from stock-based award activity	\$ 974	\$ (187)	\$ 787
Net cash provided by financing activities of continuing operations	\$ 2,574	\$ (187)	\$ 2,387
<b>Discontinued operations:</b>			
Net cash used by operating activities of discontinued operations	\$ (3,743)	\$ 59	\$ (3,684)
Net cash used by discontinued operations	\$ (3,787)	\$ 59	\$ (3,728)

(1) All amounts shown reflect discontinued operations for 2011.

*Reclassification:* A reclassification has been made to prior year financial statements to conform to the current year presentation. In the Unaudited Condensed Consolidated Statements of Cash Flows, for the three months ended March 31, 2010, the proceeds from the sales of investments is separately presented as a component of net cash provided by investing activities; it was previously presented under the caption of Proceeds from the sales and maturities of investments. This reclassification had no effect on previously reported net cash provided by investing activities in the Unaudited Condensed Statement of Cash Flows.

The accompanying Unaudited Condensed Consolidated Financial Statements include all adjustments, consisting of normal recurring adjustments that, in the opinion of management, are necessary to present fairly the financial information set forth herein. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ( *GAAP* ) have been condensed under the rules and regulations of the U.S. Securities and Exchange Commission. Investors should read these interim Unaudited Condensed Consolidated Financial Statements and related notes in conjunction with the audited financial statements and related notes included in Amendment No. 1 to the Company's Annual Report on Form 10-K/A for the year ended December 31, 2010.

Results of operations for the three months ended March 31, 2011 are not necessarily indicative of future financial results. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions 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. Actual amounts may differ, perhaps materially, from these financial estimates.

The Company does not expect the adoption of recently issued accounting pronouncements to have a significant impact on its results of operations, financial position, or cash flows.

**Table of Contents****2. Fair Value Measures**

The Company measures its investments at fair value under GAAP. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy of the Company's financial assets carried at fair value and measured on a recurring basis is as follows (amounts in thousands):

	Fair value measurements at the reporting date using			
	March 31, 2011	Quoted prices in active markets using identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Cash equivalents</b>				
Money market	\$ 70	\$	\$ 70	\$
Commercial paper	129,796		129,796	
<b>Total</b>	<b>129,866</b>		<b>129,866</b>	
<b>Available-for-sale securities</b>				
U.S. government securities	93,558		93,558	
Taxable municipal bonds	7,155		7,155	
<b>Total</b>	<b>100,713</b>		<b>100,713</b>	
<b>Total</b>	<b>\$ 230,579</b>	<b>\$</b>	<b>\$ 230,579</b>	<b>\$</b>

	Fair value measurements at the reporting date using			
	December 31, 2010	Quoted prices in active markets using identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Cash equivalents</b>				
Money market funds	\$ 31	\$	\$ 31	\$
Commercial paper	87,902		87,902	
Taxable municipal bonds	12,096		12,096	
<b>Total</b>	<b>100,029</b>		<b>100,029</b>	
<b>Available-for-sale securities</b>				
U.S. government securities	90,850		90,850	
Taxable municipal bonds	7,241		7,241	
<b>Total</b>	<b>98,091</b>		<b>98,091</b>	
<b>Total</b>	<b>\$ 198,120</b>	<b>\$</b>	<b>\$ 198,120</b>	<b>\$</b>

## Edgar Filing: INFOSPACE INC - Form 10-Q/A

Maturity information was as follows for investments classified as available-for-sale at March 31, 2011 (in thousands):

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Within one year	\$ 100,686	\$ 36	\$ (9)	\$ 100,713
Greater than one year				
<b>Total</b>	<b>\$ 100,686</b>	<b>\$ 36</b>	<b>\$ (9)</b>	<b>\$ 100,713</b>

Maturity information was as follows for investments classified as available-for-sale at December 31, 2010 (in thousands):

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Within one year	\$ 98,091	\$ 13	\$ (13)	\$ 98,091
Greater than one year				
<b>Total</b>	<b>\$ 98,091</b>	<b>\$ 13</b>	<b>\$ (13)</b>	<b>\$ 98,091</b>

In the three months ended March 31, 2011 and 2010, and at December 31, 2010, the Company did not measure the fair value of any of its assets or liabilities other than cash equivalents and available-for-sale investments. The Company's management considers the carrying values of accounts receivable, other receivables, prepaid expenses and other current assets, accounts payable, accrued expenses and other current liabilities to approximate fair values primarily due to their short-term nature.

**Table of Contents****3. Stock-Based Compensation**

The Company has included the following amounts for stock-based compensation expense, including the cost related to restricted stock units ( *RSUs* ) and stock options granted under the Company's equity award plans including the Company's employee stock purchase plan, in the accompanying Unaudited Condensed Consolidated Statements of Operations and Comprehensive Income for the three months ended March 31, 2011 and 2010 (amounts in thousands):

	Three months ended March 31,	
	2011	2010
Services cost of sales	\$ 144	\$ 108
Engineering and technology	255	211
Sales and marketing	429	479
General and administrative	1,205	1,482
Discontinued operations	377	
Total	\$ 2,410	\$ 2,280
Excluded and capitalized as part of internal-use software	\$ 97	\$ 48

The total intrinsic value and net shares issued for RSUs vested, options exercised, and shares purchased pursuant to the employee stock purchase plan ( *ESPP* ) during the three months ended March 31, 2011 and 2010 is presented below (amounts in thousands):

	Three months ended March 31,			
	2011		2010	
	Intrinsic value	Net shares issued	Intrinsic value	Net shares issued
RSUs vested	\$ 882	67	\$ 2,120	117
Options exercised	429	317	198	135
Shares purchased pursuant to ESPP	41	30	75	26
Total	\$ 1,352	414	\$ 2,393	278

To determine the stock-based compensation expense that was recognized with respect to RSUs and stock options in the three months ended March 31, 2011 and 2010, the Company used the fair value at date of grant for RSUs and the Black-Scholes-Merton option-pricing model with the following weighted-average inputs for stock option grants:

	Three months ended March 31,	
	2011	2010
Risk-free interest rate	1.06%	1.41%
Expected dividend yield	0%	0%
Expected volatility	49%	51%
Expected life	2.9 years	3.1 years



**Table of Contents****4. Net Income (Loss) Per Share**

Basic net income (loss) per share is computed using the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share is computed using the weighted average number of common shares outstanding plus the number of potentially dilutive shares outstanding during the period. Potentially dilutive shares consist of the incremental common shares issuable upon the exercise of outstanding stock options and vesting of unvested RSUs using the treasury stock method. Potentially dilutive shares are excluded from the computation of earnings per share if their effect is antidilutive. The treasury stock method calculates the dilutive effect for equity awards with an exercise price less than the average stock price during the period presented (amounts in thousands):

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2011</b>	<b>2010</b>
Weighted average common shares outstanding, basic	36,339	35,466
Dilutive stock options and RSUs	745	1,593
<b>Weighted average common shares outstanding, diluted</b>	<b>37,084</b>	<b>37,059</b>
Antidilutive equity awards with an exercise price less than the average price during the applicable period excluded from dilutive share calculation	423	90
Outstanding equity awards with an exercise price greater than the average price during the applicable period not included in dilutive share calculation	3,207	2,322

**5. Commitments and Contingencies**

The Company's contractual commitments associated with its purchase commitments and capital and operating lease obligations did not change materially from the commitments and obligations disclosed in Amendment No. 1 to the Company's Annual Report on Form 10-K/A for the year ended December 31, 2010.

*Litigation*

From time to time the Company is subject to various legal proceedings or claims that arise in the ordinary course of business. Although the Company cannot predict the outcome of these matters with certainty, the Company's management does not believe that the disposition of these ordinary course matters will have a material adverse effect on the Company's financial position, results of operations, or cash flows.

**6. Income Taxes**

The Company provides income taxes for the various jurisdictions in which it operates. The income tax expense or benefit reflects the income tax effects of financial reporting income, permanent differences between financial reporting income and taxable income and the effects for the change in the valuation allowance applied to its deferred tax assets. At the end of each quarterly reporting period, the Company estimates the income, permanent differences, changes in the deferred tax assets and the related change to its valuation allowance, and the effective income tax rate that it expects for the full year.

Each quarterly reporting period, the Company applies the expected effective income tax rate to financial reporting income recorded in its financial statements on a year-to-date basis and records the change in expected income taxes as income tax expense or benefit. The Company reflects the tax effect of any tax law changes and certain other discrete events in the period in which they occur.

The expected annual effective tax rate may vary during each quarterly reporting period due to a number of factors, including any changes to the valuation allowance arising from the limitation on forecasting the reversal of deferred tax assets attributable to stock-based compensation prior to the settlement date, increases or decreases in deferred tax assets during a subsequent quarterly reporting period and expectations on realizability of deferred tax assets, enactment of tax legislation in the various jurisdictions in which the Company operates, and certain other discrete events.

As discussed in Note 8 to the Consolidated Financial Statements in Amendment No. 1 to the Company's Annual Report on Form 10-K/A for the year ended December 31, 2010, the Company has a valuation allowance against substantially the full amount of its net deferred tax asset. The Company currently provides a valuation allowance against deferred tax assets when it is more likely than not that some portion, or all, of its

Edgar Filing: INFOSPACE INC - Form 10-Q/A

deferred tax assets will not be realized.

The Company recorded income tax expense of \$1.7 million and \$570,000 in the three months ended March 31, 2011 and 2010, respectively. In the three months ended March 31, 2011, income tax expense did not significantly differ from the taxes

- 12 -

**Table of Contents**

at the statutory rates. In the three months ended March 31, 2010, income tax expense differed from the taxes at the statutory rates primarily due to non-deductible permanent differences and relieving a valuation allowance against deferred tax assets reversing during the period.

During the three months ended March 31, 2011, there were no material changes to the unrecognized tax benefits, the total amount of unrecognized tax benefits that would affect the effective tax rate if recognized, the amount of interest and penalties recognized in connection with the unrecognized tax benefits, and the tax years that remain subject to examination. The Company does not expect the total amount of unrecognized tax benefits to significantly increase or decrease within the next 12 months.

**7. Acquisitions**

*Mercantila.* On May 10, 2010, the Company acquired certain assets from Mercantila, Inc., an e-commerce company, at a cost of \$7.8 million in cash, plus \$8.2 million in liabilities assumed. On June 22, 2011 the Company sold these Mercantila assets to Zoo Stores, Inc. (see Note 8 below for further detail).

*Make The Web Better.* On April 1, 2010, the Company purchased assets consisting of web properties and licenses for content and technology from Make The Web Better, a search distribution partner and privately-held developer of online products used on social networking sites, for \$13.0 million. The purchase consideration included an initial cash payment of \$8.0 million, with an additional contingent payment depending on financial performance. At the time of the acquisition, that contingent payment was estimated at \$5.0 million. The financial performance of the operation of the Make the Web Better assets has been greater than was expected when the assets were acquired due to a slower than expected decline in revenue. As a consequence, the Company's estimate of the fair value of the related contingent consideration increased to \$11.5 million as of March 31, 2011 and it recorded a charge of \$1.5 million to other loss (income), net in the three months ended March 31, 2011.

The purchase price was allocated to the assets acquired and liabilities assumed based on their estimated fair values at their date of acquisition as follows (in thousands):

Installed code base technology	\$ 12,650
License for use of developed core technology	235
Prepaid hosting services	115
Identifiable assets acquired	\$ 13,000
Purchase price:	
Cash paid	\$ 8,000
Contingent consideration	5,000
Purchase price	\$ 13,000
Less identifiable assets acquired	(13,000)
Excess of purchase price over net assets acquired, allocated to goodwill	\$

**8. Discontinued Operations**

On June 22, 2011, the Company sold its Mercantila e-commerce business to Zoo Stores, Inc. The results of operations from the business are reflected in the unaudited Condensed Consolidated Financial Statements as discontinued operations for all periods presented. Revenue, loss before taxes, income tax benefit, and loss from discontinued operations, net of taxes, and loss on sale of discontinued operations, net of taxes, for the three months March 31, 2011 are presented below (in thousands):

Edgar Filing: INFOSPACE INC - Form 10-Q/A

	<b>Three months ended March 31, 2011</b>
Revenue from discontinued operations	\$ 9,979
Loss from discontinued operations before taxes	\$ (2,292)
Income tax benefit	719
Loss from discontinued operations, net of taxes	\$ (1,573)

Loss from discontinued operations includes previously unallocated depreciation, amortization, stock-based compensation expense, income taxes, and other corporate expenses that were attributable to the e-commerce business.

- 13 -

**Table of Contents**

Assets and liabilities from discontinued operations at March 31, 2011 and December 31, 2010 consist of the following (in thousands):

	<b>March 31, 2011</b>	<b>December 31, 2010</b>
Accounts receivable	\$ 306	\$ 365
Other receivables	921	1,101
Prepaid expenses and other current assets	1,143	1,015
Property and equipment, net	278	166
Goodwill	12,413	12,413
Other intangible assets	979	1,101
<b>Assets of discontinued operations</b>	<b>\$ 16,040</b>	<b>\$ 16,161</b>
Accounts payable	\$ 2,562	\$ 4,540
Accrued expenses and other current liabilities	2,563	3,237
<b>Liabilities of discontinued operations</b>	<b>\$ 5,125</b>	<b>\$ 7,777</b>

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

*This Amendment No. 2 to Quarterly Report on Form 10-Q/A contains forward-looking statements that involve risks and uncertainties. The statements in this report that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements include, but are not limited to: statements regarding projections of our future financial performance; trends in our businesses; our future business plans and growth strategy, including our plans to expand, develop, or acquire particular operations, businesses, or assets; and the sufficiency of our cash balances and cash generated from operating, investing, and financing activities for our future liquidity and capital resource needs.*

*Forward-looking statements are subject to known and unknown risks, uncertainties, and other factors that may cause our results, levels of activity, performance, achievements, prospects, and other characterizations of future events or circumstances, to be materially different from those expressed or implied by such forward-looking statements. These risks, uncertainties, and other factors include, among others, those identified under Item 1A, Risk Factors, in our Annual Report on Form 10-K for the fiscal year ending on December 31, 2010 (as originally filed on March 11, 2011), in Part II, Item 1A of our subsequently filed Quarterly Reports on Form 10-Q, and elsewhere in this report. You should not rely on forward-looking statements included herein, which speak only as of the date of this Amendment No. 2 to Quarterly Report on Form 10-Q/A or the date specified herein. We do not undertake any obligation to update publicly any forward-looking statement to reflect new information, events, or circumstances after the date of this Amendment No. 2 to Quarterly Report on Form 10-Q/A or to reflect the occurrence of unanticipated events.*

**Restatement**

In the second quarter of 2010, we acquired certain assets from Make The Web Better. In October 2011, we determined that we made an error in accounting for those acquired assets and that this error was material to the unaudited condensed consolidated financial statements for the three months ended March 31, 2011 as a result of this determination, we are restating those consolidated financial statements in this Amendment No. 2 to Quarterly Report on Form 10-Q/A. The amounts presented below for 2011 are restated to reflect the correction of that error. For additional information on the restatement, see Note 1: The Company and Basis of Presentation of the Notes to Unaudited Condensed Consolidated Financial Statements (Item 1 of Part I of this report).

**Overview**

InfoSpace's revenues are primarily generated by our search business. Using our metasearch technology and relationships with major search content providers, we offer web search products both directly to consumers and through our network of distribution partners. Our metasearch technology selects search results from several search engine content providers, including Google, Yahoo!, and Bing, among others, and aggregates, filters, and prioritizes the results. This combination provides a more relevant search results page and leverages the investments made by our search customers to continually improve the user experience. Revenues from our search business are primarily generated when end users of our services click on paid search results from our own branded websites or those of our distribution partners. These paid search results are provided to us by some of our search content providers, primarily Google and Yahoo!, who share the revenue generated by those paid clicks with us. We refer to those providers as our search customers.

We offer search services directly to consumers through our owned and operated web properties, such as *Dogpile.com*, *WebCrawler.com*, *MetaCrawler.com*, and *WebFetch.com*, which collectively receive millions of unique visitors each month. We use the term "properties" to refer to the methods in which end users access our search services, which typically are websites and downloadable applications belonging to us or our distribution partners. In addition, we provide search services through the web properties of distribution partners. Partner versions of our web offerings are generally private-labeled and delivered with each distribution partner's unique requirements.

We generate revenue when an end user of our services clicks on a paid search link provided by a search customer and displayed on one of our owned and operated web properties or displayed on a distribution partner's web property. The search customer that provided the paid search link receives a fee from the advertiser who paid for the click and the search customer pays us a portion of that fee. If the click originated from one of our distribution partners' web properties, we share a portion of the fee we receive with such partner. Revenue is recognized in the period in which such paid clicks occur and is based on the amounts earned and remitted to us by our search customers for such clicks. Revenues from Google and Yahoo! jointly account for over 95% of our total revenues for the three months ended March 31 in both 2011 and 2010.

Search revenues decreased to \$51.5 million for the three months ended March 31, 2011 from \$59.9 million for the three months ended March 31, 2010. This decrease was driven primarily by due to a decline of \$6.7 million from the Make The Web Better properties and the discontinuation of the syndication of our search results to certain distribution partners who we



**Table of Contents**

deemed to be delivering low quality clicks. We acquired Make The Web Better's search revenue generating assets on April 1, 2010, which generated \$9.4 million as a distribution partner in the three months ended March 31, 2010, which was the primary driver of the decline in revenue from our distribution partners from \$48.5 million in the three months ended March 31, 2010 to \$37.5 million in the three months ended March 31, 2011. Additionally, revenue from new distribution partners (launched during the current year) decreased by \$1.0 million for the three months ended March 31, 2011 as compared to the same period in 2010.

In recent periods and excluding the revenue from the Make The Web Better purchased assets, we experienced an overall decline in revenue generated through our owned and operated properties. This trend is a result of fewer retained users on our metasearch engine sites and, therefore, fewer paid clicks from these sites. The impact of this trend is partially offset by higher fees earned from our search customers for these paid clicks. Our ability to increase our search services revenue in our metasearch engine sites relies in part on our ability to attract end users to these properties and retain them by providing a satisfying search experience. Revenue from our metasearch engine sites (such as *Dogpile.com*) accounted for 48% and 58% of overall owned and operated revenue (excluding revenue from the Make The Web Better purchased assets) for the three months ended March 31, 2011 and 2010, respectively. Further offsetting the impact of the overall negative trend is the greater amount of revenue we are generating through our online direct marketing initiatives. Revenue growth for our online direct marketing initiatives is dependent on our ability to execute to an expected return on our online direct marketing expenditures. Revenue from our online direct marketing initiatives accounted for 52% and 42% of owned and operated revenue (excluding revenue from the Make The Web Better purchased assets) for the three months ended March 31, 2011 and 2010, respectively.

On April 1, 2010, we purchased assets consisting of web properties and licenses for content and technology from Make The Web Better, a search distribution partner and privately-held developer of online products used on social networking sites. This purchase contributed \$2.7 million (or 19%) to our search revenue generated through our owned and operated properties for the three months ended March 31, 2011, and, since Make The Web Better had been a distribution partner, there was a corresponding decrease of \$9.4 million in distribution revenue from the three months ended March 31, 2010. As we anticipated, the revenue generated by the operation of the acquired Make The Web Better assets has steadily declined since we acquired them, and we expect that the revenue generated will be \$8 million in 2011, and decline by approximately 20% to 25% in each quarter when compared to the prior quarterly period, as the end-user base of those assets continues to decrease.

On June 22, 2011, we sold our Mercantila e-commerce business to Zoo Stores, Inc. after our management determined that the long-term prospects for the financial performance of Mercantila were not meeting InfoSpace's expectations and that retaining the Mercantila business did not fit within InfoSpace's strategy. The results of operations from the Mercantila business are reflected as discontinued operations for all periods presented in this Amendment No. 2 to Quarterly Report on Form 10-Q/A.

Within InfoSpace, engineering, operations, and product management personnel remain paramount to our ability to deliver high quality search services, enhance our current technology, and expand our product offerings. As a result, we expect to continue to invest in our workforce and our research and development operations. Additionally, we may use our cash and short-term available-for-sale investments to acquire businesses and other assets, including businesses that may not be related to search.



**Table of Contents****Overview of 2011 Operating Results**

The following is an overview of our operating results for the three months ended March 31, 2011 compared to the three months ended March 31, 2010. A more detailed discussion of our operating results, comparing our operating results for the three months ended March 31, 2011 and 2010, is included under the heading Results of Operations for the Three Months Ended March 31, 2011 and 2010 in this Management's Discussion and Analysis of Financial Condition and Results of Operations.

Several of our key operating financial measures for the three months ended March 31, 2011 and 2010 in total dollars (in thousands) and as a percentage of associated revenue are presented below.

	Three months ended March 31,	
	2011	2010
Revenues	\$51,650	\$61,773
	% of	% of
	revenues	revenues
Gross profit	\$ 18,976	\$ 18,214
	36.7%	29.5%
Income from continuing operations	\$ 2,896	\$ 1,544
	5.6%	2.5%
Net income	\$ 1,323	\$ 1,544
	2.6%	2.5%
Adjusted EBITDA <sup>(1)</sup>	\$ 8,965	\$ 6,294
	17.4%	10.2%
Search Revenue:		
Revenue from distribution partners	\$ 37,521	\$ 48,479
	73%	78%
Revenue from existing distribution partners (launched prior to the then-current year), excluding Make The Web Better	\$ 37,213	\$ 37,708
	72%	61%
Revenue from new distribution partners (launched during the then-current year)	\$ 308	\$ 1,329
	1%	2%
Revenue from Make The Web Better distribution partner		\$ 9,442
		15%
Revenue from owned and operated properties	\$ 14,028	\$ 11,443
	27%	19%
Revenue from online direct marketing initiatives on owned and operated web properties	\$ 5,895	\$ 4,767
	11%	8%
Revenue from Make The Web Better owned and operated	\$ 2,729	
	5%	
Revenue from metasearch properties	\$ 5,404	\$ 6,676
	11%	11%

<sup>(1)</sup> Adjusted EBITDA is a non-GAAP measure, defined below in Non-GAAP Financial Measures.

Search services revenue excludes services revenue from early-stage business initiatives, which is *de minimis* for the three months ended March 31, 2011. The decrease in our search revenue for the three months ended March 31, 2011 as compared to the three months ended March 31, 2010 was primarily due to a decrease in revenue generated by the Make The Web Better assets, which were owned by a distribution partner for the three months ended March 31, 2010 and owned by us for the three months ended March 31, 2011. In addition, excluding the effect of the Make The Web Better assets and our direct marketing initiatives on owned and operated web properties, we experienced a decrease in revenue coming from our distribution partners and from our owned and operated properties, which was partially offset by an increase in revenue generated by our direct marketing initiatives on owned and operated web properties for the three months ended March 31, 2011. We generated 41% and 47% of our search revenue through our top five distribution partners for the three months ended March 31, 2011 and 2010, respectively. The web properties of our top five distribution partners for the three months ended March 31, 2011 generated 31% of our search revenue for the three months ended March 31, 2010.

The increase in gross profit as a percent of revenue, for the three months ended March 31, 2011 as compared to the three months ended March 31, 2010, was primarily due to our acquisition of the Make The Web Better assets described above.

The increase in our sales and marketing expense, for the three months ended March 31, 2011 as compared to the three months ended March 31, 2010, was primarily due to an increase in expense associated with direct marketing initiatives of \$744,000, which was partially offset by the decrease of marketing associated with the Hagle business, which ceased operations in the fourth quarter of 2010.

**Table of Contents**

The decrease in general and administrative expense, for the three months ended March 31, 2011 as compared to the three months ended March 31, 2010, was primarily due to an decrease in legal fees of \$1.1 million.

In the three months ended March 31, 2011, we also recorded in other loss (income), net, \$1.5 million of expense to adjust the estimated earn-out payments to be made related to our acquisition of the Make The Web Better assets and a gain of \$1.5 million related to the resolution of a contingent liability.

**Results of Operations for the Three Months Ended March 31, 2011 and 2010**

**Revenues.** Revenues for the three months ended March 31, 2011 and 2010 are presented below (amounts in thousands):

	<b>Three months ended</b>		<b>Change</b>
	<b>March 31,</b>		<b>from</b>
	<b>2011</b>	<b>2010</b>	<b>2010</b>
Revenues	\$ 51,650	\$ 61,773	\$ (10,123)

The decrease in services revenue for the three months ended March 31, 2011 as compared to the three months ended March 31, 2010 is due to a decline in revenue generated by our distribution partners, which was partially offset by an increase in revenue from our owned and operated properties and online direct marketing initiatives. Revenue from existing distribution partners (launched during the previous year) decreased for the three months ended March 31, 2011 as compared to the three months ended March 31, 2010 by \$9.9 million primarily due to a decline of \$9.4 million from distribution partner Make The Web Better as we acquired its search revenue generating assets on April 1, 2010. Additionally, revenue from new distribution partners (launched during the year) for the three months ended March 31, 2011 as compared to the three months ended March 31, 2010 declined by \$1.0 million.

The increase of \$2.6 million in revenue generated by our owned and operated properties for the three months ended March 31, 2011 as compared to the three months ended March 31, 2010 was primarily due to the operation of the acquired Make The Web Better assets, which generated \$2.7 million of revenue as an owned and operated web property in the three months ended March 31, 2011, and revenue growth of \$1.1 million from our online direct marketing initiatives. Partially offsetting such increases is an overall decline in revenue generated through our owned and operated metasearch engine sites, excluding the revenue from the Make The Web Better purchased assets, and a decline in revenue of \$1.7 million for our Hagggle business, which ceased operations in the fourth quarter of 2010. This trend is a result of fewer retained users on our metasearch engine sites and, therefore, fewer paid clicks from these sites, which is partially offset by higher fees earned from our search customers for these paid clicks.

For the three months ended March 31, 2011, 73% of our search revenue was generated through our search distribution partners' web properties, compared to 78% of our search revenue generated through our search distribution partners' web properties in the three months ended March 31, 2010. During the first half of 2010, we discontinued the syndication of our search results to certain distribution partners who we deemed to be delivering low quality clicks. Those discontinuations had a material negative impact on our revenues for the first half of 2010. We expect that search services revenue from searches conducted by end users on sites of our distribution partners will continue to represent a significant proportion of our search services revenues for the foreseeable future.

*Seasonality*

Our owned and operated metasearch services are affected by seasonal fluctuations in Internet usage, which generally declines in the summer months.

**Table of Contents**

**Cost of sales.** Cost of sales consists of distribution and content costs related to revenue sharing arrangements with our search distribution partners and usage-based content fees, amortization of acquired intangible assets, and certain costs associated with the operation of the data centers that serve our search business, which include personnel expenses (which include salaries, benefits and other employee related costs, and stock-based compensation expense) and bandwidth costs, and depreciation. Additionally, cost of sales includes costs directly identifiable to our development-stage business initiatives. Cost of sales in total dollars (in thousands) and as a percentage of associated and total revenues for the three months ended March 31, 2011 and 2010 are presented below:

	Three months ended March 31,		Change from 2010
	2011	2010	
Distribution and content	\$ 29,183	\$ 39,299	\$ (10,116)
Amortization of acquired intangible assets	958	48	910
Data center operations	1,742	1,492	250
Depreciation	789	895	(106)
Other	2	1,825	(1,823)
Total cost of sales	32,674	43,559	(10,885)
Percentage of revenues	63.3%	70.5%	

The dollar decrease in cost of sales for the three months ended March 31, 2011 as compared to the three months ended March 31, 2010 is primarily due to the decrease in revenue sharing expense resulting from our acquisition of Make The Web Better and the decline in other cost of sales primarily related to our Huggle.com competitive shopping site, which ceased operations in the fourth quarter of 2010, partially offset by the amortization of intangible assets acquired from Make The Web Better.

We anticipate that revenue sharing expenses paid to our distribution partners will increase in dollars if revenues increase through growth in existing arrangements with our distribution partners or we add new distribution partners. If search revenue generated through our distribution partners' web properties increases at a greater rate than revenue generated through our owned and operated web properties, revenue sharing expenses with our distribution partners as a percentage of revenue will increase. As a result of our acquisition of assets from Make The Web Better in April 2010, we experienced a decrease in cost of sales as a percentage of revenues, and a corresponding increase in our gross profit percentage on our search revenue. That effect has been declining as expected as the revenue has declined from the Make The Web Better assets. We expect that revenue from searches conducted by end users on sites of our distribution partners will continue to be a significant portion of our search revenue.

**Engineering and technology expenses.** Engineering and technology expenses are associated with the research, development, support, and ongoing enhancements of our offerings, including personnel expenses (which include salaries, stock-based compensation expense, and benefits and other employee related costs), software support and maintenance, and professional service fees. Engineering and technology expenses in total dollars (in thousands) and as a percentage of total revenues for the three months ended March 31, 2011 and 2010 are presented below:

	Three months ended March 31,		Change from 2010
	2011	2010	
Engineering and technology expenses	\$ 1,664	\$ 1,906	\$ (242)
Percentage of revenues	3.2%	3.1%	

Engineering and technology expenses had no material variances for the three months ended March 31, 2011 compared to the three months ended March 31, 2010.

**Table of Contents**

**Sales and marketing expenses.** Sales and marketing expenses consist principally of marketing expenses associated with our owned and operated web properties (which consist of traffic acquisition, including our online direct marketing initiatives, which involve the purchase of online advertisements that drive traffic to an owned and operated website, agency fees, brand promotion expense, and market research expense), personnel costs (which include salaries, stock-based compensation expense, and benefits and other employee related costs), and the cost of temporary help and contractors to augment our staffing. Sales and marketing expenses in total dollars (in thousands) and as a percentage of total revenues for the three months ended March 31, 2011 and 2010 are presented below:

	Three months ended March 31,		Change from 2010
	2011	2010	
Sales and marketing expenses	\$ 6,967	\$ 6,482	\$ 485
Percentage of revenues	13.5%	10.5%	

The dollar increase for the three months ended March 31, 2011 as compared to the three months ended March 31, 2010 was primarily attributable to an increase of \$744,000 in advertising costs for our marketing initiatives associated with traffic acquisition.

We expect to continue to invest in direct marketing initiative to drive traffic to an owned and operated web property.

**General and administrative expenses.** General and administrative expenses consist primarily of personnel expenses (which include salaries, stock-based compensation expense, and benefits and other employee related costs), professional service fees (which include legal, audit, and tax fees), general business development and management expenses, occupancy and general office expenses, taxes, insurance expenses, and certain legal settlements. General and administrative expenses in total dollars (in thousands) and as a percentage of total revenues for the three months ended March 31, 2011 and 2010 are presented below:

	Three months ended March 31,		Change from 2010
	2011	2010	
General and administrative expenses	\$ 5,160	\$ 6,755	\$ (1,595)
Percentage of revenues	10.0%	10.9%	

The dollar decrease for the three months ended March 31, 2011 as compared to the three months ended March 31, 2010 was primarily attributable to a decrease of \$1.1 million in legal fees.

**Depreciation.** Depreciation of property and equipment includes depreciation of computers, software, office equipment and fixtures, and leasehold improvements. Depreciation had no material variances for the three months ended March 31, 2011 compared to the three months ended March 31, 2010.

**Other loss (income), net.** Other loss (income), net for the three months ended March 31, 2011 and 2010 are presented below (amounts in thousands):

	Three months ended March 31,		Change from 2010
	2011	2010	
Interest income	\$ (91)	\$ (57)	\$ (34)
Gain on contingency resolution	(1,500)		(1,500)
Increase in fair value of earn-out contingent liability	1,500		1,500
Loss on disposal of fixed assets		224	(224)
Other	16	(30)	46
Other loss (income), net	\$ (75)	\$ 137	\$ (212)

## Edgar Filing: INFOSPACE INC - Form 10-Q/A

In the three months ended March 31, 2011, we recorded in other loss (income), net, \$1.5 million of expense to adjust the estimated earn-out payments to be made related to our acquisition of the Make The Web Better assets and a gain of \$1.5 million related to the resolution of a contingent liability.

***Income Tax Expense.*** We recorded income tax expense of \$1.7 million and \$570,000 in the three months ended March 31, 2011 and 2010, respectively. In the three months ended March 31, 2011, income tax expense did not significantly differ from the taxes at the statutory rates. In the three months ended March 31, 2010, income tax expense differed from the taxes at the statutory rates primarily due to non-deductible permanent differences and the reversal of a valuation allowance against deferred tax assets reversing during the period.

- 20 -

**Table of Contents*****Loss from Discontinued Operations and Loss on Sale of Discontinued operations.***

On June 22, 2011, we sold our Mercantila e-commerce business to Zoo Stores, Inc. The results of operations from the business are reflected as discontinued operations for all periods presented. Revenue, loss before taxes, income tax benefit, and loss from discontinued operations, net of taxes for the three months ended March 31, 2011 is presented below (in thousands):

	<b>Three months ended March 31, 2011</b>	
Revenue from discontinued operations	\$	9,979
Loss from discontinued operations before taxes	\$	(2,292)
Income tax benefit		719
Loss from discontinued operations, net of taxes	\$	(1,573)

**Non-GAAP Financial Measures**

We define Adjusted EBITDA as net income, determined in accordance with accounting principles generally accepted in the United States of America, excluding the effects of income taxes, depreciation, amortization of intangible assets, stock-based compensation expense, and other loss (income), net (which includes such items as adjustments to the fair values of contingent liabilities related to business combinations, gains on resolution of contingencies, interest income, foreign currency gains or losses, and gains or losses from the disposal of assets).

We believe that Adjusted EBITDA provides meaningful supplemental information regarding InfoSpace's performance by excluding certain expenses and gains that we believe are not indicative of our operating results. We use this non-GAAP financial measure for internal management purposes, when publicly providing guidance on possible future results, and as a means to evaluate period-to-period comparisons. We believe that Adjusted EBITDA is a common measure used by investors and analysts to evaluate our performance, that it provides a more complete understanding of the results of operations and trends affecting our business when viewed together with GAAP results, and that management and investors benefit from referring to this non-GAAP financial measure. Items excluded from Adjusted EBITDA are significant and necessary components to the operations of our business, and, therefore, Adjusted EBITDA should be considered as a supplement to, and not as a substitute for or superior to, GAAP net income. Other companies may calculate Adjusted EBITDA differently, and therefore our Adjusted EBITDA may not be comparable to similarly titled measures of other companies. A reconciliation of our Adjusted EBITDA to net income, which we believe to be the most comparable GAAP measure, is presented for the three months ended March 31, 2011 and 2010 below (amounts in thousands):

	<b>Three months ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
Net income	\$ 1,323	\$ 1,544
Discontinued operations	1,573	
Depreciation and amortization of intangible assets	2,409	1,763
Stock-based compensation	2,033	2,280
Other (income) loss, net	(75)	137
Income tax expense	1,702	570
Adjusted EBITDA	\$ 8,965	\$ 6,294

We define non-GAAP net income (loss) as net income (loss), determined in accordance with GAAP, excluding the effect of non-cash income taxes. Non-cash income tax expense represents a reduction to cash taxes payable associated with the utilization of deferred tax assets, which are primarily comprised of U.S. federal net operating losses.



**Table of Contents**

We believe that excluding the non-cash portion of income tax expense from our GAAP net income provides meaningful supplemental information to investors and analysts regarding our performance and the valuation of our business because of our ability to offset a substantial portion of our cash tax liabilities by using these deferred tax assets. The majority of these deferred tax assets will expire if unutilized in 2020. Non-GAAP net income should be evaluated in light of our financial results prepared in accordance with GAAP, and should be considered as a supplement to, and not as a substitute for or superior to, GAAP net income. A reconciliation of our non-GAAP net income to net income, which we believe to be the most comparable GAAP measure, is presented for the three months ended March 31, 2011 and 2010 below (amounts in thousands):

	<b>Three months ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
Net income	\$ 1,323	\$ 1,544
Discontinued operations	1,573	
Income from continuing operations	2,896	1,544
Non-cash income tax expense from continuing operations	1,589	509
<b>Non-GAAP net income</b>	<b>\$ 4,485</b>	<b>\$ 2,053</b>
Income from continuing operations - diluted	\$ 0.08	\$ 0.04
Non-cash income taxes per share - diluted	0.04	0.02
Non-GAAP income per share - diluted	\$ 0.12	\$ 0.06

A reconciliation of our non-GAAP net income (loss) to net income (loss), for the year ended December 31, 2010 and each of the three months ended June 30, September 30, and December 31, 2010 are presented (amounts in thousands):

	<b>Three months ended</b>			<b>Year ended</b>
	<b>June 30</b>	<b>September</b>	<b>December</b>	<b>December</b>
	<b>2010(1)</b>	<b>30</b>	<b>31</b>	<b>31</b>
	<b>2010(1)</b>	<b>2010(1)</b>	<b>2010(1)</b>	<b>2010</b>
Net income (loss)	\$ (2,366)	\$ (3,548)	\$ 9,050	\$ 4,680
Discontinued operations	912	2,029	1,652	4,593
Income (loss) from continuing operations	(1,454)	(1,519)	10,702	9,273
Non-cash income tax expense from continuing operations	(509)		8,530	8,530
<b>Non-GAAP net income (loss)</b>	<b>\$ (1,963)</b>	<b>\$ (1,519)</b>	<b>\$ 19,232</b>	<b>\$ 17,803</b>
Income (loss) from continuing operations per share - diluted	\$ (0.04)	\$ (0.04)	\$ 0.29	\$ 0.25
Non-cash (loss) income per share - diluted	(0.01)		0.23	0.23
Non-GAAP net income (loss) per share - diluted	\$ (0.05)	\$ (0.04)	\$ 0.52	\$ 0.48

(1) Reflects the effects of the restatement described in Note 1: The Company and Basis of Presentation. For our non-GAAP measures Adjusted EBITDA and Non-GAAP net income, amounts previously disclosed have been revised to reflect the effect of classifying our Mercantila e-commerce business as discontinued operations.

**Liquidity and Capital Resources**



## Edgar Filing: INFOSPACE INC - Form 10-Q/A

### *Cash, Cash Equivalents, and Short-Term Investments*

Our principal source of liquidity is our cash and cash equivalents and short-term investments. As of March 31, 2011, we had cash and marketable investments of \$249.8 million, consisting of cash and cash equivalents of \$149.1 million and available-for-sale short-term investments of \$100.7 million. We generally invest our excess cash in high quality marketable investments. These investments include securities issued by U.S. government agencies, commercial paper, certificates of deposit, money market funds, and taxable municipal bonds. All of our financial instrument investments held at March 31, 2011 have minimal default risk and short-term maturities.

We plan to use our cash to fund operations, develop technology, advertise, market and distribute our products and services, and continue the enhancement of our network infrastructure. An important component of our strategy for future growth is to acquire technologies and businesses, and we plan to use our cash to acquire and integrate acceptable targets that we may identify. These targets may include businesses, products, or technologies unrelated to search or online retail. We may use a portion of our cash for special dividends or for common stock repurchases.

We believe that existing cash and cash equivalents, short-term investments, and cash generated from operations will be sufficient to meet our anticipated cash needs for working capital and capital expenditures for at least the next 12 months. However, the underlying levels of revenues and expenses that we project may not prove to be accurate. Our anticipated cash

**Table of Contents**

needs exclude any payments that may result from future litigation matters. In addition, we evaluate acquisitions of businesses, products, or technologies from time to time. Any such transactions, if completed, may use a significant portion of our cash balances and marketable investments. If we are unable to liquidate our investments when we need liquidity for acquisitions or business purposes, we may need to change or postpone such acquisitions or business purposes or find alternative financing for such acquisitions or business purposes, if available. We may seek additional funding through public or private financings or other arrangements prior to such time. Our ability to raise funds may be adversely affected by a number of factors, including factors beyond our control, such as economic conditions in markets in which we operate and from which we generate revenues, and increased uncertainty in the financial, capital, and credit markets. Adequate funds may not be available when needed or may not be available on favorable terms. If we raise additional funds by issuing equity securities, dilution to existing stockholders may result. If funding is insufficient at any time in the future, we may be unable, or delayed in our ability, to develop or enhance our products or services, take advantage of business opportunities, or respond to competitive pressures, any of which could harm our business.

*Contractual Obligations and Commitments*

Our obligations under capital and operating lease agreements and other purchase commitments have not changed materially from those commitments disclosed in *Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources* in Part II, Item 7, of Amendment No. 1 to our Annual Report on Form 10-K/A for the year ended December 31, 2010.

*Cash Flows*

Our net cash flows were comprised of the following for the three months ended March 31, 2011 and 2010 (amounts in thousands):

	Three months ended March 31,	
	2011	2010
Net cash provided (used) by operating activities	\$ (1,528)	\$ 5,352
Net cash used by investing activities	(3,723)	(57,051)
Net cash provided by financing activities	2,387	862
Net cash used by discontinued operations	(3,728)	
Net decrease in cash and cash equivalents	\$ (6,592)	\$ (50,837)

**Net cash provided (used) by operating activities.** Net cash provided (used) by operating activities consists of net income offset by certain adjustments not affecting current period cash flows and the effect of changes in our operating assets and liabilities.

Net cash used by operating activities was \$1.5 million for the three months ended March 31, 2011, consisting of our net income of \$1.3 million, non-cash charges of \$7.5 million (primarily consisting of depreciation and amortization of intangible assets, stock-based compensation expense, a loss on discontinued operations, and earn-out contingent liability adjustments), and changes in our operating assets and liabilities of \$9.5 million (primarily consisting of increases in accounts payable and decreases in other receivables and prepaid expenses and other current assets). These increases were offset by cash used by changes in our operating assets and liabilities of \$17.7 million (primarily consisting of decreases in accrued expenses and other current and long-term liabilities and increases in accounts receivable) and a gain on the resolution of a contingency of \$1.5 million and the presentation of the tax benefit from stock-based award activity in financing activities of \$787,000.

Net cash provided by operating activities was \$5.4 million for the three months ended March 31, 2010, consisting of our net income of \$1.5 million, non-cash charges of \$4.8 million (primarily consisting of stock-based compensation expense, depreciation and amortization of intangible assets, amortization of premium on investments, and other), and changes in our operating assets and liabilities of \$4.3 million (primarily consisting of decreases in accounts receivable and other long-term assets). These increases were partially offset by cash used by changes in our operating assets and liabilities of \$4.8 million (consisting primarily of decreases in accounts payable, accrued expenses and other current and long-term liabilities, and other receivables) and presentation of the tax benefit from stock-based award activity in financing activities of \$509,000.

**Net cash used by investing activities.** Net cash used by investing activities primarily consists of transactions related to our marketable investments and purchases of property and equipment.

## Edgar Filing: INFOSPACE INC - Form 10-Q/A

Net cash used by investing activities was \$3.7 million for the three months ended March 31, 2011, primarily consisting of purchases of \$33.2 million of marketable investments and purchases of property and equipment of \$1.2 million. Partially offsetting cash used by investing activities were proceeds of \$30.5 million from the maturities of our marketable investments.

- 23 -

## **Table of Contents**

Net cash used by investing activities was \$57.1 million for the three months ended March 31, 2010, primarily consisting of purchases of \$61.9 million of marketable investments and purchases of property and equipment of \$742,000. Partially offsetting cash used by investing activities were proceeds of \$5.6 million from the maturities of our marketable investments.

***Net cash provided by financing activities.*** Net cash provided by financing activities consists of proceeds from the issuance of stock through the exercise of stock options and our employee stock purchase plan, tax payments from shares withheld upon vesting of restricted stock units, repayments of capital lease obligations, excess tax benefits generated by stock-based award activity and earn-out payments for business acquisitions.

Net cash provided by financing activities totaled \$2.4 million for the three months ended March 31, 2011 and primarily consisted of cash proceeds of \$2.5 million from the exercise of options and our employee stock purchase plan and tax benefits of \$787,000 generated by stock-based award activity. Partially offsetting cash provided by financing activities was \$423,000 in earn-out payments from business acquisitions.

Net cash provided by financing activities totaled \$862,000 for the three months ended March 31, 2010 and primarily consisted of cash proceeds of \$1.5 million from the exercise of options and our employee stock purchase plan and tax benefits of \$509,000 generated by stock-based award activity. Partially offsetting cash provided by financing activities was \$973,000 in tax payments from shares withheld upon vesting of restricted stock units.

***Net cash used by discontinued operations.*** Net cash used by discontinued operations consists of cash used in operating the Mercantila e-commerce business and the cash used in investing activities primarily related to the purchase and sale of the Mercantila e-commerce business.

Net cash used by operating activities attributable to discontinued operations totaled \$3.7 million for the three months ended March 31, 2011 and consisted of cash used by discontinued operations. Net cash used by the investing activities attributable to discontinued operations totaled \$44,000 for the three months ended March 31, 2011.

## **Critical Accounting Policies and Estimates**

The preparation of our financial statements requires that we make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities. We base our estimates on historical experience and other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates. Our critical accounting policies, estimates, and methodologies for the three months ended March 31, 2011 are consistent with those in *Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies and Estimates* in Part II, Item 7, of Amendment No. 1 to our Annual Report on Form 10-K/A for the year ended December 31, 2010. We do not expect the adoption of recently issued accounting pronouncements to have a significant impact on our results of operations, financial position, or cash flows.

## **Item 4. Controls and Procedures**

### *Evaluation of Disclosure Controls and Procedures*

As described in the Explanatory Note to this Amendment No. 2 on Form 10-Q/A and in Note 1 to our condensed consolidated financial statements, after the issuance of the Company's consolidated financial statements for the three months ended March 31, 2011 in its Quarterly Report on Form 10-Q, as originally filed with the Securities and Exchange Commission SEC on May 6, 2011, the Company identified an error related to its accounting for goodwill in connection with its acquisition of the Make The Web Better assets in April 2010 that required the restatement of the consolidated financial statements for the three months ended March 31, 2011. As a result, our management re-evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of March 31, 2011. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures were not effective as of March 31, 2011 due to a material weakness in our internal control over financial reporting, as further described in "Management's Report on Internal Control Over Financial Reporting" in Item 9A of Amendment No. 1 to our Annual Report on Form 10-K/A, filed on November 14, 2011. The Company has restated its consolidated financial statements for the quarter ended March 31, 2011 in this Amendment No. 2 on Form 10-Q/A to reflect the correct accounting for the acquisition.

### *Changes in Internal Control over Financial Reporting*

There was no change in our internal control over financial reporting that occurred during the first quarter of 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange

Act of 1934, as amended).

**Table of Contents**

**PART II OTHER INFORMATION**

**Item 6. Exhibits**

Exhibits filed or furnished herewith are listed in the accompanying Index to Exhibits.

**Table of Contents**

**SIGNATURE**

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

**INFOSPACE, INC.**

By /s/ Eric M. Emans  
Eric M. Emans

Chief Financial Officer

(Principal Financial Officer)

Dated: November 14, 2011

- 26 -

---

**Table of Contents****INDEX TO EXHIBITS**

<b>Exhibit Number</b>	<b>Exhibit Description</b>	<b>Form</b>	<b>Date of First Filing</b>	<b>Exhibit Number</b>	<b>Filed Herewith</b>
31.1	Certification of Principal Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
31.2	Certification of Principal Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				X
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				X