INFOSPACE INC
Form 10-Q
May 07, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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, 2009

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.

(Exact name of registrant as specified in its charter)

Delaware	**91-1718107**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**
601 108th Avenue NE, Suite 1200	
Bellevue, Washington	**98004**
(Address of principal executive offices)	**(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. x 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 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 x Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes x 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 May 4, 2009
Common Stock, Par Value $.0001	34,999,504

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

INFOSPACE, INC.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(amounts in thousands, except share data)

	March 31, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 55,396	$ 49,936
Short-term investments, available-for-sale	141,097	141,592
Accounts receivable, net of allowance of $17 and $32	14,573	15,423
Notes and other receivables	1,592	1,349
Prepaid expenses and other current assets	2,015	1,767
Total current assets	214,673	210,067
Property and equipment, net	16,427	18,078
Long-term investments, available-for-sale	8,900	13,916
Goodwill and other intangible assets, net	44,123	44,123
Other long-term assets	4,745	4,949
Total assets	$ 288,868	$ 291,133
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 6,158	$ 6,518
Accrued expenses and other current liabilities	22,282	19,707
Liabilities of discontinued operations		1,109
Total current liabilities	28,440	27,334
Other long-term liabilities	1,318	1,475
Total liabilities	29,758	28,809
Commitments and contingencies (Note 6)		
Stockholders equity:		
Common stock, par value $.0001 authorized, 900,000,000 shares; issued and outstanding, 34,934,309 and 34,796,010 shares	3	3
Additional paid-in capital	1,294,310	1,292,360
Accumulated deficit	(1,037,614)	(1,032,579)
Accumulated other comprehensive income	2,411	2,540
Total stockholders equity	259,110	262,324
Total liabilities and stockholders equity	$ 288,868	$ 291,133

See accompanying notes to Unaudited Condensed Consolidated Financial Statements.

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INFOSPACE, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

AND COMPREHENSIVE LOSS

(amounts in thousands, except per share data)

	Three months ended March 31, 2009	Three months ended March 31, 2008
Revenues	$ 39,070	$ 42,182
Operating expenses:		
Content and distribution	20,377	21,792
Systems and network operations	2,421	2,442
Product development	1,406	2,209
Sales and marketing	6,943	3,789
General and administrative	6,207	7,722
Depreciation	1,811	1,487
Restructuring and other, net	(5)	140
Total operating expenses	39,160	39,581
Operating income (loss)	(90)	2,601
Loss on investments	(5,351)	(6,707)
Other income, net	607	2,243
Loss from continuing operations before income taxes	(4,834)	(1,863)
Income tax expense	(201)	(182)
Loss from continuing operations	(5,035)	(2,045)
Loss from discontinued operations, net of taxes		(490)
Loss on sale of discontinued operations, net of taxes		(238)
Net loss	$ (5,035)	$ (2,773)
Loss per share Basic and diluted		
Loss from continuing operations	$ (0.14)	$ (0.06)
Loss from discontinued operations		(0.01)
Loss on sale of discontinued operations		(0.01)
Net loss per share	$ (0.14)	$ (0.08)
Weighted average shares outstanding used in computing basic and diluted loss per share	34,853	34,298
Comprehensive loss		
Net loss	$ (5,035)	$ (2,773)
Foreign currency translation adjustment	(136)	88
Unrealized loss on investments, available-for-sale, net	(179)	(1,200)
Reclassification adjustment for other-than-temporary losses on investments, available-for-sale, included in net loss		251
Cumulative tax effect on unrealized gain on investments, available-for-sale	186	
Comprehensive loss	$ (5,164)	$ (3,634)

See accompanying notes to Unaudited Condensed Consolidated Financial Statements.

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INFOSPACE, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(amounts in thousands)

	Three months ended March 31, 2009	Three months ended March 31, 2008
Operating activities:		
Net loss	$ (5,035)	$ (2,773)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Loss from discontinued operations		490
Loss on sale of discontinued operations		238
Loss on investments	5,351	6,707
Stock-based compensation	2,051	3,027
Depreciation	1,811	1,487
Deferred income taxes	186	(149)
Other	345	211
Cash provided (used) by changes in operating assets and liabilities:		
Accounts receivable	868	(487)
Notes and other receivables	(242)	5,901
Prepaid expenses and other current assets	(248)	185
Other long-term assets	154	1,805
Accounts payable	(499)	(1,781)
Accrued expenses and other current and long-term liabilities	1,052	(46,117)
Net cash provided (used) by operating activities	5,794	(31,256)
Investing activities:		
Purchases of property and equipment	(530)	(1,127)
Other long-term assets	50	(1,003)
Proceeds from the sale of assets	32	
Proceeds from sales and maturities of investments		12,000
Net cash provided (used) by investing activities	(448)	9,870
Financing activities:		
Special dividend paid		(299,146)
Proceeds from stock option exercises		14
Proceeds from issuance of stock through employee stock purchase plan	252	219
Repayment of capital lease obligation	(138)	
Net cash provided (used) by financing activities	114	(298,913)
Discontinued operations:		
Net cash used by operating activities attributable to discontinued operations		(14,177)
Net increase (decrease) in cash and cash equivalents	5,460	(334,476)
Cash and cash equivalents:		
Beginning of period	49,936	498,326
End of period	$ 55,396	$ 163,850

See accompanying notes to Unaudited Condensed Consolidated Financial Statements.

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INFOSPACE, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. The Company and Basis of Presentation

InfoSpace, Inc. (the Company or InfoSpace) develops search tools and technologies that assist consumers with finding content and information on the Internet. The Company offers online search services that enable Internet users to locate information, merchants, individuals, and products online. The Company offers search services through its Web properties as well as through the Web properties of distribution partners. Partner versions of Web offerings are generally private-labeled and delivered with each distribution partner s unique requirements.

In 2007, the Company sold its directory and mobile businesses. The operating results of the directory and mobile businesses have been presented as discontinued operations in the accompanying Unaudited Condensed Consolidated Financial Statements for all periods presented. For the mobile business, the Company recorded a loss of $702,000, including income tax expense, and a loss on the sale of discontinued operations of $223,000 for the three months ended March 31, 2008. For the directory business, the Company recorded income of $212,000, including income tax benefit, and a loss on the sale of discontinued operations of $15,000 for the three months ended March 31, 2008.

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 or omitted pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC). Results of operations for the three months ended March 31, 2009 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 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 s chief executive officer, who is its chief operating decision maker, reviews financial information presented on a consolidated basis accompanied by revenue information disaggregated by geographic region and other measures 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 be in a single reporting segment and a single operating unit structure.

Certain reclassifications have been made to prior year financial statements to conform to the current year presentation. In the Unaudited Condensed Consolidated Statements of Operations and Comprehensive Loss, beginning in the first quarter of 2009, Unrealized loss on investments, available-for-sale and Reclassification adjustment for other-than-temporary losses on investments, available-for-sale, included in net loss, are each presented at their gross amounts; they were presented as net amounts in prior periods. These reclassifications had no effect on the comprehensive loss as previously reported.

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 the Company s Annual Report on Form 10-K for the year ended December 31, 2008.

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2. Fair Value Measurements

On January 1, 2008, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, issued by the Financial Accounting Standards Board (FASB). SFAS No. 157 defines fair value, establishes a framework for measuring fair value for the purposes of GAAP, and expands required disclosures about fair value measurements. SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability 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 (in thousands):

		Fair value measurements at the reporting date using		
	March 31, 2009	Quoted prices in active markets using identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash equivalents	$ 55,396	$ 55,396	$	$
Available-for-sale securities	149,297	141,097		8,200
Preferred shares	700			700
	$ 205,393	$ 196,493	$	$ 8,900

The Company s available-for-sale securities include $8.2 million of auction rate securities (ARS), which are classified as long-term, in the Level 3 category within the input hierarchy, because there are significant unobservable inputs associated with those investments. The Company s ARS are floating rate securities with either long-term maturities or no maturity date, which are marketed by financial institutions with auction reset dates primarily at 28-day intervals to provide short-term liquidity, and pay variable interest rates that ranged from 200 basis points above the London Interbank Offered Rate (LIBOR) to 95% of LIBOR. Beginning in August 2007, auctions for the ARS that the Company held at March 31, 2009 began to fail due to insufficient bids from buyers which usually resulted in higher interest rates being earned on those securities. The Company recognized $5.4 million and $6.7 million in Loss on investments during the three months ended March 31, 2009 and 2008, respectively.

The Company owns two types of ARS. The first type of ARS is collateralized by what was investment-grade corporate debt and prime-rated mortgage-backed debt when purchased, has a long-term maturity date, and is insured in the event of default by monoline insurance companies. The Company paid $21.4 million for its holdings at March 31, 2009 in this type of ARS, and determined the fair values by using discounted cash flow models for both the ARS trust payments and the monoline insurer payments, weighted by the probabilities of trust default, the fair value of the collateral and secondary market information.

The second type of ARS has no maturity date and, in the event of default or liquidation of the collateral or ARS trust by the ARS issuer, the Company or ARS trust is entitled to receive non-convertible preferred shares in the ARS issuer; ARS of that type are also known as auction rate preferred securities (ARPS). The Company paid $12.0 million for the ARPS that it held at March 31, 2009. In 2008, an issuer of one of the Company s ARPS liquidated the collateral and replaced it with non-cumulative perpetual preferred shares in the ARPS issuer, and has not and may not ever issue a dividend. The Company paid $5.0 million for that ARPS, and the fair value at March 31, 2009 was zero ($0), and in April 2009, the ARPS issuer terminated the ARPS trust and issued the Company perpetual preferred shares in the issuer to replace the ARPS.

While the Company receives regular interest payments for all but one of the ARS that it holds, the Company does not expect to be able to receive the principal amounts until one or more of the following events occur: future auctions of those ARS are successful, the Company sells those securities in a secondary market, or the issuers redeem those ARS.

In 2008, an issuer of certain of the Company s ARPS terminated the ARPS trusts and issued the Company non-cumulative perpetual preferred shares in the ARPS issuer. The Company paid $7.0 million for those ARPS, and the fair value of the preferred shares at March 31, 2009 was $700,000, which was primarily based on a redemption offer from the issuer, and was an increase of $335,000 from a fair value of $365,000 at December 31, 2008. The increase in fair value from December 31, 2008 to March 31, 2009 was recorded to other comprehensive income in the three months ended March 31, 2009. In April 2009, the Company accepted the redemption offer and received $700,000 in cash for the aforementioned preferred shares.

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Changes in the fair values of financial assets measured on a recurring basis by using significant Level 3 inputs in the three months ended March 31, 2009 and 2008 are as follows (in thousands):

	Financial assets using significant Level 3 inputs for determining fair value Three months ended March 31, 2009						
	ARS	ARPS	Total ARS and ARPS	Preferred shares	Equity Investment	Warrants	Total
Balance at January 1, 2009	$ 11,741	$ 1,810	$ 13,551	$ 365	$	$	$ 13,916
Other-than-temporary impairment	(4,391)	(960)	(5,351)				(5,351)
Increase in fair value, recorded to other comprehensive income				335			335
Balance at March 31, 2009	$ 7,350	$ 850	$ 8,200	$ 700	$	$	$ 8,900

	Financial assets using significant Level 3 inputs for determining fair value Three months ended March 31, 2008						
	ARS	ARPS	Total ARS and ARPS	Preferred shares	Equity Investment	Warrants	Total
Balance at January 1, 2008	$ 20,905	$ 16,567	$ 37,472	$	$ 2,000	$ 188	$ 39,660
Other-than-temporary impairment		(6,707)	(6,707)				(6,707)
Temporary impairment	(1,279)		(1,279)				(1,279)
Temporary impairment classified to other-than-temporary		251	251				251
Balance at March 31, 2008	$ 19,626	$ 10,111	$ 29,737	$	$ 2,000	$ 188	$ 31,925

The Company reviews the impairments of its available-for-sale investments in accordance with the provisions of SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, and related guidance issued by the FASB and the SEC. The Company classifies the impairment of any individual ARS as either temporary or other-than-temporary. The differentiating factors between temporary and other-than-temporary impairments are primarily the length of the time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

The Company held warrants to purchase shares in a privately-held company that had a carrying value of zero ($0) as of December 31, 2008 and March 31, 2009. The Company considers the warrants to be derivatives, and follows SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended and interpreted, which requires that all derivatives be carried at fair value. The Company accounts for all derivatives by recognizing the changes in their fair values as gains or losses on investments in its Unaudited Condensed Consolidated Statements of Operations and Comprehensive Loss. The Company did not record any changes to the fair value of those warrants in the three months ended March 31, 2009 and 2008.

The Company held an equity investment in a privately-held company that had a carrying value of zero ($0) as of December 31, 2008 and March 31, 2009. The Company assesses its investment in that privately-held company for impairment in accordance with FASB Staff Position (FSP) FAS 115-1/124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, and the SEC s SAB Topic 5M, *Other Than Temporary Impairment of Certain Investments in Debt and Equity Securities*. The Company did not record any changes to the fair value of that equity investment in the three months ended March 31, 2009 and 2008.

In the three months ended March 31, 2009 and 2008, 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, notes and 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.

3. Goodwill

During the three months ended March 31, 2009, based on a decline in the Company s market capitalization to a level below the book value of Stockholders equity, the Company concluded that there was sufficient indication to require an interim impairment analysis of the Company s goodwill. Pursuant to the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets*, the Company uses a two-step process to test for goodwill impairment. The Company is deemed to be a single reporting unit for impairment analysis purposes. The first step of the goodwill impairment test is a comparison of the fair value of the reporting unit to its carrying value. The Company determines the fair market value of its reporting unit based on an analysis that includes its market capitalization, discounted projected future cash flows and comparative market multiples.

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Based on the results of that goodwill impairment analysis, the Company concluded that the carrying amount of the goodwill did not exceed its fair value and goodwill was not considered to be impaired as of March 31, 2009, and the second step of the goodwill impairment test was not considered necessary.

4. Stock-Based Compensation

The Company has included the following amounts for stock-based compensation expense, including the cost related to the Employee Stock Purchase Plan (ESPP), in the accompanying Unaudited Condensed Consolidated Statements of Operations and Comprehensive Loss for the three months ended March 31, 2009 and 2008 (in thousands):

	Three months ended March 31, 2009	Three months ended March 31, 2008
Systems and network operations	$ 209	$ 367
Product development	313	593
Sales and marketing	364	853
General and administrative	1,165	1,214
Total	$ 2,051	$ 3,027

Excluded from the amounts for the three months ended March 31, 2009 and 2008 are the following amounts of stock-based compensation included in restructuring, resulting from equity awards held by terminated employees, capitalized as part of internal-use software, and classified as discontinued operations (amounts in thousands):

	Three months ended March 31, 2009	Three months ended March 31, 2008
Restructuring	$	$ 60
Internal-use software	77	383
Discontinued operations directory business		45
Discontinued operations mobile business		12
Total	$ 77	$ 500

To estimate the compensation expense that was recognized under SFAS No. 123(R), *Share-Based Payment*, for the three months ended March 31, 2009 and 2008, the Company used the fair value at date of grant for restricted stock units and the Black-Scholes-Merton option-pricing model with the following weighted-average inputs for its stock option grants and ESPP incentive plans:

	Employee stock option plans Three months ended March 31,		Employee stock purchase plans Three months ended March 31,	
	2009	2008	2009	2008
Risk-free interest rate	1.29%	2.61%	1.16%	3.78%
Expected dividend yield	0%	0%	0%	0%
Expected volatility	50%	48%	62%	63%
Expected life	3.5 years	2.8 years	6 months	6 months

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5. Net Loss Per Share

Basic net loss per share is computed using the weighted average number of common shares outstanding during the period. Diluted 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 warrants 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 stock options and warrants with an exercise price less than the average stock price during the period presented (amounts in thousands):

	Three months ended March 31,	
	2009	2008
Weighted average common shares outstanding, basic and diluted	34,853	34,298
Antidilutive stock option, restricted stock unit, and warrant equivalents excluded from dilutive share calculation	1,213	686
Outstanding stock options with an exercise price more than the average price during the quarter not included in dilutive share calculation	4,920	5,424

6. 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 disclosed in the Company s Annual Report on Form 10-K for the year ended December 31, 2008.

Litigation

On December 17, 2008, Anne D. Manos filed a lawsuit against current officers and directors of the Company, as well as nominal defendant InfoSpace, in the Superior Court of the State of Washington in and for King County (Court). Plaintiff purports to bring the lawsuit derivatively on behalf of the Company, seeking to invalidate and recover payments made to the defendant officers and directors pursuant to a compensation program established by the Company s board of directors. Specifically, plaintiff alleges that the defendant officers and directors breached their fiduciary duties and duties of loyalty by approving such compensation program, which was designed to offset the diminution in value to InfoSpace employee and board members options that occurred as a result of the cash distributions to shareholders. On February 11, 2009, Ms. Manos filed a First Amended Complaint that is substantively identical to her original complaint, adding only James N. Mercer as co-plaintiff. On March 20, 2009, InfoSpace filed a motion to dismiss the First Amended Complaint based on plaintiffs failure to make the requisite pre-filing demand on the Company s board of directors. On April 29, 2009, plaintiffs filed their opposition brief to this motion. The hearing on this motion is set for June 12, 2009. The parties have agreed to stay discovery pending resolution by the Court of this motion. The trial date is currently set for June 7, 2010. The complaint is derivative in nature and does not seek monetary damages from the Company. The Company has entered into indemnification agreements in the ordinary course of business with its officers and directors and may be obligated throughout the pendency of this action to advance payment of legal fees and costs incurred by the defendant current and former officers and directors pursuant to the Company s obligations under the indemnification agreements and applicable Delaware law.

The Company operated its ringtone business under licensing agreements with various music publishers, including Warner/Chappell Music, Inc. Following the Company s sale of its ringtone business, Warner/Chappell Music and two related entities, WB Music Corp. and Warner-Tamerlane Publishing Corp., asserted claims against the Company for supposedly improper use of their copyrighted musical compositions. In January 2009, WB Music Corp. and Warner-Tamerlane Publishing Corp. filed a Complaint for Copyright Infringement against the Company and two of the Company s alleged subsidiaries in the U.S. District Court for the Central District of California. The Complaint, which the plaintiffs have not yet served, seeks unspecified actual and/or statutory damages for the supposed unauthorized use of at least 26 compositions. The Company is currently investigating the allegations. To date, the Company believes that the plaintiffs claims are frivolous and that it has meritorious defenses to them. In addition, in April 2008, Warner Chappell Music filed a Complaint for Breach of Contract against the Company and two of the Company s alleged subsidiaries in which it claims that the Company owes it not less than $750,000 under the parties agreements. The Company believes this action likewise lacks merit and that the Company has defenses to the claims asserted. The Company has filed counterclaims against Warner Chappell Music and filed cross-claims against the auditor hired by Warner Chappell Music. The parties have discussed the possibility of mediating their disputes and are scheduled to do so in May 2009. There is no guarantee that a mediation will be successful in resolving the disputes between the parties. Moreover, because litigation is inherently uncertain, the Company may not prevail if these matters are fully litigated, and there can be no assurance that there will not be material adverse financial consequences for the Company resulting from these matters.

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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.

Other

In the ordinary course of business, the Company may provide indemnifications of varying scope and terms to customers, vendors, partners and other parties. The Company has agreed to hold certain parties harmless against losses arising from a breach of representations or covenants, or other claims made against certain parties. It is not possible to determine the maximum potential amount for which the Company could be held liable under these indemnification agreements due to the conditional nature of the Company s obligations and the unique facts and circumstances involved in each particular agreement. Accordingly, the Company has not recorded a liability related to such indemnification provisions.

The Company periodically enters into agreements that require minimum performance commitments. The Company s management believes that the likelihood is remote that any such arrangements will have a significant adverse effect on its financial position or liquidity. Accordingly, the Company has not recorded a liability related to these contingencies.

7. Income Taxes

As discussed in Note 8 to the consolidated financial statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2008, the Company has a valuation allowance against 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 deferred tax assets, will not be realized.

The Company recorded an income tax expense of $201,000 and $182,000 for the three months ended March 31, 2009 and 2008, respectively. Income tax expense for each period included U.S. federal tax, state and foreign taxes. Income tax expense for the three months ended March 31, 2009 and 2008 differed from the tax expense at the statutory rates primarily due to non-deductible permanent differences and applying a valuation allowance against deferred tax assets arising during the period.

During the three months ended March 31, 2009, 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 believe there will be any material changes in its unrecognized tax benefits over the next twelve months.

8. Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS No. 141(R)). In SFAS No. 141(R), the FASB retained the fundamental requirements of SFAS No. 141 to account for all business combinations using the acquisition method and for an acquiring entity to be identified in all business combinations. However, the revised standard requires the acquiring entity in a business combination to recognize all the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to immediately expense costs related to the acquisition. In April 2009, the FASB issued FSP FAS 141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies,* amending and clarifying SFAS No. 141(R) to address application issues on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. SFAS No. 141(R) and FSP FAS 141(R)-1 are both effective for annual periods beginning on or after December 15, 2008. The Company has adopted these pronouncements effective on January 1, 2009; however, the impact that SFAS No. 141(R) and FSP FAS 141(R)-1 will have on the Company s consolidated financial statements will depend upon the nature, terms and size of any acquisition.

On January 1, 2008, the Company adopted the provisions of SFAS No. 157 which defines fair value, establishes a framework for measuring fair value and expands disclosure of fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements and accordingly, does not require any new fair value measurements. In February 2008, the FASB issued FSP FAS 157-2, *Effective Date of FASB Statement No. 157*, which delayed the effective date of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008. On January 1, 2009, the Company adopted the provisions of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities. In October 2008, the FASB issued FSP FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*, which clarifies the application of SFAS No. 157 to fair value measurements of financial assets in a market that is not active. FSP FAS 157-3 was effective

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upon issuance. In April 2009, the FASB issued FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*, providing more guidance when the volume and level of activity for the asset or liability has significantly decreased. FSP FAS 157-4 is effective for interim and annual periods ending after June 15, 2009. The Company is currently evaluating the remaining provisions of these FSPs to determine what effect, if any, their adoption on April 1, 2009 will have on its financial position, cash flows, and results of operations.

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, *Disclosures About Fair Value of Financial Instruments*, amending SFAS 107, *Disclosures about Fair Value of Financial Instruments*, and Accounting Principles Board Opinion (APB) 28, *Interim Financial Reporting*, to require disclosures about the fair value of financial instruments in interim reporting periods. FSP FAS 107-1 and APB 28-1 is effective for interim and annual periods ending after June 15, 2009. The Company is currently evaluating the provisions of this FSP to determine what effect its adoption on April 1, 2009 will have on its financial position, cash flows, and results of operations.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*, amending the other-than-temporary impairment guidance for debt and equity securities. FSP FAS 115-2 and FAS 124-2 is effective for interim and annual periods ending after June 15, 2009. The Company is currently evaluating the provisions of this FSP to determine what effect its adoption on April 1, 2009 will have on its financial position, cash flows, and results of operations.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

This report contains forward-looking statements that involve risks and uncertainties. You should not rely on forward-looking statements. The statements in this report that are not purely historical are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. We use words such as anticipate, believe, plan, expect, future, intend, may, will, should, estimate, predict, potential, continue, and similar expressions to identify such forward-looking statements. These forward-looking statements include, but are not limited to statements regarding:

- *new and future products and services;*
- *our future business plans and growth strategy, including plans to reduce or expand specific operations;*
- *our expected sources of revenue;*
- *the expected demand for and benefits of our products and services for our customers and distribution partners;*
- *our strategic initiatives;*
- *seasonality of revenue and concentration of revenue sources;*
- *the anticipated benefits from the business and technologies we have acquired, or invested in, or may acquire or invest in;*
- *the anticipated development or acquisition of intellectual property and resulting benefits;*
- *the anticipated results of potential or actual litigation;*
- *our competitive environment;*
- *the impact of governmental regulation;*
- *employee hiring and retention, including anticipated reductions in force and headcount;*
- *the future payment of dividends;*
- *anticipated revenue and expenses;*

expected impacts of changes in accounting rules;

use of cash, cash needs and ability to raise capital;

the condition of our cash investments and any income derived therefrom;

the current or future state of financial or credit markets; and

potential liability from contractual relationships.

Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause our results, levels of activity, performance, achievements and prospects, and those of the Internet industries generally, 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 and elsewhere in this report.

Overview

InfoSpace, Inc. (InfoSpace , our or we) is a developer of search tools and technologies that assist consumers with finding content and information on the Internet. We use our metasearch technology to power our own branded Web properties and provide online search services to distribution partners.

We offer search services that enable Internet users to locate information, merchants, individuals, and products online. We offer search services through our Web properties, such as Dogpile.com, WebCrawler.com, MetaCrawler.com, and WebFetch.com, as well as 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 were founded in 1996 and are incorporated in the state of Delaware. Our principal corporate office is located in Bellevue, Washington. We also have an office in Bangalore, India. Our common stock is listed on the NASDAQ Global Select Market under the symbol INSP.

Until the fourth quarter of 2007, InfoSpace was comprised of three businesses: online search, online directory, and mobile. We sold our online directory business and mobile services business in the fourth quarter of 2007, and had exited other portions of our mobile business during 2007. In December 2007, as a result of the sales of those businesses, we committed to

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a plan to make operational changes to our business, which included a reduction in our workforce and, as part of the workforce reduction, consolidation of our facilities. Following the sale of our mobile and directory businesses, our revenues are derived exclusively from providing online search services.

We generate revenues primarily from our Web search services when an end user of our services clicks on a paid search link displayed on one of our owned and operated Web properties or displayed on a distribution partner s Web property. We receive paid search links for display as part of our search services from certain content providers, whom we refer to as our customers.

Our ability to grow our online search services revenue on our owned and operated properties relies on growth in the volume of paid clicks, the fees advertisers pay our customers for these paid clicks, and the percentage of these fees our customers share with us. In recent periods, on our owned and operated properties, we have experienced an increase in paid clicks, primarily driven by our marketing initiatives, which has been more than offset by lower average fees per paid click from our customers.

Similar to the revenues earned on our owned and operated properties, revenues from distribution partners are dependent upon growth in the volume of paid clicks, the fees advertisers pay our customers for these paid clicks, and the percentage of these fees our customers share with us. We have experienced steady growth in revenues from our search services offered through the Web properties of distribution partners, which has been primarily attributable to growth in paid click volumes from new distribution partners Web properties in the United States. This paid click volume growth has been more than offset by reductions in the average fees that our customers share with us. In recent periods, our customers process of measuring the quality of paid clicks and adjusting the fees paid to us has adversely affected revenues from certain of our distribution partners. In an effort to drive quality traffic to our customers, we continue to invest in product development to expand our online search services offered to our distribution partners.

Engineering, operations and product management personnel remain paramount to our ability to deliver high quality online search services as well as enhance our current technology and grow our product offerings. As such, we expect to continue to invest in our workforce and increase our research and development operations in India. Additionally, we may utilize our cash and short-term and long-term available-for-sale investments to acquire businesses and other assets that will enhance our current technologies and extend our product offerings.

Company Internet Site and Availability of SEC Filings

Our corporate Internet site is located at www.infospaceinc.com. We make available on that site our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, as well as any amendments to those filings, and other filings we make electronically with the U.S. Securities and Exchange Commission (the SEC). The filings can be found in the Investor Relations section of our site and are available free of charge. Information on our Internet site is not part of this Form 10-Q. In addition, the SEC maintains an Internet site at www.sec.gov that contains reports, proxy and information statements, and other information regarding us and other issuers that file electronically with the SEC.

Revenue Sources

Revenues are recognized in the period in which a paid click occurs and are based on the amounts earned and remitted to us by our customers for such clicks. In addition, we earn revenue from certain distribution partners, such as a fixed monthly fee in exchange for portal infrastructure services.

Our customers are primarily search content providers. Google and Yahoo! each accounted for more than 10% of our revenues in the three months ended March 31, 2009 and March 31, 2008 and jointly accounted for 95% or more of our revenues in such periods, and we expect this concentration to continue in the foreseeable future. As such, if either of these customers reduce or eliminate the services they provide to us or our distribution partners, or if either of these customers were unwilling to pay us amounts that they owe us, our financial results may materially suffer.

Our main customer agreements are with Google and Yahoo! and both agreements expire in 2011. Each agreement may be renewed only upon mutual written agreement of the parties to the agreement. Through our Google and Yahoo! agreements, we receive certain search products and services from each party, including both non-paid and paid search links for display on our Web properties and the Web properties of our distribution partners. Both Google and Yahoo! reserve certain rights of approval over the use and distribution of their respective search products and services, and have requirements and guidelines regarding such use and distribution. If we or our search distribution partners fail to meet the requirements and guidelines promulgated under these customer agreements, Google and Yahoo! have certain rights under the agreements to suspend or terminate our or our distribution partners use and distribution of such customer s search products and services, and in the event of certain violations, to terminate their agreement with us. We and our distribution partners have limited rights to cure breaches of the requirements and guidelines, and both Google and Yahoo! may modify certain requirements and guidelines of their agreement with us pursuant to the terms of such agreement.

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Google and Yahoo! each make certain representations and warranties to us in the agreements regarding their search products and services, and we make certain representations and warranties in the agreements regarding our use and distribution of their search products and services. The agreements also provide for various indemnification obligations of the parties with respect to the content and services of each party, and our distribution partners use and distribution of Google and Yahoo! s search products and services.

Overview of First Quarter 2009 Operating Results

The following is an overview of our operating results for the three months ended March 31, 2009. A more detailed discussion, comparing our operating results for the three months ended March 31, 2009 and 2008, is included under the heading Historical Results of Operations in this Management s Discussion and Analysis of Financial Condition and Results of Operations.

Revenues from continuing operations for the three months ended March 31, 2009 decreased to $39.1 million from $42.2 million in the three months ended March 31, 2008. This decrease was due to a decrease in revenue from search results delivered through certain of our distribution partners and a decrease in revenue from our owned and operated properties. Revenues from owned and operated properties for the three months ended March 31, 2009 decreased due to a decrease in average fees per paid click that our customers share with us although paid click volume on our owned and operated properties increased over the three months ended March 31, 2008. The decrease in average fees per paid click was the result of a decrease in advertiser fees paid per click to our customers and an increase in the proportion of revenues derived from our direct marketing initiatives on our owned and operated properties. During each of the three month periods ended March 31, 2009 and 2008, 69% of our online search revenues came from our search distribution partners.

Content and distribution costs from continuing operations for the three months ended March 31, 2009 decreased to $20.4 million from $21.8 million in the three months ended March 31, 2008, primarily due to decreases in revenue from search results delivered through certain of our distribution partners.

Other operating expenses from continuing operations for the three months ended March 31, 2009 were $18.8 million, an increase from $17.6 million in the three months ended March 31, 2008. Other operating expenses include expenses related to systems and network operations, product development, sales and marketing, general and administrative, and depreciation, and exclude restructuring and other, net. The increase in other operating expenses from continuing operations in the three months ended March 31, 2009 from the three months ended March 31, 2008 was primarily attributable to an increase in marketing expenses associated with our owned and operated properties.

In the three months ended March 31, 2009, we recorded a loss on investments of $5.4 million related to the illiquid auction rate securities investments that we held at March 31, 2009. In the three months ended March 31, 2008, we recorded a loss on investments of $6.7 million on these investments.

Other income, net for the three months ended March 31, 2009 was $607,000, as compared to $2.2 million in the three months ended March 31, 2008. The decrease was primarily attributable to a decrease in interest income as a result of a decline in interest rates. Additionally, we recorded an income tax expense from continuing operations of $201,000 in the three months ended March 31, 2009, as compared to expense of $182,000 in the same period in 2008.

We did not record any revenues, operating results, or gains or losses from discontinued operations for the three months ended March 31, 2009. We recorded a loss from discontinued operations of $490,000 in the three months ended March 31, 2008, and the loss from the sale of discontinued operations was $238,000 for the three months ended March 31, 2008.

Net loss for the three months ended March 31, 2009 was $5.0 million compared to a net loss of $2.8 million in the three months ended March 31, 2008. The increase in net loss was primarily attributable to the items noted above.

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 and methodologies in 2009 are consistent with those discussed in our 2008 Annual Report on Form 10-K, except as discussed below.

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Fair Value Measurements

On January 1, 2008, we adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, issued by the Financial Accounting Standards Board (FASB). SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands required disclosures about fair value measurements. SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

We own two types of auction rate securities (ARS). The first type of ARS is collateralized by what was investment-grade corporate debt and prime-rated mortgage-backed debt when we purchased them, has a long-term maturity date, and is insured in the event of default by monoline insurance companies. We paid $21.4 million for our holdings at March 31, 2009 in this type of ARS, and determined their fair values to be an aggregate $7.4 million at March 31, 2009 by using discounted cash flow models for both the ARS trust payments and the monoline insurer payments, weighted by the probabilities of trust default, the fair value of the collateral and secondary market information. Those models relied upon certain unobservable inputs, including our estimate of the holding periods, ranging from 6 to 28 years for the ARS trusts and from 16 to 42 years for the monoline insurers, the annual discount rates applied to future cash flows, which we primarily based on the historical credit default swap rates for comparable ARS trust entities and monoline insurance companies, ranging from 7% to 51% in excess of the London Interbank Offered Rate (LIBOR) for the ARS trusts and from 22% to 66% for the monoline insurers, and our estimate of the probabilities of ARS trust default, ranging from 0% to 50%.

The second type of ARS has no maturity date and, in the event of default or liquidation of the collateral or ARS trust by the ARS issuer, we or the ARS trust are entitled to receive non-convertible preferred shares in the ARS issuer; ARS of that type are also known as auction rate preferred securities (ARPS). For the remaining ARPS which have a fair value above zero ($0), for which we paid $7.0 million, there was a single issuer, and we determined their fair values to be an aggregate $850,000 at March 31, 2009 by using discounted cash flow models for the ARPS trust payments, weighted by our estimated probability of trust default. The models relied upon certain unobservable inputs, including our estimate of the holding periods, which was 40 years, the annual discount rate applied to future cash flows, which was primarily based on the historical credit default swap rates for the ARPS issuer, ranging from 21% to 51% in excess of LIBOR, and our estimate of the probabilities of trust default, which was 0%.

In 2008, an issuer of certain of our ARPS terminated the ARPS trusts and issued us non-cumulative perpetual preferred shares in the ARPS issuer. We paid $7.0 million for those ARPS, and the fair value of the preferred shares at March 31, 2009 was $700,000, which was primarily based on a redemption offer from the issuer, and was an increase of $335,000 from a fair value of $365,000 at December 31, 2008. The increase in fair value was recorded to other comprehensive income in the three months ended March 31, 2009. In April 2009, we accepted the redemption offer and received $700,000 in cash for the aforementioned preferred shares.

For additional information see Note 2: *Fair Value Measurements* of the Notes to our Unaudited Condensed Consolidated Financial Statements (Item 1 of Part I of this Report).

Accounting for Goodwill

SFAS No. 142, *Goodwill and Other Intangible Assets*, requires that goodwill and intangible assets with indefinite lives be tested for impairment on an annual basis and between annual tests in certain circumstances. As of March 31, 2009, we no longer held material intangible assets other than goodwill. On a quarterly basis, we assess whether business conditions, including material changes in the fair value of our outstanding common stock, indicate that our goodwill may not be recoverable.

We performed our annual impairment analysis of the goodwill on our balance sheet as of November 30, 2008, and we determined that there was no impairment. Our analysis compared the book value of our stockholders equity to the fair value of our outstanding common stock, partly based on quoted market prices, which exceeded the book value of our stockholders equity on the annual measurement date. At March 31, 2009, we had $43.9 million of goodwill on our balance sheet. During the three months ended March 31, 2009, our market capitalization declined to an amount lower than the book value of our stockholders equity as of March 31, 2009. This was a triggering event that required us to perform a test for impairment of our goodwill with a measurement date of March 31, 2009. We use a two-step process to test for goodwill impairment. Our Company is deemed to be a single reporting unit for our impairment analysis. The first step of the goodwill impairment test is a comparison of the fair value of our reporting unit to its carrying value. We determined the fair value of our reporting unit based on discounted projected future cash flows, which used a range of discount rates for estimated costs of capital for comparable companies and comparative market multiples. Based on the results of this goodwill impairment analysis, we concluded that the carrying amount of the goodwill did not exceed its fair value, and goodwill was not considered to be impaired as of March 31, 2009, and the second step of the goodwill impairment test was not considered necessary. In future periods, we will continue to evaluate our market capitalization and stockholders equity, as well as other factors such as the business climate and business relationships, to determine if a triggering event has occurred.

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Historical Results of Operations

For the three months ended March 31, 2009, our net loss was $5.0 million. We have incurred net losses on an annual basis for all but three of the years since our inception. Additionally, we incurred a net loss in the first quarter of 2009 and as of March 31, 2009, had an accumulated deficit of $1.0 billion.

In light of the rapidly evolving nature of our business and overall market conditions, we believe that period-to-period comparisons of our revenues and operating expenses are not necessarily meaningful, and you should not rely upon them as indications of our future performance.

Results of Operations for the Three months ended March 31, 2009 and 2008

Revenues. We receive revenues from our customers when an end user of our Web search services clicks on a paid search link that is provided by a customer and displayed on our Web property or displayed on the Web property of a distribution partner. Revenues are recognized in the period in which a paid click occurs and are based on the amounts earned and remitted to us by our customers for such clicks. In addition, we earn services revenue from certain distribution partners, such as a fixed monthly fee in exchange for portal infrastructure services. Revenues for the three months ended March 31, 2009 and 2008 are presented below (amounts in thousands):

	Three months ended March 31, 2009	Three months ended March 31, 2008	Change from 2008
Revenues	$ 39,070	$ 42,182	$ (3,112)

The decrease in revenues for online search services for the three months ended March 31, 2009 as compared to the three months ended March 31, 2008, is primarily due to a decrease in revenue from search results delivered through certain of our distribution partners and a decrease in revenues from our owned and operated properties. For the three months ended March 31, 2009, revenues from owned and operated properties were down over the three months ended March 31, 2008 due to a decrease in the average fees per paid click that our customers share with us, partially offset by an increase in paid click volume on our owned and operated properties over the three months ended March 31, 2008. The decrease in average fees per paid click was the result of a decrease in advertiser fees paid per click to our customers and an increase in the proportion of revenues derived from our marketing initiatives on our owned and operated properties. During each of the three months ended March 31, 2009 and 2008, 69% of our revenues came from our search distribution partners.

Seasonality

Our search services are affected by seasonal fluctuations in Internet usage, which generally declines in the summer months.

Content and Distribution Expenses. Content and distribution expenses consist principally of costs related to revenue sharing arrangements with our content and distribution partners, as well as content and data licenses. Content and distribution expenses in total dollars (in thousands) and as a percent of total revenues for the three months ended March 31, 2009 and 2008 are presented below:

	Three months ended March 31, 2009	Three months ended March 31, 2008	Change from 2008
Content and Distribution Expenses	$ 20,377	$ 21,792	$ (1,415)
Percent of Revenues	52.1%	51.7%	0.4%

The decrease in search content and distribution expenses for the three months ended March 31, 2009 as compared to the three months ended March 31, 2008, is primarily due to a decrease in revenue shared with our distribution partners from search results delivered through those distribution partners. We anticipate that our search content and distribution expenses will increase in absolute dollars if revenues increase through growth from existing arrangements with our search distribution partners or we add new search distribution partners. If online search revenue generated from our distribution partners increases at a greater rate than revenues generated from our own and operated properties, content and distribution expenses as a percentage of revenue will increase. We expect that online search revenue from searches conducted by end users on sites of our distribution partners will continue to be a significant share of our online search revenues for the foreseeable future.

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Systems and Network Operations Expenses. Systems and network operations expenses are associated with the delivery, maintenance and support of our services, data management and infrastructure, including personnel expenses, which include salaries, benefits and other employee related costs, stock-based compensation expense, and costs for temporary help and contractors to augment our staffing, communication costs, equipment repair and maintenance, and professional service fees. Systems and network operations expenses in total dollars (in thousands) and as a percent of total revenues for the three months ended March 31, 2009 and 2008 are presented below:

	Three months ended March 31, 2009	Three months ended March 31, 2008	Change from 2008
Systems and Network Operations Expenses	$ 2,421	$ 2,442	$ (21)
Percent of Revenues	6.2%	5.8%	0.4%

Systems and network operations expenses decreased by $21,000 to $2.4 million for the three months ended March 31, 2009, as compared to $2.4 million for the three months ended March 31, 2008. There were no material variances between the expenses recorded for the three months ended March 31, 2009 and the three months ended March 31, 2008.

Product Development Expenses. Product development expenses consist principally of personnel expenses, which include salaries, stock-based compensation expense, benefits and other employee related costs, and temporary help and contractors to augment our staffing, research, development, support and ongoing enhancements of our products and services. Product development expenses in total dollars (in thousands) and as a percent of total revenues for the three months ended March 31, 2009 and 2008 are presented below:

	Three months ended March 31, 2009	Three months ended March 31, 2008	Change from 2008
Product Development Expenses	$ 1,406	$ 2,209	$ (803)
Percent of Revenues	3.6%	5.2%	-1.6%

Product development expenses decreased by $803,000 to $1.4 million for the three months ended March 31, 2009, as compared to $2.2 million for the three months ended March 31, 2008. The absolute dollar decrease for the three months ended March 31, 2009 as compared to the three months ended March 31, 2008 was primarily due to a decrease in personnel expenses, including employee salaries and stock-based compensation expense, of $1.0 million for the three months ended March 31, 2009, net of a decrease of $377,000 in salaries capitalized for developing internal-use software.

Product development costs may not be consistent with revenue trends because they represent key costs to develop and enhance our product offerings.

Sales and Marketing Expenses. Sales and marketing expenses consist principally of marketing expenses associated with our owned and operated properties, consisting of agency fees, brand promotion expense, market research expense and online direct marketing expense associated with traffic acquisition, and personnel costs, which include salaries, stock-based compensation expense, 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 percent of total revenues for the three months ended March 31, 2009 and 2008 are presented below:

	Three months ended March 31, 2009	Three months ended March 31, 2008	Change from 2008
Sales and Marketing Expenses	$ 6,943	$ 3,789	$ 3,154
Percent of Revenues	17.8%	9.0%	8.8%

Sales and marketing expenses increased by $3.2 million to $6.9 million for the three months ended March 31, 2009, as compared to $3.8 million for the three months ended March 31, 2008. The absolute dollar increase for the three months ended March 31, 2009 as compared to the three months ended March 31, 2008 was primarily attributable to an increase of $2.9 million in advertising and marketing expense associated with our owned and operated properties and employee separation costs of $542,000. These increases were partially offset by a decrease in stock-based compensation expense of $489,000 for the three months ended March 31, 2009.

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We expect to continue to invest in marketing initiatives to promote search services on our branded Web properties.

General and Administrative Expenses. General and administrative expenses consist primarily of personnel expenses, which include salaries, benefits and other employee related costs, stock-based compensation expense, professional service fees, which include legal fees, audit fees, SEC compliance costs, certain legal settlements, occupancy and general office expenses, corporate development and management expenses. General and administrative expenses in total dollars (in thousands) and as a percent of total revenues for the three months ended March 31, 2009 and 2008 are presented below:

	Three months ended March 31,		Change from
	2009	2008	2008
General and Administrative Expenses	$ 6,207	$ 7,722	$ (1,515)
Percent of Revenues	15.9%	18.3%	-2.4%

General and administrative expenses decreased by $1.5 million to $6.2 million for the three months ended March 31, 2009, as compared to $7.7 million for the three months ended March 31, 2008. The absolute dollar decrease for the three months ended March 31, 2009 as compared to the three months ended March 31, 2008 was primarily attributable to a decrease in personnel related expenses, including employee salaries, temporary help, contractors, and stock-based compensation expense of $1.6 million, partially offset by an increase in professional service fees of $487,000.

Depreciation. Depreciation of property and equipment includes depreciation of network servers and data center equipment, computers, software, office equipment and fixtures and leasehold improvements. Depreciation of property and equipment increased to $1.8 million for the three months ended March 31, 2009 compared to $1.5 million for the three months ended March 31, 2008. This increase was primarily due to equipment purchased for the new data centers that we opened in 2008.

Loss on Investments. In the three months ended March 31, 2009 and 2008, we recorded a loss on investments of $5.4 million and $6.7 million, respectively, which consisted of other-than-temporary impairments related to our illiquid ARS.

Other Income, Net. Other income, net totaled $607,000 for the three months ended March 31, 2009 compared to $2.2 million for the three months ended March 31, 2008. Other income, net primarily consists of interest income. The decrease in interest income for the three months ended March 31, 2009, as compared to the three months ended March 31, 2008, was primarily attributable to a decrease in interest rates.

Income Tax Expense. We recorded an income tax expense of $201,000 and $182,000 for the three months ended March 31, 2009 and 2008, respectively. For each period, the income tax expense included U.S. federal tax, state and foreign taxes. Income tax expense for the three months ended March 31, 2009 and 2008 differed from the tax expense at the statutory rates primarily due to non-deductible permanent differences and applying a valuation allowance against deferred tax assets arising during the period.

Liquidity and Capital Resources

As of March 31, 2009, we had cash and marketable investments of $205.4 million, consisting of cash and cash equivalents of $55.4 million, available-for-sale short-term investments of $141.1 million, and available-for-sale long-term investments of $8.9 million. We generally invest our excess cash in high quality marketable investments. These investments include securities issued by U.S. government agencies, certificates of deposit, money market funds, and taxable municipal bonds.

Commitments and Pledged Funds

Our obligations under capital and operating lease agreements and other purchase commitments have not changed materially from those commitments disclosed in our Annual Report on Form 10-K for the year ended December 31, 2008.

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Cash Flows

Net cash provided by operating activities consists of net loss offset by certain adjustments not affecting current period cash flows, and the effect of changes in our operating assets and liabilities. Our net cash flows are comprised of the following for the three months ended March 31, 2009 and 2008 (in thousands):

	Three months ended March 31,	
	2009	2008
Net cash provided (used) by operating activities from continuing operations	$ 5,794	$ (31,256)
Net cash provided (used) by investing activities	(448)	9,870
Net cash provided (used) by financing activities	114	(298,913)
Net cash used by discontinued operations		(14,177)
Net increase (decrease) in cash and cash equivalents	$ 5,460	$ (334,476)

Net cash provided by operating activities was $5.8 million for the three months ended March 31, 2009, consisting of adjustments not affecting cash flows provided by operating activities of $9.7 million, primarily consisting of the loss on investments, stock-based compensation expense and depreciation as well as changes in our operating assets and liabilities of $2.1 million, consisting of increases in accrued expense and other current and long-term liabilities and decreases in accounts receivables and other long-term assets. These increases were partially offset by our net loss of $5.0 million and cash used by changes in our operating assets and liabilities of $1.0 million consisting of a decrease in accounts payable and increases in prepaid expenses and other current assets and notes and other receivables.

Net cash used by operating activities was $31.3 million for the three months ended March 31, 2008, consisting of our net loss of $2.8 million, cash used by changes in our operating assets and liabilities of $48.4 million primarily consisting of the payments of employee expenses related to a $299.1 million special dividend paid on January 8, 2008 and employee separation payments, which resulted in decreases in accrued expenses and other current and long-term liabilities, and accounts payable, and increases in accounts receivable, and adjustments not affecting cash flows used by operating activities of $149,000 related to deferred income taxes. Partially offsetting these decreases were changes in our operating assets and liabilities of $7.9 million, consisting of decreases in notes and other receivables, other long-term assets, and prepaid expenses and other current assets and adjustments not affecting cash flows provided by operating activities of $12.2 million, primarily consisting of loss on investments, stock-based compensation expense, depreciation, loss from discontinued operations and loss on the sale of discontinued operations.

Net cash used by investing activities totaled $448,000 for the three months ended March 31, 2009, primarily consisting of $530,000 used to purchase property and equipment which was partially offset by a net decrease in other long-term assets and proceeds from the sale of assets.

Net cash provided by investing activities totaled $9.9 million for the three months ended March 31, 2008, primarily consisting of the net decrease in short-term investments of $12.0 million, partially offset by $1.1 million used to purchase property and equipment and the increase in other long-term assets of $1.0 million.

Net cash provided by financing activities totaled $114,000 in the three months ended March 31, 2009, and primarily consisted of the cash proceeds of $252,000 from sales of shares through our employee stock purchase plan partially offset by repayment of capital lease obligations.

Net cash used by financing activities totaled $298.9 million in the three months ended March 31, 2008, and primarily consisted of a $299.1 million special dividend paid to stockholders in January 2008. Partially offsetting this decrease was cash proceeds of $233,000 from sales of shares through our employee stock purchase plan and from the exercise of stock options.

Net cash used by discontinued operations totaled $14.2 million for the three months ended March 31, 2008, primarily consisting of cash used by decreases in liabilities net of operating assets of discontinued operations of $13.7 million and loss from discontinued operations of $490,000.

We plan to use our cash to fund operations, develop technology, advertise, market and distribute our products and application services, and continue the enhancement of our network infrastructure. We may use a portion of our cash for acquisitions, special dividends, or for common stock repurchases.

We believe that existing cash balances, 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 assumed levels of revenues and expenses may not prove to be accurate. Our anticipated cash needs exclude any payments for pending or future litigation matters. In addition, we evaluate acquisitions of businesses, products or technologies that complement our business 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 these investments when we need such liquidity for business purposes, as further discussed below, we may need to change or postpone such business purposes or find alternative financing for such 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 relating to the Company, as well as factors beyond our control, including weakness in the 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 will result. If funding is insufficient at any time in the future, we may be unable 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.

Illiquid Investments

The $8.2 million of ARS that we held at March 31, 2009 began failing to trade at auctions in August 2007 and have continued to fail as of March 31, 2009 due to insufficient bids from buyers. These investments cannot be converted into cash in the foreseeable future, therefore we consider them illiquid as of March 31, 2009 and we have classified them as long-term investments. The global financial markets experienced unusual and significant distress during 2008 and that distress may continue for the duration of 2009 and possibly longer, which may continue to impair our ability to liquidate the ARS that we hold.

Based on our ability to access our cash and short-term investments, our expected operating cash flows, and our other sources of cash, we do not anticipate that the lack of liquidity of those investments will affect our ability to operate our businesses in the ordinary course.

Stock Repurchase Program

On June 16, 2008, our Board of Directors authorized the repurchase of up to $100 million of our outstanding common stock over the succeeding twelve months. As of March 31, 2009, no shares have been purchased under this plan.

On June 8, 2007, our Board of Directors authorized the repurchase of up to $100 million of our outstanding common stock over the succeeding twelve months. We did not purchase any shares under this plan prior to its expiration in June 2008.

Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS No. 141(R)). In SFAS No. 141(R), the FASB retained the fundamental requirements of SFAS No. 141 to account for all business combinations using the acquisition method and for an acquiring entity to be identified in all business combinations. However, the revised standard requires the acquiring entity in a business combination to recognize all the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to immediately expense costs related to the acquisition. In April 2009, the FASB issued Staff Position (FSP) FAS 141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies,* amending and clarifying SFAS No. 141(R) to address application issues on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. SFAS No. 141(R) and FSP FAS 141(R)-1 are both effective for annual periods beginning on or after December 15, 2008. We have adopted these pronouncements effective on January 1, 2009; however, the impact that SFAS No. 141(R) and FSP FAS 141(R)-1 will have on our consolidated financial statements will depend upon the nature, terms and size of any acquisition.

On January 1, 2008, we adopted the provisions of SFAS No. 157 which defines fair value, establishes a framework for measuring fair value and expands disclosure of fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements and accordingly, does not require any new fair value measurements. In February 2008, the FASB issued FSP FAS 157-2, *Effective Date of FASB Statement No. 157*, which delayed the effective date of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008. On January 1, 2009, we adopted the provisions of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities. In October 2008, the FASB issued FSP FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*, which clarifies the application of SFAS No. 157 to fair value measurements of financial assets in a market that is not active. FSP FAS 157-3 was effective upon issuance. In April 2009, the FASB issued FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*, providing more guidance when the volume and level of activity for the asset or liability has significantly decreased. FSP FAS 157-4 is effective for interim and annual periods ending after June 15, 2009. We are currently evaluating the remaining provisions of these FSPs to determine what effect, if any, their adoption on April 1, 2009 will have on our financial position, cash flows, and results of operations.

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In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, *Disclosures About Fair Value of Financial Instruments*, amending SFAS 107, *Disclosures about Fair Value of Financial Instruments*, and Accounting Principles Board Opinion (APB) 28, *Interim Financial Reporting*, to require disclosures about the fair value of financial instruments in interim reporting periods. FSP FAS 107-1 and APB 28-1 is effective for interim and annual periods ending after June 15, 2009. We are currently evaluating the provisions of this FSP to determine what effect its adoption on April 1, 2009 will have on our financial position, cash flows, and results of operations.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*, amending the other-than-temporary impairment guidance for debt and equity securities. FSP FAS 115-2 and FAS 124-2 is effective for interim and annual periods ending after June 15, 2009. We are currently evaluating the provisions of this FSP to determine what effect its adoption on April 1, 2009 will have on our financial position, cash flows, and results of operations.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our market risks at March 31, 2009 have not changed significantly from those discussed in Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2008 on file with the Securities and Exchange Commission. See also Management s Discussion and Analysis of Financial Condition and Results of Operations section of Item 2 of Part I of this Quarterly Report on Form 10-Q for additional discussions of our market risks.

Item 4. Controls and Procedures

(a) *Evaluation of disclosure controls and procedures*. Our management evaluated, with the participation of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure, and that such information is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

(b) *Changes in internal control over financial reporting*. There was no change in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended).

PART II OTHER INFORMATION

Item 1. Legal Proceedings

See the litigation disclosure under the subheading Litigation in Note 6 to our Unaudited Condensed Consolidated Financial Statements.

Item 1A. Risk Factors

RISKS RELATED TO OUR BUSINESS

A substantial portion of our revenues is attributable to a small number of customers, the loss of any one of which would harm our financial results.

We acquire rights to content from numerous third-party content providers, whom we refer to as customers, and our future success is highly dependent upon our ability to maintain relationships with these customers and enter into new relationships with other customers. We derive a substantial portion of our revenues from continuing online search operations from a small number of customers. We expect that concentration will continue in the foreseeable future. Google and Yahoo! jointly accounted for 95% or more of our online search revenues in the first quarter of 2009 and the fourth quarter of 2008 and each accounted for more than 10% of our revenues in the same periods. Our principal agreements with these customers expire in

2011. Also, our customers are competitors of each other, and the way we do business with one of them may not be acceptable to one or some of their competitors with whom we also do business, which may result in such competitors not renewing their agreements with us on favorable terms. If any of our top customers significantly reduces or eliminates the content it provides to us under our existing contracts, or we are unable to renew the contracts on favorable terms, or any of these customers is unwilling to pay us amounts that it owes us, or disputes amounts it owes us or has paid to us, our financial results would materially suffer.

Failure by us or our search distribution partners to comply with the requirements and guidelines imposed by our customers relating to the use or distribution of content may require us to modify, terminate or not enter into certain distribution relationships, may cause the customer to terminate its agreement with us, and may expose us to liability.

If our search distribution partners or we fail to meet the requirements and guidelines promulgated by our customers, we may not be able to continue to use such customers content or provide the content to such distribution partners, we may be liable to such customers for certain damages they may suffer, and such customers may terminate their agreements with us. Such requirements and guidelines relate to various matters regarding the use and distribution of the customers content, and our customers have modified their requirements and guidelines from time to time, and may do so in the future. Such modifications may restrict or limit our ability to provide content through our Web properties or the Web properties of our distribution partners affected by such modifications, which may have a material and adverse effect on our financial results. In the past, certain of our customers had notified us that we were not in compliance with respect to our use of their content or the redistribution of their content by our distribution partners. We have been able to cure such breaches, however, there can be no assurance that if we breach our agreements in the future we will be able to cure the breach. Our agreements with some of our major customers, including Google and Yahoo!, give such customers the ability to terminate their agreements with us immediately in the case of breaches of certain provisions of the agreements with such customers, regardless of whether such breaches could be cured.

Additionally, agreements with our customers may be amended from time to time by both parties or may be subject to different interpretation by either party, which may require our use or the rights we grant to our search distribution partners to be modified to comply with such amendments or interpretations. The agreements with our distribution partners generally provide that we may modify the rights we grant to them to avoid being in conflict with the agreements with our customers. Also, some of our customers have approval processes with respect to the redistribution of their content by our distribution partners. Some of our distribution partners that redistribute such content have not complied with such approval processes, and we no longer provide the applicable content to such partners or such partners no longer redistribute the content. If our customers impose additional restrictions, some of our distribution partners may be required to change the manner in which such customer s content is used or distributed or cease using or distributing such customer s content. If some of our distribution partners are unable to meet the restrictions, we may need to terminate our agreement with such distribution partners or no longer provide the applicable content to such partners.

The loss or reduction of content that we can use or make available to our distribution partners, as well as the termination of distribution or customer agreements, as described above, could have a material adverse effect on our financial results.

A substantial portion of our revenues is dependent on our relationships with a small number of distribution partners who distribute our online search services, the loss of which could have a material adverse effect on our financial results.

We rely on our relationships with online search distribution partners, including internet service providers, Web portals and software application providers, for distribution of our online search services. We generated approximately 46% and 44% of our online search revenues through relationships with our top ten distribution partners for the first quarter of 2009 and fourth quarter of 2008, respectively. We cannot assure you that these relationships will continue or will result in benefits to us that outweigh the cost of the relationships. One of our challenges is providing our distribution partners with relevant products and services at competitive prices in rapidly evolving markets. Distribution partners may create their own products and services or may seek to license products and services from others that we compete with or replace the products and services that we provide. Also, many of our distribution partners are developing companies with limited operating histories and evolving business models that may prove unsuccessful even if our products and services are relevant and our prices competitive. If we are not able to maintain our relationships with our distribution partners, our financial results would be materially adversely affected.

Our agreements with most of our distribution partners come up for renewal in 2009 and 2010. Such agreements may be terminated or may not be renewed or replaced on favorable terms, which could adversely impact our financial results. We anticipate that our content and distribution costs for our revenue sharing arrangements with our distribution partners will increase as revenues grow and may increase as a percentage of revenues to the extent that there are changes to existing arrangements or we enter into new arrangements on less favorable terms. In addition, competition continues for quality consumer traffic in the online search market. Recently, we have experienced increased competition from our content providers, whom we refer to as customers, seeking to enter into agreements directly with our existing or potential distribution

partners, making it increasingly difficult for us to renew agreements with existing major distribution partners or to enter into distribution agreements with new partners on favorable terms. Any difficulties that we experience with maintaining or strengthening our business relationships with our major distribution partners could have an adverse effect on our financial results.

Current economic downturn may put downward pressure on online advertising spending, which could have a material adverse effect on our financial results.

The current economic downturn may lead to lower online advertising spending by advertisers who advertise through our customers, resulting in lower fees paid to us by such customers for paid search originating from our Web properties or the Web properties of our distribution partners. A significant reduction in such spending could have a material adverse effect on our operating results.

If advertisers perceive that they are not receiving quality traffic to their sites through their paid-per-click advertisements, they may reduce or eliminate their advertising through the Internet. Further, if our customers perceive that they are not receiving quality traffic from our own Web sites or the Web property of a distribution partner to their advertiser networks, they may reduce the fees they pay to us. Either of these factors could have a negative material impact on our financial results.

Most of our revenues from our online search business are based on the number of paid clicks on commercial search results served on our owned and operated properties or our distribution partners Web properties. Generally, each time a user clicks on a commercial search result, the customer that provided the commercial search result receives a fee from the advertiser who paid for such commercial click and the 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. If an advertiser receives what it perceives to be a large percentage of clicks for which it needs to pay, but that do not result in the intended objectives of such advertiser, the advertiser may reduce or eliminate its advertisements through the customer that provided the commercial search result to us because of such poor quality traffic. This leads to a loss of revenue to our customers and consequently to fewer fees paid to us. Also, if a customer perceives that the traffic originating from one of our own Web properties or the Web property of a distribution partner is of poor quality, including, for example, traffic that may be generated through our marketing initiatives or those of our distribution partners, the customer may discount the amount it charged all the advertisers whose paid click advertisements appeared on such Web site or Web property based on the amount of poor quality traffic the customer deems to have been generated, and accordingly may reduce the amount of fees it would have otherwise paid us for all paid clicks originating from such Web site or Web property. The customer may also suspend or terminate our ability to provide its content through such Web sites or Web properties if such activities are not modified to satisfy the customer s concerns. The payment of fewer fees to us or the inability to provide content through such Web sites or Web properties could have a material negative effect on our financial results.

If we fail to detect invalid click activity, we could lose the confidence of advertisers and of our customers, which could cause our business to suffer.

Poor quality traffic may be a result of invalid click activity. Such invalid click activity occurs, for example, when a person or automated click generation program clicks on a commercial search result to generate fees for the Web property displaying the commercial search result rather than to view the Web page underlying the commercial search result or when a competitor of the advertiser clicks on the advertiser s search result to increase the advertising expense of the advertiser. Some of this invalid click activity is sometimes referred to as click fraud. When such invalid click activity is detected, the customer may not charge the advertiser or may refund the fee paid by the advertiser for such invalid clicks. If the invalid click activity originated from one of our distribution partners Web properties or our owned and operated properties, such non-charge or refund of the fees paid by the advertisers in turn reduces the amount of fees the customer pays us. If we or our customers are unable to effectively detect and stop invalid click activity, advertisers may see a reduced return on their advertising investment with the customer because such invalid clicks do not generate quality traffic to such advertisers, which could lead such advertisers to reduce or terminate their investment in such ads. This could also lead to a loss of advertisers and revenue to our customers and consequently to less fees paid to us. Also, as discussed above, the customer may discount the amount it charged all the advertisers whose paid-click advertisements appeared on such Web site or Web property based on the amount of poor quality traffic, including invalid click activity, and accordingly reduce the amount of fees it would have otherwise paid us for all paid-clicks originating from such Web site or Web property. Additionally, if we are unable to detect and stop invalid click activity that may originate from our owned and operated properties or the Web properties of our distribution partners, our customers may impose restrictions on our ability to provide their commercial search results on our owned and operated properties or to our current and future distribution partners, which could have a material negative impact on our financial results.

Although we and our customers have in place certain systems to assist with the detection of invalid clicks, these systems may not detect all such invalid click activity, including new types of invalid click activity that may appear. From time to time, some of our customers may notify us that poor quality traffic may be originating from one of our distribution partners. Although the poor quality traffic may be due to factors other than invalid click activity, if we are unable to resolve or determine what factor may be creating the poor quality traffic, we may terminate our agreement with such distribution partner or stop providing content to such distribution partner from the customer that notified us of such traffic in an attempt to maintain the confidence of our customer and their advertisers in the overall quality of our traffic.

Our strategic direction has recently changed and our focus on online search may not be successful.

In the fourth quarter of 2007, we completed the sale of our directory business to Idearc Inc. and the sale of our mobile services business to Motricity, Inc. This significantly reduced the size of our business and our revenues, and our business model now centers on our online search services. There can be no assurance that our focus on online search will produce acceptable results. If we are not successful in operating under this new business model, our stock price will suffer. Moreover, any other future changes to our business may not prove successful in the short or long term due to a variety of factors, including competition, consumer adoption and demand for our products and services, and other factors described in this section, and may have a material negative impact on our financial results.

In addition, we have in the past and may in the future find it advisable to streamline operations and reduce expenses, including, without limitation, such measures as reductions in our workforce, discretionary spending, and/or capital expenditures, as well as other steps to reduce expenses. Effecting any restructuring or streamlining places significant strains on management, our employees, and our operational, financial, and other resources. In addition, such actions could impair our development, marketing, sales and customer support efforts or alter our product development plans. We may also incur liability from early termination or assignment of contracts, potential failure to meet required support levels of our platforms due to loss of employees who maintain such platforms, potential litigation and other effects from such restructuring and streamlining. Such effects from restructuring and streamlining could have a negative impact on our financial results.

If our former mobile content providers disagree with our estimate of our royalty liability due to them, it could expose us to significant liability and adversely impact our financial results.

Under our agreements with our former mobile content providers, we calculated our royalty liability based on inputs from various sources of data and have been and continue to be subject to audits by our former mobile content providers. If our former mobile content providers disagree with the royalty amounts we calculated were due to them and we are unable to resolve those disagreements amicably, it may subject us to potential litigation and substantial costs even if it is found that the amounts we determined were due to them were accurate. If a former mobile content provider prevails in showing that the royalty amount due to it was not what was intended under our agreement with them and our estimate of the royalty liability was significantly different, it could subject us to significant liability to the affected mobile content provider and have an adverse effect on our financial results. Two former mobile content providers initiated law suits against us due to such type of disagreements and although we have been able to settle with one such mobile content provider, we continue to be engaged in litigation with the other. There can be no assurance that other former mobile content providers will not also disagree with the royalty amount due to them and initiate their own litigation, and any adverse outcomes in disputes with former mobile content providers could have a material adverse effect on our financial results.

If there is change in the ownership of the Company within the meaning of Section 382 of the Internal Revenue Code, our ability to utilize our net operating loss carryforwards may be severely limited or potentially eliminated; even if such change did not occur, we may not be able to utilize the full amount of our net loss carryforwards before they expire.

As of December 31, 2008, we had federal net operating loss (NOL) carryforwards of approximately $800 million that will expire over a twelve to twenty year period. However, if the Company were to have a change of ownership within the meaning of Section 382 of the Internal Revenue Code, under certain conditions, its annual federal NOL utilization could be limited to an amount equal to its market capitalization, net of substantial non-business assets, at the time of the ownership change multiplied by the federal long-term tax exempt rate. A change of ownership under Section 382 of the Internal Revenue Code is defined as a cumulative change of 50 percentage points or more in the ownership positions of certain stockholders owning 5% or more of the Company s common stock over a three year rolling period. There can be no assurance that such change will not occur. In March 2009, our Board of Directors adopted a proposal to amend our certificate of incorporation to implement a reclassification of our common stock in order to impose certain limited transfer restrictions on the stock to preserve our NOLs. This proposal to amend our certificate of incorporation will be submitted to our stockholders for their approval at our 2009 annual meeting of stockholders. If adopted, we expect that this amendment to our certificate of incorporation would assist us in preserving our NOLs. However, there can be no assurance that this proposal will be adopted by our stockholders, or that, even if it is adopted, that it would be sufficient to prevent a change of ownership under Section 382 of the Internal Revenue Code and preserve our NOLs.

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If the use of this tax benefit is severely limited or eliminated by a change of ownership, or if we are unable to use it before it expires, there could be a material reduction in the amount of after-tax income and cash flow from operations, and it could have an effect on the ability of the Company to engage in certain transactions.

We have in the past identified a material weakness in our internal controls over financial reporting that we have been able to remediate; however, there can be no assurance that in the future we will not have a material weakness that could result in material misstatements in our financial statements in future periods and could also result in a loss of investor confidence.

Under Section 404 of the Sarbanes-Oxley Act of 2002, our management is required to evaluate and determine the effectiveness of our internal control over financial reporting, and our independent registered public accounting firm is required to attest to the effectiveness of our internal control over financial reporting in connection with the filing of our Annual Report on Form 10-K for each fiscal year. While our management s assessment of our internal control over financial reporting resulted in our conclusion that as of December 31, 2008, our internal control over financial reporting was effective, we cannot predict the outcome of our testing in future periods. If we conclude in future periods that our internal control over financial reporting is not effective or if our independent registered public accounting firm is unable to provide an unqualified opinion as of future year-ends, investors may lose confidence in our financial statements and the price of our stock may suffer. In 2006, as part of its evaluation of our internal control over financial reporting, our management determined that we had a material weakness in our internal control over financial reporting pertaining to our deferred income tax benefit and related income tax asset, which we believe has since been remediated. As defined in Public Company Accounting Oversight Board Auditing Standard No. 5, a material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company s annual or interim financial statements will not be prevented or detected on a timely basis. We strive to maintain effective internal controls over financial reporting in order to prevent and detect material misstatements in our annual and quarterly financial statements and prevent fraud. However, we cannot assure you that such efforts will be effective. If we fail to maintain effective internal controls in future periods, our financial results and stock price could be adversely affected.

We have a history of incurring net losses, we may incur net losses in the future, and we may not be able to regain or sustain profitability on a quarterly or annual basis.

We have incurred net losses on an annual basis for all but three of the years since our inception, and we incurred a net loss in the first quarter of 2009. As of March 31, 2009, we had an accumulated deficit of $1.0 billion. We may incur net losses in the future, including from our operations, loss on investments, the impairment of goodwill or other intangible assets, losses from acquisitions, restructuring charges or expense related to stock-based compensation and other equity awards. There can be no assurance that we will be able to conduct our business profitably in the future.

Our financial results are likely to continue to fluctuate, which could cause our stock price to be volatile or decline.

Our financial results have varied on a quarterly basis and are likely to continue to fluctuate in the future. These fluctuations could cause our stock price to be volatile or decline. Several factors could cause our quarterly results to fluctuate materially, including:

- the loss of key customers or the effects of changes to their requirements or guidelines or their measurement of the quality of traffic we send to their advertiser network;
- the loss, termination or reduction in scope of key distribution relationships, such as by distribution partners licensing content directly from content providers;
- increased costs related to investments for new initiatives, including new products and services, marketing and new distribution channels;
- our ability to attract and retain quality traffic;

the economic downturn that may lead to lower online advertising spend by advertisers, resulting in lower monetization rates for paid search;

cash distributions to our shareholders or stock repurchases;

additional restructuring charges we may incur in the future;

litigation expense, including settlement;

variable demand for our products and services, including seasonal fluctuations, rapidly evolving technologies and markets and consumer preferences;

the impact on revenues or profitability of changes in pricing for our products and services;

the results from shifts in the mix of products and services we provide;

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- the effects of acquisitions by us, our customers or our distribution partners;
- increases in the costs or availability of content for our products and services;
- the requirement to expense the fair value of our employee stock options and other equity awards;
- the adoption of new laws, rules or regulations, or new court rulings, regarding intellectual property that may adversely affect our ability to continue to acquire content and distribute our products and services, or the ability of our customers or distribution partners to continue to provide us with their content or distribute our products and services or increase our potential liability;
- volatility in the financial markets, and potential changes to the fair value of our long-term investments, such as auction rate securities;
- impairment in the value of long-lived assets or the value of acquired assets, including goodwill, core technology and acquired contracts and relationships;
- the effect of changes in accounting principles or in our accounting treatment of revenues or expenses;
- the adoption of new regulations or accounting standards; and
- the foreign currency effects from transactions denominated in currencies other than the U.S. dollar.

For these reasons, among others, you should not rely on period-to-period comparisons of our financial results to forecast our future performance. Furthermore, our fluctuating operating results may fall below the expectations of securities analysts or investors, which could cause the trading price of our stock to decline.

Certain of our long-term investments have failed to trade at auctions, which resulted in an impairment charge to a portion of such investments.

We do not issue or invest in financial instruments or their derivatives for trading or speculative purposes. Included within our investment portfolio are auction rate securities (ARS) and preferred shares into which some of the ARS have converted. We purchased the ARS, including those that have converted into preferred stock, for $40.4 million. The ARS have failed to trade at auctions due to insufficient bids from buyers, and some of those ARS have been converted to preferred stock issued by the ARS issuer. While we now earn a premium interest rate on some of those ARS that failed to settle in the auction process or receive dividends on the preferred stock issued by the issuers of some of the ARS, those investments cannot be quickly converted into cash and were considered illiquid as of March 31, 2009. We determined that the fair value of the ARS was $8.2 million and the fair value of the preferred stock was $700,000 at March 31, 2009, and we recorded other-than-temporary impairment charges to those investments of an aggregate $5.4 million and $4.3 million in the first quarter of 2009 and fourth quarter of 2008, respectively. If the issuers of such investments are unable to successfully close future auctions or their credit ratings deteriorate, the fair value of those investments may continue to decline and we may record further impairment charges. Additionally, if such issuers default with respect to such securities, we may no longer continue to receive any interest or dividends and may have to further impair such investments. If we are unable to liquidate these investments when we need such liquidity for business purposes, we may need to change or postpone our business plans or find alternative financing for such business plans, if available.

Our stock price has been and is likely to continue to be highly volatile.

The trading price of our common stock has been highly volatile. Since our common stock began trading on December 15, 1998, our stock price has ranged from $3.70 to $1,385.00 (as adjusted for stock splits). On May 4, 2009, the closing price of our common stock was $6.61. Our stock price could decline or be subject to wide fluctuations in response to factors such as the other risks discussed in this section and the following, among others:

- actual or anticipated variations in quarterly and annual results of operations;
- announcements of significant acquisitions, dispositions, charges, changes in or loss of material contracts, new customer or partner relationships or other business developments by us, our customers, distribution partners or competitors;
- conditions or trends in the online search services markets;
- announcements of technological innovations or new products or services by us or our competitors;
- changes in financial estimates or recommendations by securities analysts;
- disclosures of any material weaknesses in internal control over financial reporting;
- the adoption of new regulations or accounting standards; and

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- announcements or publicity relating to litigation and similar matters.

In addition, the stock market in general, and the NASDAQ Global Select Market and the market for Internet and technology company securities in particular, have experienced extreme price and volume fluctuations. These broad market and industry factors and general economic conditions may materially and adversely affect our stock price. Our stock has been subject to such price and volume fluctuations in the recent past. Often, class action litigation has been instituted against companies after periods of volatility in the overall market and in the price of such companies stock. If such litigation were to be instituted against us, even if we were to prevail, it could result in substantial cost and diversion of management s attention and resources.

We operate in new and rapidly evolving markets, and our business model continues to evolve, which makes it difficult to evaluate our future prospects.

Our potential for future profitability must be considered in the light of the risks, uncertainties, and difficulties encountered by companies that are in new and rapidly evolving markets and continuing to innovate with new and unproven technologies or services, as well as undergoing significant change. Our online search services are in young industries that have undergone rapid and dramatic changes in their short history. We have also recently completed the sale of our directory and mobile services businesses. In addition to the other risks we describe in this section, some of these risks relate to our potential inability to:

- execute our business strategy based on our new business model;
- attract users to our owned and operated properties and retain them;
- attract and retain distribution partners for our online search services;
- attract and retain customers;
- manage our growth, control expenditures and align costs with revenues;
- effectively utilize our resources and assets, such as our technology, personnel and cash, to drive growth;
- respond quickly and appropriately to competitive developments, including:
  - rapid technological change;
  - consolidation of customers or their advertising networks;
  - alternatives to access the Internet;
  - changes in customer requirements;

new products introduced into our markets by our competitors; and

regulatory changes affecting the industries we operate in or the markets we serve both in the United States and foreign countries; and

expand our customer base in markets in which we operate and into other markets.

If we do not effectively address the risks we face, we may not be able to achieve profitability.

If we are unable to hire, retain and motivate highly qualified employees, including our key employees, we may not be able to successfully manage our business.

Our future success depends on our ability to identify, attract, hire, retain and motivate highly skilled technical, managerial, sales and marketing, and corporate development personnel. Qualified personnel with experience relevant to our online search business are scarce and competition to recruit them is intense. If we fail to successfully hire and retain a sufficient number of highly qualified employees, we may have difficulties in supporting our customers or expanding our business. Realignments of resources, reductions in workforce, or other operational decisions have created and could continue to create an unstable work environment and may have a negative effect on our ability to hire, retain and motivate employees.

Our business and operations are substantially dependent on the performance of our key employees, all of whom are employed on an at-will basis. We have recently experienced significant changes at our executive management level, including the appointment on February 2, 2009 of William J. Lansing as President and Chief Executive Officer, succeeding James F. Voelker, and the appointment of the other executive officers in 2008, and we may experience more changes in the future. We cannot assure you that changes of management will not cause disruption to our operations, which may materially and adversely affect our financial results. In addition, if we lose the services of one or more key employees and are unable to recruit and retain a suitable successor(s), we may not be able to successfully manage our business or achieve our business objectives. There can be no assurance that any retention program we initiate will be successful at retaining employees, including key employees.

In light of current market conditions, the value of stock options or restricted stock units granted to employees may cease to provide sufficient incentive to our employees.

Like many technology companies, we use stock options, restricted stock units and other equity-based awards to recruit technology professionals and senior level employees. We have instituted a restricted stock unit program in lieu of issuing stock options to employees, other than executives and selected employees, because stock options are not currently seen as providing enough incentive to attract or retain employees. Additionally, due to the reduction in our stock price as a result of our recent dividends, most outstanding options held by employees have an exercise price significantly higher than the current market price of our stock. With respect to those employees to whom we also issue options, we face a significant challenge in retaining them if the value of these stock options is either not substantial enough or so substantial that the employee leaves after their stock options have vested. If our stock price does not increase significantly above the prices of our options, or option programs become impracticable, we may need to issue new options or other equity incentives or increase other forms of compensation to motivate and retain our executives. We may undertake or seek stockholder approval to undertake other equity-based programs to retain our employees, which may be viewed as dilutive to our stockholders or may increase our compensation costs. Additionally, there can be no assurance that any such programs we undertake, including the restricted stock unit awards, will be successful in motivating and retaining our employees.

Our online search services may expose us to claims relating to how the content was obtained, distributed or displayed.

Our online search services link users, either directly through our own Web sites or indirectly through the Web properties of our distribution partners, to third-party Web pages and content in response to search queries and other requests. These services could expose us to legal liability from claims relating to such third-party content and sites, the manner in which these services are distributed and displayed by us or our distribution partners, or how the content provided by our customers was obtained or provided by our customers. Such claims could include the following: infringement of patent, copyright, trademark, trade secret or other intellectual property or proprietary rights; violation of privacy and publicity rights; unfair competition; defamation; providing false or misleading information; obscenity; pornography; and illegal gambling. Regardless of the legal merits of any such claims, they could result in costly litigation, be time consuming to defend and divert management s attention and resources. If there were a determination that we had violated third-party rights or applicable law, we could incur substantial monetary liability, be required to enter into costly royalty or licensing arrangements (if available), or be required to change our business practices. We may also have obligations to indemnify and hold harmless certain of our customers or distribution partners for damages they suffer for such violations under our contracts with them. Implementing measures to reduce our exposure to such claims could require us to expend substantial resources and limit the attractiveness of our products and services. As a result, these claims could result in material harm to our business.

In the past, there have been legal actions brought or threatened against distributors of downloadable applications deemed to be adware or spyware. Additionally, certain bills are pending and some laws have been passed in certain jurisdictions setting forth requirements that must be met before a downloadable application is downloaded to an end user s computer. We provide downloadable applications to promote use of our search services for our owned and operated search services. Such applications may be considered adware. We also partner with some distribution partners that provide adware to their users if the partners adhere to our strict guidelines requiring them, among other things, to disclose to the user what the adware does and to obtain the consent of the user before the application is downloaded. The adware must also be easy to uninstall. We also review the application the partner proposes to use before we distribute our results to them. We also have the right to audit our partners, and if we find that they are not following our guidelines, we can terminate our agreement with them or cease providing content to that downloadable application. Some partners have not been able to meet the new guidelines imposed by us or some of our customers, and we no longer provide the applicable content or any content, as the case may be, to such partners or certain of their downloadable applications. We work closely with some of our major customers to try to identify potential distribution partners that do not meet our guidelines or are in breach of our distribution agreements and we work with our distribution partners to ensure they deliver quality traffic. However, there can be no assurance that the measures we implement to reduce our exposure to claims that certain ways in which the content is distributed violate legal requirements will be successful. Any claims against us as a result of violations of legal requirements or contractual obligations could result in material harm to our business.

Our financial and operating results will suffer if we are unsuccessful in acquiring desired technologies and businesses or integrating them.

We have acquired a number of technologies and businesses in the past and may engage in further acquisitions in the future. Acquisitions may involve the use of cash, potentially dilutive issuances of stock, the potential incurrence of debt and contingent liabilities or amortization expenses related to certain intangible assets. However, there can be no assurance that any such financing, if needed, will be available with acceptable terms or at all in light of the current market and other factors. Additionally, there can be no assurance that such acquisitions will prove successful. In the past, our financial results have suffered significantly due to impairment charges of goodwill and other intangible assets related to prior acquisitions. Acquisitions also involve numerous risks which could materially and adversely affect our results of operations or stock price, including:

- difficulties in assimilating the operations, products, technology, information systems and personnel of acquired companies which result in unanticipated costs, delays or allocation of resources;

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- difficulties in acquiring foreign companies, including risks related to integrating operations across different cultures and languages, currency risks and the particular economic, political and regulatory risks associated with specific countries;
- the dilutive effect on earnings per share as a result of incurring operating losses and the amortization of acquired intangible assets for the acquired business;
- diverting management s attention from other business concerns;
- impairing relationships with our customers or those of the acquired companies, or breaching significant or material contracts due to the consummation of the acquisition;
- impairing relationships with our employees or those of the acquired companies;
- failing to achieve the anticipated benefits of the acquisitions in a timely manner or at all; and
- adverse outcome of litigation matters assumed in or arising out of the acquisitions.

The success of the operations of companies that we have acquired will often depend on the continued efforts of the management and key employees of those acquired companies. Accordingly, we have typically attempted to retain key employees and members of existing management of acquired companies under the overall supervision of our senior management. However, we have not always been successful in these attempts at retention. Failure to retain key employees of an acquired company may make it more difficult to integrate or manage the business of the acquired company, may reduce the anticipated benefits of the acquisition by increasing costs, causing delays, or otherwise and may expose us to additional competition from companies these employees may join or form.

Our presence in markets outside the United States may be unsuccessful and could result in losses.

We currently provide online search offerings in several locations outside of the United States, primarily in Europe. We have limited experience in marketing and operating our products and services in international markets, and we may not be able to successfully execute our business model in these markets. Our success in these markets will be directly linked to the success of relationships with our distribution and content partner customers and other third parties.

As the international markets in which we operate continue to grow, competition in these markets will intensify. Local companies may have a substantial competitive advantage because of their greater understanding of and focus on the local markets. Some of our domestic competitors who have substantially greater resources than we do may be able to more quickly and comprehensively develop and grow in the international markets. Our international presence may also require significant financial investment including, among other things, the expense of developing localized products, the costs of maintaining foreign companies and expenditure of resources in developing distribution and content relationships and the increased costs of supporting remote operations.

Other risks of doing business in international markets include the increased risks and burdens of complying with different legal and regulatory standards, difficulties in managing and staffing foreign operations, limitations on the repatriation of funds and fluctuations of foreign exchange rates, varying levels of Internet technology adoption and infrastructure, and ability to enforce our contracts in foreign jurisdictions. In addition, our success internationally could be limited by barriers to such markets, such as tariffs, adverse tax consequences, and technology export controls. If we cannot manage these risks effectively, the costs of doing business in some international markets may be prohibitive or our costs may increase disproportionately to our revenues.

Our data center systems or the systems of the third-party collocation facilities in which they are located could fail or become unavailable, which could harm our reputation, result in a loss of current and potential customers and cause us to breach agreements with our partners.

In the fourth quarter of 2008, we completed the transition of data center services from a third-party provider and we now provide our own data center services from two geographically diverse third-party collocation facilities. Although the two data centers provide some redundancy, not all of our systems and operations have backup redundancy. Such systems and operations could be damaged or interrupted by fire, flood, power loss, telecommunications failure, Internet breakdown, break-in, earthquake or similar events. We could face significant damage as a result of these events, and our business interruption insurance may not be adequate to compensate us for all the losses that may occur. We may also be exposed to liability from those third parties to whom we provide products and services through our data centers as a result of such events. In addition, such third-party collocation facilities and data center systems use sophisticated equipment, infrastructure and software that may contain bugs or suffer outages that could interrupt service. For these reasons, if we are unable to develop, or if we or our third-party collocation facility providers are unable to successfully manage, the infrastructure necessary to meet current or future demands for reliability and scalability of our systems, it could have a material adverse effect on our operations or financial results.

If the volume of traffic to our products and services, which runs through our data centers, increases substantially, we must respond in a timely fashion by expanding our systems, which may entail upgrading our technology and network infrastructure. Our ability to support our expansion and upgrade requirements may be constrained due to our business demands or constraints of our third-party collocation facility providers. Due to the number of our customers and the products and services that we offer, we could experience periodic capacity constraints which may cause temporary unanticipated system disruptions, slower response times, lower levels of customer service, and limit our ability to develop and release new or enhanced products and services. Our business could be harmed if we are unable to accurately project the rate or timing of increases, if any, in the use of our products and application services or we fail to expand and upgrade our systems and infrastructure to accommodate these increases in a timely manner.

The security measures we have implemented to secure information we collect and store may be breached, which could cause us to breach agreements with our customers and distribution partners and expose us to potential investigation and penalties by authorities and potential claims by persons whose information was disclosed.

We take reasonable steps to protect the security, integrity and confidentiality of the information we collect and store but there is no guarantee that inadvertent or unauthorized disclosure will not occur or that third parties will not gain unauthorized access despite our efforts. If such unauthorized disclosure or access does occur, we may be required under existing and proposed laws to notify persons whose information was disclosed or accessed. We also may be subject to claims of breach of contract for such disclosure, investigation and penalties by regulatory authorities and potential claims by persons whose information was disclosed.

We may be subject to liability for our use or distribution of information that we gather or receive from third parties and indemnity protections or insurance coverage may be inadequate to cover such liability.

We obtain content and commerce information from third parties. When we distribute this information, we may be liable for the data that is contained in that content. This could subject us to legal liability for such things as defamation, negligence, intellectual property infringement, violation of privacy or publicity rights and product or service liability, among others. Laws or regulations of certain jurisdictions may also deem some content illegal, which may expose us to legal liability as well. We also gather personal information from users in order to provide personalized services. Gathering and processing this personal information may subject us to legal liability for, among other things, negligence, defamation, invasion of privacy or product or service liability. We are also subject to laws and regulations, both in the United States and abroad, regarding the collection and use of end user information and search related data. If we do not comply with these laws and regulations, we may be exposed to legal liability.

Although the agreements by which we obtain content contain indemnity provisions, these provisions may not cover a particular claim or type of claim or the party giving the indemnity may not have the financial resources to cover the claim. Our insurance coverage may be inadequate to cover fully the amounts or types of claims that might be made against us. Any liability that we incur as a result of content we receive from third parties could harm our financial results.

If others claim that our products infringe their intellectual property rights, we may be forced to seek expensive licenses, reengineer our products, engage in expensive and time-consuming litigation or stop marketing and licensing our products.

Third parties have in the past and may in the future make claims against us alleging infringement of copyrights, trademarks, trade secret rights, intellectual property or other proprietary rights, or alleging unfair competition or violations of privacy or publicity rights. In some cases, the ownership or scope of an entity s or person s rights is unclear and may also change over time, including through changes in U.S. or international intellectual property laws or regulations or through court decisions or decisions by agencies or regulatory boards that manage such rights.

We attempt to avoid infringing known proprietary rights of third parties in our product development, marketing, and licensing efforts. However, we do not regularly conduct patent searches to determine whether the technology used in our products infringes patents held by third parties. Patent searches generally return only a fraction of the issued patents that may be deemed relevant to a particular product or service. It is therefore nearly impossible to determine, with any level of certainty, whether a particular product or service may be construed as infringing a U.S. or foreign patent. Because patent applications in the United States are not publicly disclosed until the patent is issued, applications may have been filed by third parties that relate to our products. In addition, other companies, as well as research and academic institutions, have conducted research for many years in the search technology field, and this research could lead to the filing of further patent applications.

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If we were to discover that our products violated or potentially violated third-party proprietary rights, including those third-party proprietary rights that came about due to decisions and other changes regarding a person s or entity s proprietary rights discussed above, we might be required to obtain licenses that are costly or contain terms unfavorable to us, or expend substantial resources to reengineer those products so that they would not violate such third-party rights. Any reengineering effort may not be successful, and we cannot be certain that any such licenses would be available on commercially reasonable terms. Any third-party infringement claims against us could result in costly litigation or liability and be time consuming to defend, divert management s attention and resources, cause product and service delays or require us to enter into royalty and licensing agreements.

We rely heavily on our technology and intellectual property, but we may be unable to adequately or cost-effectively protect or enforce our intellectual property rights, thus weakening our competitive position and negatively impacting our financial results.

To protect our rights in our products, services, and technology, we rely on a combination of copyright and trademark laws, patents, trade secrets, and confidentiality agreements with employees and third parties and protective contractual provisions. We also rely on the law pertaining to trademarks and domain names to protect the value of our corporate brands and reputation. Despite our efforts to protect our proprietary rights, unauthorized parties may copy aspects of our products, services or technology, or obtain and use information, marks or technology that we regard as proprietary, or otherwise violate or infringe our intellectual property rights. In addition, it is possible that others could independently develop substantially equivalent intellectual property. If we do not effectively protect our intellectual property, or if others independently develop substantially equivalent intellectual property, we could lose our competitive position.

Effectively policing the unauthorized use of our products, services, and technology is time-consuming and costly, and there can be no assurance that the steps taken by us will prevent misappropriation of our technology or other proprietary assets. Our intellectual property may be subject to even greater risk in foreign jurisdictions, as protection is not sought or obtained in every country in which our products, services, and technology are available. Also, the laws of many countries do not protect proprietary rights to the same extent as the laws of the United States and intellectual property developed for us by our employees or contractors in foreign jurisdictions may not be as protected as if created in the United States and it is often more difficult and costly to enforce our rights in foreign jurisdictions. If we cannot adequately protect our intellectual property, our competitive position may suffer.

We have implemented anti-takeover provisions that could make it more difficult to acquire us.

Our certificate of incorporation, bylaws, and Delaware law contain provisions that could make it more difficult for a third party to acquire us without the consent of our board of directors, even if the transaction would be beneficial to our stockholders. Provisions of our charter documents which could have an anti-takeover effect include:

- the classification of our board of directors into three groups so that directors serve staggered three-year terms, which may make it difficult for a potential acquirer to gain control of our board of directors;
- the ability to authorize the issuance of shares of undesignated preferred stock without a vote of stockholders;
- a prohibition on stockholder action by written consent; and
- limitations on stockholders ability to call special stockholder meetings.

On July 19, 2002, our board of directors adopted a stockholder rights plan, pursuant to which we declared and paid a dividend of one right for each share of common stock held by stockholders of record as of August 9, 2002. Unless redeemed by us prior to the time the rights are exercised, upon the occurrence of certain events, the rights will entitle the holders to receive shares of our preferred stock, or shares of an acquiring entity. The issuance of the rights would make the acquisition of InfoSpace more expensive to the acquirer and could delay or discourage third parties from acquiring InfoSpace without the approval of our board of directors.

RISKS RELATED TO THE INDUSTRIES IN WHICH WE OPERATE

Intense competition in the online search markets could prevent us from increasing distribution of our services in those markets or cause us to lose market share.

Our current business model depends on distribution of our products and services into the online search markets, which are extremely competitive and rapidly changing. Many of our competitors or potential competitors have substantially greater financial, technical and marketing resources, larger customer bases, longer operating histories, more developed infrastructures, greater name recognition or more established relationships in the industry than we have. Our competitors may be able to adopt more aggressive pricing policies, develop and expand their product and service offerings more rapidly, adapt to new or emerging technologies and changes in customer and distribution partner requirements more quickly, take advantage of acquisitions and other opportunities more readily, achieve greater economies of scale, and devote greater resources to the marketing and sale of their products and services than we can. Some of the companies we compete with are currently customers of ours, the loss of any of which could harm our business. Because of these competitive factors and due to our relatively small size and financial resources, we may be unable to compete successfully.

Additionally, our financial results could be adversely affected as well if our distribution partners create their own products and services that compete or replace the products and services we provide or they acquire such products and services from other sources. We continue to experience increased competition from customers seeking to enter into agreements directly with our existing or potential distribution partners, making it increasingly difficult for us to renew agreements with existing major distribution partners or to enter into distribution agreements with new partners on favorable terms.

Consolidation in the industries in which we operate could lead to increased competition and loss of customers.

The Internet industry (including online search) has experienced substantial consolidation. This consolidation may continue. These acquisitions could adversely affect our business and results of operations in a number of ways, including the following:

- customers could acquire or be acquired by one of our other customers, or enter into new business relationships with each other, and stop licensing content to us or gain additional negotiating leverage in their relationships with us;
- our distribution partners could acquire or be acquired by one of our competitors and terminate their relationship with us;
- our distribution partners could merge with each other, which could reduce our ability to negotiate favorable terms; and
- competitors could improve their competitive positions through strategic acquisitions or new business relationships with each other.

Consolidation in the Internet industry could have a material and adverse effect on our business and results of operations.

Security breaches may pose risks to the uninterrupted operation of our systems.

Our networks or those from third parties that we utilize may be vulnerable to unauthorized access by hackers or others, computer viruses and other disruptive problems. Someone who is able to circumvent security measures could misappropriate our proprietary information or cause interruptions in our operations. Subscribers to some of our services are required to provide information in order to utilize the service that may be considered to be personally identifiable or private information. Unauthorized access to, and abuse of, this information could subject us to a risk of loss or litigation and liability.

We may need to expend significant capital or other resources protecting against the threat of security breaches or alleviating problems caused by breaches. Although we intend to continue to implement and improve our security measures, persons may be able to circumvent the measures that we implement in the future. Eliminating computer viruses and alleviating other security problems may require interruptions, delays or cessation of service to users accessing our services, any of which could harm our business.

Governmental regulation and the application of existing laws may slow business growth, increase our costs of doing business and create potential liability.

The growth and development of the Internet has led to new laws and regulations, as well as the application of existing laws to the Internet. Application of these laws can be unclear. The costs of complying or failure to comply with these laws and regulations could limit our ability to operate in our markets, expose us to compliance costs and substantial liability and result in costly and time-consuming litigation.

Several federal or state laws and the laws and regulations of foreign countries could impact our business. Federal laws include those designed to restrict the online distribution of certain materials deemed harmful to children and impose additional restrictions or obligations for online services when dealing with minors. Such legislation may impose significant additional costs on our business or subject us to additional liabilities. The application to advertising in our industries of existing laws regulating or requiring licenses for certain businesses can be unclear. Such regulated businesses may include, for example, gambling; distribution of pharmaceuticals, alcohol, tobacco or firearms; or insurance, securities brokerage and legal services. Additionally, certain bills are pending and some laws have been passed in certain jurisdictions setting forth requirements that must be met before a downloadable application is downloaded to an end user s computer. Foreign countries in which we provide our services have and may in the future enact laws and regulations governing the provision of online search services, including the collection, use, disclosure, display and retention of end user information and data as part of such services that may affect the ability to continue to provide such services in the manner currently provided.

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We post our privacy policies and practices concerning the use and disclosure of user data. Any failure by us to comply with our posted privacy policies, Federal Trade Commission (FTC) requirements or other privacy-related laws and regulations could result in proceedings by the FTC or others, including potential class action litigation, which could potentially have an adverse effect on our business, results of operations and financial condition. In this regard, there are a large number of legislative proposals before the United States Congress and various state legislative bodies regarding privacy and data protection issues related to our business. It is not possible to predict whether or when such legislation may be adopted, and certain proposals, if adopted, could materially and adversely affect our business through a decrease in user registrations and revenues. This could be caused by, among other possible provisions, the required use of disclaimers or other requirements before users can utilize our services.

The FTC has recommended to search engine providers that paid-ranking search results be delineated from non-paid results. To the extent that the FTC or other state or federal agencies or federal or state legislative bodies may in the future issue specific regulations or requirements regarding the nature of such delineation or other aspects of advertising in connection with online search services, which would require modifications to the presentation of search results, revenue from the affected search engines could be negatively impacted.

Due to the nature of the Internet, it is possible that the governments of states and foreign countries might attempt to regulate Internet transmissions, through data protection laws amongst others, or institute proceedings for violations of their laws. We might unintentionally violate such laws, such laws may be modified and new laws may be enacted in the future. Any such developments (or developments stemming from enactment or modification of other laws) could increase the costs of regulatory compliance for us or force us to change our business practices.

We rely on the infrastructure of the Internet networks, over which we have no control and the failure of which could substantially undermine our operations.

Our success depends, in large part, on other companies maintaining the Internet system infrastructure. In particular, we rely on other companies to maintain a reliable network backbone that provides adequate speed, data capacity and security and to develop products that enable reliable Internet access and services. As the Internet continues to experience growth in the number of users, frequency of use and amount of data transmitted, the Internet system infrastructure may be unable to support the demands placed on it, and the Internet s performance or reliability may suffer as a result of this continued growth. Some of the companies that we rely upon to maintain network infrastructure may lack sufficient capital to take the necessary steps to support such demands or their long-term operations. The failure of the internet infrastructure would substantially undermine our operations and may have a material adverse effect on our financial results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable with respect to the current reporting period.

Item 3. Defaults Upon Senior Securities

Not applicable with respect to the current reporting period.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable with respect to the current reporting period.

Item 5. Other Information

Not applicable with respect to the current reporting period.

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Item 6. Exhibits

Exhibits

10.1(1)*	Employment Agreement effective as of February 2, 2009 between InfoSpace, Inc. and William J. Lansing
10.2	Eleventh Amendment to Office Lease, made and entered into as of April 23, 2009, by and between InfoSpace, Inc. and WA Three Bellevue Center, L.L.C. for office space located at 601 108th Avenue N.E., Bellevue, Washington
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
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
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
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

(1) Incorporated by reference to the Current Report on Form 8-K filed by the registrant on February 5, 2009.

* Indicates a management contract or compensatory plan or arrangement

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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/ David B. Binder
David B. Binder

Chief Financial Officer

(Principal Financial Officer)

Dated: May 6, 2009

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