INFOSPACE INC
Form 10-Q
November 14, 2011

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 September 30, 2011

or

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

For the transition period from to

Commission File Number: 000-25131

INFOSPACE, INC.

(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). x Yes ¨ No

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

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes 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 November 4, 2011**
Common Stock, Par Value $0.0001	39,429,913

INFOSPACE, INC.

FORM 10-Q

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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)

	September 30, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 59,805	$ 155,645
Short-term investments, available-for-sale	219,470	98,091
Accounts receivable, net of allowance of $10 and $15	20,095	19,189
Other receivables, net	2,303	1,185
Prepaid expenses and other current assets, net	1,314	2,163
Assets of discontinued operations		16,161
Total current assets	302,987	292,434
Property and equipment, net	6,055	7,304
Goodwill	44,815	44,815
Other intangible assets, net	1,662	3,910
Other long-term assets, net	3,998	4,257
Total assets	$ 359,517	$ 352,720
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 8,685	$ 2,699
Accrued expenses and other current liabilities	20,816	39,518
Liabilities of discontinued operations		7,777
Total current liabilities	29,501	49,994
Other long-term liabilities	758	955
Total liabilities	30,259	50,949
Commitments and contingencies (Note 5)		
Stockholders equity:		
Common stock, par value $0.0001 authorized, 1,800,000,000 shares; issued and outstanding 39,322,739 and 36,088,646 shares	4	4
Additional paid-in capital	1,351,004	1,322,265
Accumulated deficit	(1,021,776)	(1,020,496)
Accumulated other comprehensive income (loss)	26	(2)
Total stockholders equity	329,258	301,771
Total liabilities and stockholders equity	$ 359,517	$ 352,720

See accompanying notes to Unaudited Condensed Consolidated Financial Statements.

INFOSPACE, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

AND COMPREHENSIVE INCOME (LOSS)

(amounts in thousands, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2011	**2010 (as Restated)**	**2011**	**2010 (as Restated)**
Revenues:	$ 56,257	$ 50,524	$ 162,199	$ 164,660
Cost of sales:	38,755	31,868	108,008	108,841
Gross profit	17,502	18,656	54,191	55,819
Expenses and other income:				
Engineering and technology	1,806	2,197	5,254	6,643
Sales and marketing	4,888	7,305	16,757	21,101
General and administrative	6,513	9,213	16,643	22,719
Depreciation	475	804	1,689	2,438
Other loss, net	456	493	274	4,152
Total expenses and other income	14,138	20,012	40,617	57,053
Income (loss) from continuing operations before income taxes	3,364	(1,356)	13,574	(1,234)
Income tax expense	(1,289)	(163)	(4,927)	(195)
Income (loss) from continuing operations	2,075	(1,519)	8,647	(1,429)
Discontinued operations:				
Loss from discontinued operations, net of taxes		(2,029)	(2,253)	(2,941)
Loss on sale of discontinued operations, net of taxes			(7,674)	
Net income (loss)	$ 2,075	$ (3,548)	$ (1,280)	$ (4,370)
Income (loss) per share Basic				
Income (loss) from continuing operations	$ 0.05	$ (0.04)	$ 0.23	$ (0.04)
Loss from discontinued operations		(0.06)	(0.06)	(0.08)
Loss on sale of discontinued operations			(0.20)	
Basic net income (loss) per share	$ 0.05	$ (0.10)	$ (0.03)	$ (0.12)
Weighted average shares outstanding used in computing basic income (loss) per share	38,568	35,969	37,451	35,731
Income (loss) per share Diluted				
Income (loss) from continuing operations	$ 0.05	$ (0.04)	$ 0.23	$ (0.04)
Loss from discontinued operations		(0.06)	(0.06)	(0.08)
Loss on sale of discontinued operations			(0.20)	
Diluted net income (loss) per share	$ 0.05	$ (0.10)	$ (0.03)	$ (0.12)
Weighted average shares outstanding used in computing diluted income (loss) per share	39,158	35,969	38,131	35,731
Other comprehensive income (loss):				
Net income (loss)	$ 2,075	$ (3,548)	$ (1,280)	$ (4,370)

Foreign currency translation adjustment		189		1
Unrealized gain (loss) on investments, available-for-sale, included in net income (loss)	17	(18)	28	122
Other comprehensive income	17	171	28	123
Comprehensive income (loss)	$ 2,092	$ (3,377)	$ (1,252)	$ (4,247)

See accompanying notes to Unaudited Condensed Consolidated Financial Statements.

INFOSPACE, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(amounts in thousands)

	Nine months ended September 30, 2011	Nine months ended September 30, 2010 (as Restated)
Operating activities:		
Net loss	$ (1,280)	$ (4,370)
Adjustments to reconcile net income to net cash provided by operating activities of continuing operations:		
Loss from sale of discontinued operations	7,674	
Loss from discontinued operations	2,253	2,941
Stock-based compensation	4,488	8,778
Warrant-related stock-based compensation	1,932	
Depreciation and amortization of intangible assets	6,190	12,503
Earn-out contingent liability adjustments	2,000	
Gain on resolution of contingent liability	(1,500)	
Excess tax benefits from stock-based award activity		(141)
Amortization of premium on investments, net	285	1,271
Loss on disposals of assets	16	1,180
Other	(22)	(19)
Cash provided (used) by changes in operating assets and liabilities:		
Accounts receivable	(882)	12,091
Other receivables	(1,118)	(1,107)
Prepaid expenses and other current assets	849	617
Other long-term assets	(150)	251
Accounts payable	5,981	(3,582)
Accrued expenses and other current and long-term liabilities	(13,660)	(4,418)
Net cash provided by operating activities of continuing operations	13,056	25,995
Investing activities:		
Purchases of property and equipment	(2,507)	(1,576)
Other long-term assets	409	
Business acquisition, net of cash acquired		(8,000)
Proceeds from the sales of assets		307
Proceeds from sales of investments		52,722
Proceeds from maturities of investments	83,141	156,005
Purchases of investments	(204,777)	(159,091)
Net cash provided (used) by investing activities of continuing operations	(123,734)	40,367
Financing activities:		
Proceeds from stock option exercises and issuance of stock through employee stock purchase plan	16,664	2,236
Proceeds from the sale of common stock	7,000	
Tax payments from shares withheld upon vesting of restricted stock units	(1,388)	(2,891)
Earn-out payments for business acquisition	(423)	
Repayment of capital lease obligation	(221)	(439)
Excess tax benefits from stock-based award activity		141
Net cash provided (used) by financing activities of continuing operations	21,632	(953)
Discontinued operations:		
Net cash used by operating activities of discontinued operations	(6,156)	(5,117)
Net cash used by investing activities of discontinued operations	(638)	(8,007)

Net cash used by discontinued operations	(6,794)	(13,124)
Net increase (decrease) in cash and cash equivalents	(95,840)	52,285
Cash and cash equivalents:		
Beginning of period	155,645	83,750
End of period	$ 59,805	$ 136,035
Non-cash items:		
Supplemental disclosure of non-cash investing activities:		
Liabilities assumed in purchase transaction		$ (8,231)
Supplemental disclosure of non-cash financing activities:		
Contingent earn-out consideration from acquisition		$ (5,000)

See accompanying notes to Unaudited Condensed Consolidated Financial Statements.

INFOSPACE, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. The Company and Basis of Presentation

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

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

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

Restatement: On April 1, 2010, the Company purchased assets consisting of internet properties and licenses for content and technology from Make The Web Better, a developer of online products used on social networking sites and a member of InfoSpace s search distribution network. InfoSpace purchased these assets for $13.0 million, and allocated $12.7 million of the purchase price to goodwill. In October 2011, the Company identified an error related to its accounting for goodwill in connection with its acquisition of the Make the Web Better assets. The Company determined that $12.7 million should have been allocated to an intangible asset consisting of an installed code base technology that directs Make The Web Better users to use InfoSpace s search services. As a result of this determination, the Company has allocated the $12.7 million initially classified as goodwill to the installed code base technology classified as other intangibles, net, and is amortizing that intangible asset ratably as a proportion of the estimated revenue generated by the installed code base technology, as adjusted by changes in the estimated total revenue expected to be generated.

The Company believed that the error was material to the unaudited condensed consolidated financial statements three and nine months ended September 30, 2010 and, therefore, is restating in this Quarterly Report on Form 10-Q.

Additionally, excess tax benefits previously classified as an operating activity in the unaudited condensed consolidated statements of cash flows for the nine months ended September 30, 2010 have been corrected to be classified as a financing activity in the unaudited condensed consolidated statements of cash flows for the nine months ended September 30, 2010 in this Quarterly Report on Form 10-Q.

The effects of this restatement on the unaudited condensed consolidated statement of operations for the three months ended September 30, 2010 as previously reported in the Company s Quarterly Report on Form 10-Q for the three months ended June 30, 2011 are as follows (in thousands, except per share data):

	As previously reported (1)	Adjustment	As restated
Cost of sales	$ 28,849	$ 3,019	$ 31,868
Gross profit	$ 21,675	$ (3,019)	$ 18,656
Income (loss) from continuing operations before income taxes	$ 1,663	$ (3,019)	$ (1,356)
Income tax expense	$ (81)	$ (82)	$ (163)
Income (loss) from continuing operations	$ 1,582	$ (3,101)	$ (1,519)
Loss from discontinued operations, net of taxes	$ (1,684)	$ (345)	$ (2,029)
Net loss	$ (102)	$ (3,446)	$ (3,548)
Net income (loss) per share Basic			
Income (loss) from continuing operations (1)	$ 0.04	$ (0.08)	$ (0.04)
Loss from discontinued operations (1)	$ (0.04)	$ (0.02)	$ (0.06)
Net income (loss) per share (1)	$ 0.00	$ (0.10)	$ (0.10)
Net income (loss) per share Diluted			
Income (loss) from continuing operations (1)	$ 0.04	$ (0.08)	$ (0.04)
Loss from discontinued operations (1)	$ (0.04)	$ (0.02)	$ (0.06)
Net income (loss) per share	$ 0.00	$ (0.10)	$ (0.10)

The effects of this restatement on the unaudited condensed consolidated statement of operations for the nine months ended September 30, 2010 as previously reported in the Company s Quarterly Report on Form 10-Q for the three months ended June 30, 2011 are as follows (in thousands, except per share data):

	As previously reported and adjusted for Discontinued Operations (1)	Adjustment	As restated
Cost of sales	$ 101,550	$ 7,291	$ 108,841
Gross profit	$ 63,110	$ (7,291)	$ 55,819
Income (loss) from continuing operations before income taxes	$ 6,057	$ (7,291)	$ (1,234)
Income tax expense	$ (1,501)	$ 1,306	$ (195)
Income (loss) from continuing operations	$ 4,556	$ (5,985)	$ (1,429)
Loss from discontinued operations, net of taxes	$ (2,444)	$ (497)	$ (2,941)
Net income (loss)	$ 2,112	$ (6,482)	$ (4,370)
Net income per share Basic			
Income (loss) from continuing operations (2)	$ 0.13	$ (0.17)	$ (0.04)
Loss from discontinued operations (2)	$ (0.07)	$ (0.01)	$ (0.08)
Net income (loss) per share	$ 0.06	$ (0.18)	$ (0.12)
Net income per share Diluted			
Income (loss) from continuing operations (2)	$ 0.12	$ (0.16)	$ (0.04)
Loss from discontinued operations (2)	$ (0.07)	$ (0.01)	$ (0.08)
Net income (loss) per share	$ 0.05	$ (0.17)	$ (0.12)

(1) All amounts shown reflect discontinued operations.

(2) Earnings per share amounts reflecting discontinued operations presentation were not previously reported.

The effects of this restatement on the unaudited condensed consolidated statement of cash flows for the nine months ended September 30, 2010 are as follows (in thousands):

	As previously reported and adjusted for Discontinued Operations(1)	Adjustment	As restated
Operating activities:			
Net income (loss)	$ 2,112	$ (6,482)	$ (4,370)
Loss from discontinued operations	$ 2,444	$ 497	$ 2,941
Depreciation and amortization of intangible assets	$ 5,212	$ 7,291	$ 12,503
Excess tax benefits from stock-based award activity	$ (1,097)	$ 956	$ (141)
Other receivables	$ (140)	$ (967)	$ (1,107)
Accrued expenses and other current and long-term liabilities	$ (4,575)	$ 157	$ (4,418)
Net cash provided by operating activities of continuing operations	$ 24,543	$ 1,452	$ 25,995
Financing activities:			
Excess tax benefits from stock-based award activity	$ 1,097	$ (956)	$ 141
Net cash provided (used) by financing activities of continuing operations	$ 3	$ (956)	$ (953)
Discontinued operations:			
Net cash used by operating activities of discontinued operations	$ (4,621)	$ (496)	$ (5,117)
Net cash used by discontinued operations	$ (12,628)	$ (496)	$ (13,124)

(1) All amounts shown reflect discontinued operations.

Reclassification: A reclassification has been made to prior year financial statements to conform to the current year presentation. In the Unaudited Condensed Consolidated Statements of Cash Flows, for the nine months ended September 30, 2010, the proceeds from the sales of investments is separately presented as a component of net cash provided by investing activities; it was previously presented under the caption of Proceeds from the sales and maturities of investments. This reclassification had no effect on previously reported net cash provided by investing activities in the Unaudited Condensed Statement of Cash Flows.

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

Results of operations for the three and nine months ended September 30, 2011 are not necessarily indicative of future financial results. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts may differ, perhaps materially, from these financial estimates.

2. Fair Value Measures

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

		Fair value measurements at the reporting date using		
	September 30, 2011	**Quoted prices in active markets using identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Cash equivalents				
Money market funds	$ 26	$	$ 26	$
Commercial paper	42,195		42,195	
Total	42,221		42,221	
Available-for-sale securities				
U.S. government securities	157,698		157,698	
Commercial paper	57,766		57,766	
Taxable municipal bonds	4,006		4,006	
Total	219,470		219,470	
Total	$ 261,691	$	$ 261,691	$

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

Maturity information was as follows for investments classified as available-for-sale at September 30, 2011 (in thousands):

	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Within one year	$ 219,444	$ 34	$ (8)	$ 219,470
Greater than one year				
Total	$ 219,444	$ 34	$ (8)	$ 219,470

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

	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Within one year	$ 98,091	$ 13	$ (13)	$ 98,091
Greater than one year				
Total	$ 98,091	$ 13	$ (13)	$ 98,091

In the nine months ended September 30, 2011 and at December 31, 2010, the Company did not measure the fair value of any of its assets or liabilities other than cash equivalents and available-for-sale investments. The Company s management considers the carrying values of accounts receivable, other receivables, prepaid expenses and other current assets, accounts payable, accrued expenses and other current liabilities to approximate fair values primarily due to their short-term nature.

3. Stock-Based Compensation

The Company has included the following amounts for stock-based compensation expense, including the cost related to restricted stock units (***RSUs***), market stock units, and stock options granted under the Company s equity award plans including the Company s employee stock purchase plan, in the accompanying Unaudited Condensed Consolidated Statements of Operations and Comprehensive Income for the three and nine months ended September 30, 2011 and 2010 (amounts in thousands):

	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Cost of sales	$ 37	$ 137	$ 234	$ 390
Engineering and technology	251	175	684	1,037
Sales and marketing	177	834	829	2,372
General and administrative	2,584	1,562	4,673	4,979
Discontinued operations		354	(159)	523
Total	$ 3,049	$ 3,062	$ 6,261	$ 9,301

In August 2011, the Company issued a warrant to purchase one million shares of its common stock, the details of which were disclosed under Items 1.01 and 3.02 in the Current Report on Form 8-K filed on August 23, 2011. The $1.9 million fair value of the warrant was fully expensed in the three and nine months ended September 30, 2011 and was classified to general and administrative expenses.

The total intrinsic value and net shares issued for RSUs vested, options exercised, and shares purchased pursuant to the employee stock purchase plan (***ESPP***) during the three and nine months ended September 30, 2011 and 2010 is presented below (amounts in thousands):

	Three months ended September 30, 2011		Three months ended September 30, 2010		Nine months ended September 30, 2011		Nine months ended September 30, 2010	
	Intrinsic value	Net shares issued	Intrinsic value	Net shares issued	Intrinsic value	Net shares issued	Intrinsic value	Net shares issued
RSUs vested	$ 857	67	$ 1,380	110	$ 4,598	362	$ 6,850	447
Options exercised	814	504	10	27	2,300	2,053	366	214
Shares purchased pursuant to ESPP	58	24	32	27	100	54	107	54
Total	$ 1,729	595	$ 1,422	164	$ 6,998	2,469	$ 7,323	715

To determine the stock-based compensation expense that was recognized with respect to RSUs, market stock units (which are a form of share price performance-based restricted stock unit granted under our 2011 long-term executive compensation plan), and stock options in the three and nine months ended September 30, 2011 and 2010, the Company used the fair value at date of grant for RSUs, the Black-Scholes-Merton option-pricing model for stock option grants and the warrant, and the Monte Carlo valuation method for the market stock unit grants, with the following weighted-average inputs for stock option grants and market stock unit grants:

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Stock option grants:				
Risk-free interest rate	0.64%	0.99%	1.05%	1.31%
Expected dividend yield	0%	0%	0%	0%
Expected volatility	46%	51%	47%	51%
Expected life	3.3 years	3.1 years	3.0 years	3.1 years
Market stock unit grants:				
Risk-free interest rate	0.15%		0.15%	
InfoSpace expected dividend yield	0%		0%	
iShares Russell 2000 Index expected dividend yield	1.08%		1.08%	
InfoSpace closing stock price	$ 8.74		$ 8.74	
iShares Russell 2000 Index closing price	$ 82.29		$ 82.29	
InfoSpace expected volatility	37.4%		37.4%	
iShares Russell 2000 Index expected volatility	20.3%		20.3%	
Measurement period	1.0 years		1.0 years	
Warrant grant:				
Risk-free interest rate	0.46%		0.46%	
Expected dividend yield	0%		0%	
Expected volatility	39%		39%	
Expected life	2.0 years		2.0 years	

4. Net Income (Loss) Per Share

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

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Weighted average common shares outstanding, basic	38,568	35,969	37,451	35,731
Dilutive equity awards	590		680	
Weighted average common shares outstanding, diluted	39,158	35,969	38,131	35,731
Antidilutive equity awards with an exercise price less than the average price during the applicable period excluded from dilutive share calculation	1,145	3,085	788	4,563
Outstanding equity awards with an exercise price greater than the average price during the applicable period not included in dilutive share calculation	3,046	5,458	3,057	3,954

5. Commitments and Contingencies

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

Litigation

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

6. Income Taxes

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

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

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

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

The Company recorded income tax expense from continuing operations of $1.3 million and $4.9 million in the three and nine months ended September 30, 2011, respectively. The Company recorded income tax expense from continuing operations of $163,000 and $195,000 in the three and nine months ended September 30, 2010, respectively. In the three and nine months ended September 30, 2011, income tax expense differed from the taxes at the statutory rates primarily due to non-deductible permanent differences and relieving a valuation allowance against deferred tax assets reversing during the period.

During the nine months ended September 30, 2011, there were no material changes to the unrecognized tax benefits, the total amount of unrecognized tax benefits that would affect the effective tax rate if recognized, the amount of interest and penalties recognized in connection with the unrecognized tax benefits, and the tax years that remain subject to examination. The Company does not expect the total amount of unrecognized tax benefits to significantly increase or decrease within the next 12 months.

7. Acquisitions

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

Make The Web Better. On April 1, 2010, the Company purchased assets consisting of web properties and licenses for content and technology from Make The Web Better, a search distribution partner and privately-held developer of online products used on social networking sites, for $13.0 million. The purchase consideration included an initial cash payment of $8.0 million, with an additional contingent payment depending on financial performance. At the time of the acquisition, that contingent payment was estimated at $5.0 million. The financial performance of the operation of the Make The Web Better assets has been greater than was expected when the assets were acquired due to a slower than expected decline in revenue. As a consequence, the Company s estimate of the fair value of the related contingent consideration increased to $12.0 million as of September 30, 2011 and it recorded a charge of $500,000 and $2.0 million to other loss, net in the three and nine months ended September 30, 2011, respectively and recorded a charge of $3.5 million to other loss, net in the nine months ended September 30, 2010.

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

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

8. Discontinued Operations

On May 10, 2010, the Company acquired certain assets from Mercantila, Inc., an e-commerce company. On June 22, 2011, the Company sold its Mercantila e-commerce business to Zoo Stores, Inc. As consideration for the acquisition of Mercantila, Zoo Stores paid InfoSpace $250,000 upon completion of the sale, and granted the Company the right to receive additional consideration of up to $3.0 million contingent on liquidity or other events, which the Company recorded at a fair value of zero as of June 30, 2011. Nikhil Behl, a former Named Executive Officer of InfoSpace, owns a majority interest in Zoo Stores. Mr. Behl ceased to be an officer of, or otherwise affiliated with, InfoSpace upon the closing of the transaction.

The results of operations from the business are reflected as discontinued operations for all periods presented. Revenue, loss before taxes, income tax benefit, and loss from discontinued operations, net of taxes, and loss on sale of discontinued operations, net of taxes, for the three and nine months ended September 30, 2011 and 2010 are presented below (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Revenue from discontinued operations	$	$ 11,193	$ 16,894	$ 18,232
Loss from discontinued operations before taxes	$	$ (2,250)	$ (3,506)	$ (3,175)
Income tax benefit		221	$ 1,253	234
Loss from discontinued operations, net of taxes	$	$ (2,029)	$ (2,253)	$ (2,941)
Loss on sale of discontinued operations, net of an income tax benefit of $5,092	$	$	$ (7,674)	$

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

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

		December 31,2010
Accounts receivable	$	365
Other receivables		1,101
Prepaid expenses and other current assets		1,015
Property and equipment, net		166
Goodwill		12,413
Other intangible assets		1,101
Assets of discontinued operations	$	16,161
Accounts payable	$	4,540
Accrued expenses and other current liabilities		3,237
Liabilities of discontinued operations	$	7,777

9. Recent Accounting Pronouncements
Changes to GAAP are established by the Financial Accounting Standards Board (***FASB***) in the form of accounting standards updates (***ASUs***) to the FASB s Accounting Standards Codification. The Company considers the applicability and impact of all recent ASUs. ASUs not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on the Company s consolidated financial position and results of operations.

In June 2011, the FASB issued guidance on presentation of comprehensive income. The new guidance will require companies to present the components of net income and other comprehensive income either as one continuous statement or as two consecutive statements. It eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders equity. The standard does not change the items that must be reported in other comprehensive income, how such items are measured, or when they must be reclassified to net income. This standard is effective for the Company as of January 1, 2012. Because this ASU impacts presentation only, and the Company already presents its other comprehensive income consistent with the June 2011 guidance, it will have no effect on the Company s financial condition, results of operations, or cash flows.

In September 2011, the FASB issued guidance on testing goodwill for impairment. The new guidance provides an entity the option to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is more than its carrying amount. If an entity determines that this is not the case, it is required to perform the currently prescribed two-step goodwill impairment test. The new guidance is effective for the Company beginning October 1, 2011.

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

This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties. The statements in this report that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements include, but are not limited to: statements regarding projections of our future financial performance; trends in our businesses; our future business plans and growth strategy, including our plans to expand, develop, or acquire particular operations, businesses, or assets; and the sufficiency of our cash balances and cash generated from operating, investing, and financing activities for our future liquidity and capital resource needs.

Forward-looking statements are subject to known and unknown risks, uncertainties, and other factors that may cause our results, levels of activity, performance, achievements, prospects, and other characterizations of future events or circumstances, to be materially different from those expressed or implied by such forward-looking statements. These risks, uncertainties, and other factors include, among others, those identified under Part II, Item 1A, Risk Factors and elsewhere in this report. You should not rely on forward-looking statements included herein, which speak only as of the date of this Quarterly Report on Form 10-Q or the date specified herein. We do not undertake any obligation to update publicly any forward-looking statement to reflect new information, events, or circumstances after the date of this Quarterly Report on Form 10-Q or to reflect the occurrence of unanticipated events.

Restatement

In the second quarter of 2010, we acquired certain assets from Make The Web Better. In October 2011, we determined that we made an error in accounting for those acquired assets and that this error was material to the unaudited condensed consolidated financial statements for the third quarter 2010 and the nine months ended September 30, 2010. As a result of this determination, we are restating those financial statements in this Quarterly Report on Form 10-Q. The amounts presented below for 2010 are restated to reflect the correction of that error. For additional information on the restatement, see Note 1: The Company and Basis of Presentation of the Notes to Condensed Consolidated Financial Statements (Item 1 of Part I of this report).

Overview

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

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

We generate revenue when an end user of our services clicks on a paid search link provided by a search customer and displayed on one of our owned and operated web properties or displayed on a distribution partner s web property. The search customer that provided the paid search link receives a fee from the advertiser who paid for the click and the search customer pays us a portion of that fee. If the click originated from one of our distribution partners web properties, we share a portion of the fee we receive with such partner. Revenue is recognized in the period in which such paid clicks occur and is based on the amounts earned and remitted to us by our search customers for such clicks. Revenues from Google and Yahoo! jointly account for over 95% of our total revenues for the three months ended September 30 in both 2011 and 2010.

Revenues from our search business increased to $56.1 million for the three months ended September 30, 2011 from $49.7 million for the three months ended September 30, 2010. This increase was driven primarily by an increase in revenue from our distribution partners, which increased to $45.4 million for the three months ended September 30, 2011 from $32.5 million for the three months ended September 30, 2010. The increase in distribution partner revenue is due in part to increased revenue generated by existing distribution partners (launched during the relevant prior year), which increased by $10.5 million for the three months ended September 30, 2011 as compared to the same period in 2010. Additionally, revenue from new distribution partners (launched during the current year) increased by $2.5 million for the three months ended September 30, 2011 as compared to the same period in 2010.

In recent periods, we experienced an overall decline in revenue generated through our owned and operated properties. This trend is a result of fewer retained users on our owned and operated metasearch engine sites and, therefore, fewer paid clicks from these sites. Our ability to maintain revenue in our metasearch engine sites relies in part on our ability to attract end users to these properties and retain them by providing a satisfying search experience. Revenue from our metasearch engine sites (such as *Dogpile.com*) accounted for 56% of overall owned and operated revenue *(excluding revenue from the Make The Web Better purchased assets discussed below)* for the three months ended September 30, 2011 and 50% for the three months ended September 30, 2010. The remainder of our owned and operated revenue is generated through our online direct marketing initiatives, which attract users to our owned and operated sites via targeted online advertisements. The success of our online direct marketing initiatives depends on our ability to execute to an expected return on our online direct marketing expenditures. In recent periods, revenue generated through our online direct marketing initiatives has declined, further contributing to the overall negative trend in revenue generated by our owned and operated properties. Revenue from our online direct marketing initiatives accounted for 44% of owned and operated revenue *(excluding revenue from the Make The Web Better purchased assets)* for the three months ended September 30, 2011 and 50% for the three months ended September 30, 2010.

On April 1, 2010, we purchased assets consisting of web properties and licenses for content and technology from Make The Web Better, a former search distribution partner. After this purchase, revenue from the Make The Web Better assets were included in our owned and operated revenue and contributed $1.7 million (or 16%) to our search revenue generated through our owned and operated properties for the three months ended September 30, 2011. As we anticipated, the revenue generated by the operation of the acquired Make The Web Better assets has steadily declined since we acquired them. We expect that, as the end-user base of those assets continues to decrease, the revenue generated will decline by approximately 20% to 25% in each quarter when compared to the prior quarter, and will be approximately $8 million for 2011.

The Company is currently focused on the following areas: improving the search services offered to our distribution partners and through our owned and operated properties, maintaining our current distribution partners and adding new distribution partners, and seeking opportunities to use our resources to acquire and integrate new businesses and assets. Within the Company, engineering, operations, and product management personnel remain paramount to our ability to deliver high quality search services, enhance our current technology, and increase our distribution network. As a result, we expect to continue to invest in our workforce and research and development operations. Additionally, we seek to use our cash and short-term available-for-sale investments to acquire businesses and other assets, including businesses that may not be related to search.

Overview of Third Quarter 2011 Operating Results

The following is an overview of our operating results for the third quarter 2011 compared to the third quarter 2010. A more detailed discussion of our operating results, comparing our operating results for the three and nine months ended September 30, 2011 and 2010, is included under the heading Results of Operations for the Three and Nine Months Ended September 30, 2011 and 2010 in this Management s Discussion and Analysis of Financial Condition and Results of Operations.

Several of our key operating financial measures for the third quarter 2011 and 2010 in total dollars (in thousands) and as a percentage of associated revenue are presented below.

	Three months ended September 30,			
	2011		2010	
Revenues	$56,257		$50,524	
		% of revenues		% of revenues
Gross profit	$ 17,502	31.1%	$ 18,656	36.9%
Income (loss) from continuing operations	$ 2,075	3.7%	$ (1,519)	(3.0)%
Net income (loss)	$ 2,075	3.7%	$ (3,548)	(7.0)%
Adjusted EBITDA [(1)]	$ 8,502	15.1%	$ 6,599	13.1%
Search Revenue:				
Revenue from distribution partners	$ 45,435	81%	$ 32,495	64%
Revenue from existing distribution partners (launched prior to the then-current year)	$ 42,456	76%	$ 31,997	63%
Revenue from new distribution partners (launched during the then-current year)	$ 2,979	5%	$ 498	1%
Revenue from owned and operated properties	$ 10,704	19%	$ 17,186	34%
Revenue from online direct marketing initiatives on owned and operated web properties	$ 3,973	7%	$ 5,957	12%
Revenue from Make The Web Better	$ 1,697	3%	$ 5,234	10%
Revenue from metasearch properties	$ 5,034	9%	$ 5,995	12%

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

Search revenue excludes revenue from early-stage business initiatives, which is *de minimis* for the third quarter 2011. The increase in revenues for the third quarter 2011 as compared to the third quarter 2010 was primarily due to an increase in revenue generated through the web properties of our distribution partners, partially offset by a decrease in revenue generated through our owned and operated properties. We generated 49% and 36% of our search revenue through our top five distribution partners for the third quarter 2011 and 2010, respectively. The web properties of our top five distribution partners for the third quarter 2011 generated 33% of our search revenue for the quarter ended 2010.

The decrease in gross profit as a percent of search revenue, for the third quarter 2011 as compared to the third quarter 2010, was primarily due to an increase in revenue generated through the web properties of our distribution partners, with whom we share our search revenue, and a decrease in revenue generated through our owned and operated properties.

The decrease in operating expenses was primarily due to decreases in employee separation costs of $2.3 million, general and administrative professional service fees, including legal fees, of $1.6 million, and advertising expense associated with our owned and operated properties of $1.6 million.

Results of Operations for the Three and Nine Months Ended September 30, 2011 and 2010

Revenues. Revenues for the three and nine months ended September 30, 2011 and 2010 are presented below (amounts in thousands):

	Three months ended September 30,		Change from	Nine months ended September 30,		Change from
	2011	2010	2010	2011	2010	2010
Revenues	$ 56,257	$ 50,524	$ 5,733	$ 162,199	$ 164,660	$ (2,461)

The increase in revenues for the third quarter 2011 as compared to the third quarter 2010 is due to an increase in revenue generated through the web properties of our distribution partners. Revenue from existing distribution partners (launched prior to the then-current year) increased by $10.5 million in the third quarter 2011 as compared to the third quarter 2010. Additionally, revenue from new distribution partners (launched during the then-current year) increased by $2.5 million in the third quarter 2011 as compared to the third quarter 2010.

The increase in revenues was partially offset by a decline in revenues from our owned and operated properties. Revenue generated by our owned and operated properties for the third quarter 2011 declined by $6.5 million as compared to the third quarter of 2010, primarily due to a decrease of $3.5 million in revenue generated by the operation of the acquired Make The Web Better assets and a decrease in revenue of $2.0 million from our online direct marketing initiatives. Also, we continue to experience an overall decline in revenue generated through our owned and operated metasearch engine sites, excluding the revenue from the Make The Web Better purchased assets. This trend is a result of fewer retained users on our metasearch engine sites and, therefore, fewer paid clicks from these sites.

For the third quarter 2011, 81% of our search revenue was generated through our search distribution partners web properties, compared to 65% of our search revenue generated through our search distribution partners web properties in the third quarter 2010.

The decrease in revenues for the nine months ended September 30, 2011 as compared to the nine months ended September 30, 2010 is due to a decrease in revenue generated by our owned and operated properties of $10.7 million, a decrease in revenue from our non-search initiatives of $3.6 million (due to closing down our Haggle operations in 2010), partially offset by an increase in revenues from our distribution partners of $11.8 million. Revenue from existing distribution partners (launched prior to the then-current year) increased for the nine months ended September 30, 2011 as compared to the nine months ended September 30, 2010 by $9.2 million, which includes a decline of $9.4 million from distribution partner Make The Web Better as we acquired its search revenue generating assets on April 1, 2010.

The decrease of $10.7 million in revenue generated by our owned and operated properties for the nine months ended September 30, 2011 as compared to the nine months ended September 30, 2010 was primarily due to a decrease of $6.0 million in revenue generated by the operation of the acquired Make The Web Better assets, a decrease of $2.7 million in revenue generated through our other owned and operated metasearch engine sites, and a decrease of $1.9 million in revenue generated by our online direct marketing initiatives.

For the nine months ended September 30, 2011, 77% of our search revenue was generated through our search distribution partners web properties, compared to 71% of our search revenue generated through our search distribution partners web properties in the nine months ended September 30, 2010.

During the first half of 2010, we discontinued the syndication of our search results to certain distribution partners who we deemed to be delivering low quality clicks. Those discontinuations had a material negative impact on our revenues for the first half of 2010. We expect that search revenue from searches conducted by end users on sites of our distribution partners will continue to represent a significant proportion of our search revenue for the foreseeable future.

Seasonality

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

Cost of sales. Cost of sales consists of distribution and content costs related to revenue sharing arrangements with our search distribution partners and usage-based content fees, amortization of acquired intangible assets, and certain costs associated with the operation of the data centers that serve our search business, which include personnel expenses (which include salaries, benefits and other employee related costs, and stock-based compensation expense) and bandwidth costs, and depreciation. Additionally, cost of sales includes costs directly identifiable to our development-stage business initiatives. Cost of sales in total dollars (in thousands) and as a percentage of associated and total revenues for the three and nine months ended September 30, 2011 and 2010 are presented below:

	Three months ended September 30, 2011	Three months ended September 30, 2010	Change from 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010	Change from 2010
Distribution and content	$ 36,327	$ 25,412	$ 10,915	$ 99,025	$ 90,154	$ 8,871
Amortization of intangible assets	518	3,067	(2,549)	2,248	7,435	(5,187)
Data center operations	1,268	1,806	(538)	4,477	4,914	(437)
Depreciation	640	883	(243)	2,253	2,630	(377)
Other	2	700	(698)	5	3,708	(3,703)
Total cost of sales	38,755	31,868	6,887	108,008	108,841	(833)
Percentage of revenues	68.9%	63.1%		66.6%	66.1%	

The dollar increase in cost of sales for the third quarter 2011 as compared to the three months ended September 30, 2010 is primarily due to the increase in revenue sharing expenses related to an increase in revenue generated through the web properties of our distribution partners, partially offset by the decreases in the amortization of intangible assets acquired from Make The Web Better. The cost of sales for the nine months ended September 30, 2011 as compared to the nine months ended September 30, 2010 decreased due to the effect of no longer paying distribution expense for revenue generated by Make The Web Better s assets after we acquired them on April 1, 2010, and by the decrease in the intangible assets acquired from Make The Web Better, and was partially offset by the increase in revenue sharing expenses related to an increase in revenue generated through the web properties of our distribution partners.

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

The decline in other cost of sales for the three and nine months ended September 30, 2011 as compared to the three and nine months ended September 30, 2010 is primarily due to the decline in cost of sales to our Haggle.com competitive shopping site, which ceased operations in the fourth quarter of 2010.

Engineering and technology expenses. Engineering and technology expenses are associated with the research, development, support, and ongoing enhancements of our offerings, including personnel expenses (which include salaries, stock-based compensation expense, and benefits and other employee related costs), costs for temporary help and contractors to augment our staffing, software support and maintenance, and professional service fees. Engineering and technology expenses in total dollars (in thousands) and as a percentage of total revenues for the three and nine months ended September 30, 2011 and 2010 are presented below:

	Three months ended September 30, 2011	Three months ended September 30, 2010	Change from 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010	Change from 2010
Engineering and technology expenses	$ 1,806	$ 2,197	$ (391)	$ 5,254	$ 6,643	$ (1,389)
Percentage of revenues	3.2%	4.3%		3.2%	4.0%	

There were no material variances for the third quarter 2011 as compared to the third quarter 2010. The dollar decrease for the nine months ended September 30, 2011 as compared to the nine months ended September 30, 2010 was primarily attributable to decreases in personnel-related expenses, not including stock-based compensation expense and including costs for temporary help and contractors to augment our staffing, of $619,000, stock-based compensation expense of $352,000 and software support and maintenance costs of $310,000.

Sales and Marketing Expenses. Sales and marketing expenses consist principally of personnel costs (which include salaries, stock-based compensation expense, and benefits and other employee related costs), the cost of temporary help and contractors to augment our staffing, and marketing expenses associated with our owned and operated websites (which consist of agency fees, brand promotion expense, market research expense, and online direct marketing expense associated with traffic acquisition, including fees paid to search engines). Sales and marketing expenses in total dollars (in thousands) and as a percentage of total revenues for the three and nine months ended September 30, 2011 and 2010 are presented below:

	Three months ended September 30,		**Change from**	**Nine months ended September 30,**		**Change from**
	2011	**2010**	**2010**	**2011**	**2010**	**2010**
Sales and marketing expenses	$ 4,888	$ 7,305	$ (2,417)	$ 16,757	$ 21,101	$ (4,344)
Percentage of revenues	8.7%	14.5%		10.3%	12.8%	

The dollar decrease for the third quarter 2011 as compared to the third quarter 2010 was primarily attributable to decreases of $1.6 million in advertising expense associated with our owned and operated properties and stock-based compensation expense of $658,000.

The dollar decrease for the nine months ended September 30, 2011 as compared to the nine months ended September 30, 2010 was primarily attributable to decreases of $1.8 million in advertising expense associated with our owned and operated properties, stock-based compensation expense of $1.5 million, and personnel-related costs, not including stock-based compensation expense and including costs for temporary help and contractors to augment our staffing, of $855,000.

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

General and Administrative Expenses. General and administrative expenses consist primarily of personnel expenses (which include salaries, stock-based compensation expense, and benefits and other employee related costs), professional service fees (which include legal, audit, and tax fees), general business development and management expenses, occupancy and general office expenses, taxes, insurance expenses, and certain legal settlements. General and administrative expenses in total dollars (in thousands) and as a percentage of total revenues for the three and nine months ended September 30, 2011 and 2010 are presented below:

	Three months ended September 30,		**Change from**	**Nine months ended September 30,**		**Change from**
	2011	**2010**	**2010**	**2011**	**2010**	**2010**
General and administrative expenses	$ 6,513	$ 9,213	$ (2,700)	$ 16,643	$ 22,719	$ (6,076)
Percentage of revenues	11.6%	18.2%		10.3%	13.8%	

The dollar decrease for the third quarter 2011 as compared to the third quarter 2010 was primarily attributable to decreases in employee separation costs of $2.3 million, professional service fees of $1.1 million, non-warrant-related stock-based compensation expense of $910,000 and legal fees of $504,000. These decreases were partially offset by stock-based compensation expense of $1.9 million related to issuing a warrant to purchase our common stock.

The dollar decrease for the nine months ended September 30, 2011 as compared to the nine months ended September 30, 2010 was primarily attributable to decreases in non-warrant-related stock-based compensation expense of $2.2 million, legal fees of $2.1 million, employee separation costs of $2.0 million, and professional service fees of $1.4 million. These decreases were partially offset by stock-based compensation expense of $1.9 million related to issuing a warrant to purchase our common stock and by an increase in personnel-related costs, not including stock-based compensation expense and including costs for temporary help and contractors to augment our staffing, of $434,000.

Depreciation. Depreciation of property and equipment includes depreciation of computers, software, office equipment and fixtures, and leasehold improvements that is not reclassified into cost of sales.

	Three months ended September 30, 2011	2010	Change from 2010	Nine months ended September 30, 2011	2010	Change from 2010
Depreciation expense	$ 475	$ 804	$ (329)	$ 1,689	$ 2,438	$ (749)

The only material variance in depreciation expense for the periods presented above was a decrease in the depreciation of capitalized internal software development costs for the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010 of $491,000.

Other Loss, Net. Other loss, net for the three and nine months ended September 30, 2011 and 2010 is presented below (in thousands):

	Three months ended September 30, 2011	2010	Change from 2010	Nine months ended September 30, 2011	2010	Change from 2010
Increase in fair value of earn-out contingent liability	$ 500	$	$ 500	$ 2,000	$ 3,500	$ (1,500)
Gain on contingency resolution				(1,500)		(1,500)
Interest income	(94)	(108)	14	(284)	(268)	(16)
Foreign currency exchange loss	4	38	(34)	11	41	(30)
Loss on disposal of fixed assets	11	636	(625)	16	932	(916)
Other	35	(73)	108	31	(53)	84
Other loss, net	$ 456	$ 493	$ (37)	$ 274	$ 4,152	$ (3,878)

The expense related to the increase in fair value of earn-out contingent liability for the periods presented above was to adjust the estimated contingent payments to be made related to our acquisition of the Make The Web Better assets and a gain of $1.5 million related to the resolution of a contingent liability recorded in the nine months ended September 30, 2011.

Income Tax Expense. We recorded income tax expense from continuing operations of $1.3 million and $4.9 million in the three and nine months ended September 30, 2011 respectively. We recorded income tax expense from continuing operations of $163,000 and $195,000 in the three and nine months ended September 30, 2010 respectively. In the three and nine months ended September 30, 2011, income tax expense differed from the taxes at the statutory rates primarily due to non-deductible permanent differences and the reversal of a valuation allowance against deferred tax assets reversing during the period.

Loss from Discontinued Operations and Loss on Sale of Discontinued Operations. On June 22, 2011, we sold our Mercantila e-commerce business to Zoo Stores, Inc. As consideration for the acquisition of Mercantila, Zoo Stores paid us $250,000 upon completion of the sale, plus we received the right to receive additional consideration of up to $3.0 million contingent on liquidity or other events, which we recorded at a fair value of zero as of June 30, 2011. We recorded a loss of $7.7 million upon the sale of our Mercantila business, net of a $5.1 million income tax benefit. Nikhil Behl, a former Named Executive Officer of InfoSpace, owns a majority interest in Zoo Stores. Mr. Behl ceased to be an officer of, or otherwise affiliated with, InfoSpace upon the closing of the transaction.

The results of operations from the business are reflected as discontinued operations for all periods presented. Revenue, loss before taxes, income tax benefit, and loss from discontinued operations, net of taxes for the three and nine months ended September 30, 2011 and 2010 are presented below (in thousands):

	Three months ended September 30, 2011	2010	Nine months ended September 30, 2011	2010
Revenue from discontinued operations	$	$ 11,193	$ 16,894	$ 18,232
Loss from discontinued operations before taxes	$	$ (2,250)	$ (3,506)	$ (3,175)
Income tax benefit		221	1,253	234
Loss from discontinued operations, net of taxes	$	$ (2,029)	$ (2,253)	$ (2,941)
Loss on sale of discontinued operations, net of an income tax benefit of $5,092	$	$	$ (7,674)	$

Non-GAAP Financial Measures

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

We believe that Adjusted EBITDA provides meaningful supplemental information regarding InfoSpace s performance by excluding certain expenses and gains that we believe are not indicative of our operating results. We use this non-GAAP financial measure for internal management purposes, when publicly providing guidance on possible future results, and as a means to evaluate period-to-period comparisons. We believe that Adjusted EBITDA is a common measure used by investors and analysts to evaluate our performance, that it provides a more complete understanding of the results of operations and trends affecting our business when viewed together with GAAP results, and that management and investors benefit from referring to this non-GAAP financial measure. Items excluded from Adjusted EBITDA are significant and necessary components to the operations of our business, and, therefore, Adjusted EBITDA should be considered as a supplement to, and not as a substitute for or superior to, GAAP net income. Other companies may calculate Adjusted EBITDA differently, and therefore our Adjusted EBITDA may not be comparable to similarly titled measures of other companies. A reconciliation of our Adjusted EBITDA to net income, which we believe to be the most comparable GAAP measure, is presented for the three and nine months ended September 30, 2011 and 2010 below (amounts in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Net income (loss)	$ 2,075	$ (3,548)	$ (1,280)	$ (4,370)
Discontinued operations		2,029	9,927	2,941
Depreciation and amortization of intangible assets	1,633	4,754	6,190	12,503
Stock-based compensation	3,049	2,708	6,420	8,778
Other loss, net	456	493	274	4,152
Income tax expense	1,289	163	4,927	195
Adjusted EBITDA	$ 8,502	$ 6,599	$ 26,458	$ 24,199

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

We believe that excluding the non-cash portion of income tax expense from our GAAP income from continuing operations provides meaningful supplemental information to investors and analysts regarding our performance and the valuation of our business because of our ability to offset a substantial portion of our cash tax liabilities by using these deferred tax assets. The majority of these deferred tax assets will expire if unutilized in 2020. Non-GAAP net income should be evaluated in light of our financial results prepared in accordance with GAAP, and should be considered as a supplement to, and not as a substitute for or superior to, GAAP income from continuing operations. A reconciliation of our non-GAAP income from continuing operations to income from continuing operations, which we believe to be the most comparable GAAP measure, is presented for the three and nine months ended September 30, 2011 and 2010 below (amounts in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Net income (loss)	$ 2,075	$ (3,548)	$ (1,280)	$ (4,370)
Discontinued operations		2,029	9,927	2,941
Income (loss) from continuing operations	2,075	(1,519)	8,647	(1,429)
Non-cash income tax expense from continuing operations	1,221		4,613	
Non-GAAP net income (loss)	3,296	(1,519)	13,260	(1,429)

Income from continuing operations - diluted	$	0.05	$	(0.04)	$	0.23	$	(0.04)
Non-cash income taxes per share - diluted		0.03				0.12		
Non-GAAP income per share - diluted	$	0.08	$	(0.04)	$	0.35	$	(0.04)

For our non-GAAP measures Adjusted EBITDA and Non-GAAP net income, amounts previously disclosed have been revised to reflect the effect of classifying our Mercantila e-commerce business as discontinued operations.

Liquidity and Capital Resources

Cash, Cash Equivalents, and Short-Term Investments

Our principal source of liquidity is our cash and cash equivalents and short-term investments. As of September 30, 2011, we had cash and marketable investments of $279.3 million, consisting of cash and cash equivalents of $59.8 million and available-for-sale short-term investments of $219.5 million. We generally invest our excess cash in high quality marketable investments. These investments include securities issued by U.S. government agencies, commercial paper, certificates of deposit, money market funds, and taxable municipal bonds. All of our financial instrument investments held at September 30, 2011 have minimal default risk and short-term maturities.

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

We believe that existing cash and cash equivalents, short-term investments, and cash generated from operations will be sufficient to meet our anticipated cash needs for working capital and capital expenditures for at least the next 12 months. However, the underlying levels of revenues and expenses that we project may not prove to be accurate. In addition, we evaluate acquisitions of businesses, products, or technologies from time to time. Any such transactions, if completed, may use a significant portion of our cash balances and marketable investments. If we are unable to liquidate our investments when we need liquidity for acquisitions or business purposes, we may need to change or postpone such acquisitions or business purposes or find alternative financing for such acquisitions or business purposes, if available. We may seek additional funding through public or private financings or other arrangements prior to such time. Our ability to raise funds may be adversely affected by a number of factors, including factors beyond our control, such as economic conditions in markets in which we operate and from which we generate revenues, and increased uncertainty in the financial, capital, and credit markets. Adequate funds may not be available when needed or may not be available on favorable terms. If we raise additional funds by issuing equity securities, dilution to existing stockholders may result. If funding is insufficient at any time in the future, we may be unable, or delayed in our ability, to develop or enhance our services, take advantage of business opportunities, or respond to competitive pressures, any of which could harm our business.

Contractual Obligations and Commitments

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

Cash Flows

Our net cash flows were comprised of the following for the nine months ended September 30, 2011 and 2010 (amounts in thousands):

	Nine months ended September 30,	
	2011	**2010**
Net cash provided by operating activities	$ 13,056	$ 25,995
Net cash provided (used) by investing activities	(123,734)	40,367
Net cash provided (used) by financing activities	21,632	(953)
Net cash used by discontinued operations	(6,794)	(13,124)
Net increase (decrease) in cash and cash equivalents	$ (95,840)	$ 52,285

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

Net cash provided by operating activities was $13.1 million for the nine months ended September 30, 2011, consisting of our net loss of $1.3 million, non-cash charges of $24.8 million (primarily consisting of a loss on discontinued operations and the loss on the sale of discontinued operations, stock-based compensation expense, including stock-based compensation related to warrants, depreciation, and earn-out contingent liability adjustments), and changes in our operating assets and liabilities of $6.8 million (primarily consisting of increases in accounts payable and a decrease in prepaid expenses and other current assets). These increases were offset by cash provided by changes in our operating assets and liabilities of $15.8 million (primarily consisting of decreases in accrued expenses and other current and long-term liabilities and increases in accounts receivable and other receivables) and the resolution of a continent liability of $1.5 million.

Net cash provided by operating activities was $26.0 million for the nine months ended September 30, 2010, consisting of our net loss of $4.4 million, non-cash charges of $26.7 million (primarily consisting of stock-based compensation expense, depreciation and amortization of intangible assets, amortization of premium on investments, a loss on discontinued operations, and loss on disposal of assets), and changes in our operating assets and liabilities of $13.0 million (primarily consisting of decreases in accounts receivable and prepaid expenses and other current assets). These increases were partially offset by cash used by changes in our operating assets and liabilities of $9.1 million (consisting of decreases in accounts payable and accrued expenses and other current and long-term liabilities).

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

Net cash used by investing activities was $123.7 million for the nine months ended September 30, 2011, primarily consisting of purchases of $204.8 million of marketable investments and purchases of property and equipment of $2.5 million. Partially offsetting cash used by investing activities were proceeds of $83.1 million from the maturities of our marketable investments and a decrease in other long-term assets of $409,000.

Net cash used by investing activities was $40.4 million for the nine months ended September 30, 2010, primarily consisting of purchases of $159.1 million of marketable investments, $8.0 million for the acquisition of Make The Web Better assets, and purchases of property and equipment of $1.6 million. Partially offsetting cash used by investing activities were proceeds of $156.0 million from the maturities of our marketable investments and $52.7 million from the sales of our marketable investments.

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

Net cash provided by financing activities totaled $21.6 million for the nine months ended September 30, 2011 and primarily consisted of cash proceeds of $16.7 million from the exercise of options and our employee stock purchase plan and $7.0 million from the sale of common stock. Partially offsetting cash provided by financing activities was $1.4 million in tax payments from shares withheld upon vesting of restricted stock units and $423,000 in earn-out payments from a business acquisition.

Net cash used by financing activities totaled $953,000 for the nine months ended September 30, 2010 and primarily consisted of $2.9 million in tax payments from shares withheld upon vesting of restricted stock units. Partially offsetting cash used by financing activities was cash proceeds of $2.2 million from the exercise of options and our employee stock purchase plan.

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

Net cash used by operating activities attributable to discontinued operations totaled $6.2 million for the nine months ended September 30, 2011 and consisted of cash used by discontinued operations. Net cash used by the investing activities attributable to discontinued operations totaled $638,000 for the nine months ended September 30, 2011 and primarily consisted of net cash used in the sale of discontinued operations.

Net cash used by operating activities attributable to discontinued operations totaled $5.1 million for the nine months ended September 30, 2010 and consisted of cash used by discontinued operations. Net cash used by the investing activities attributable to discontinued operations totaled $8.0 million for the nine months ended September 30, 2011 and primarily consisted of net cash used to purchase operations that were discontinued.

Critical Accounting Policies and Estimates

The preparation of our financial statements requires that we make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities. We base our estimates

on historical experience and other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates. Our critical accounting policies, estimates, and methodologies for the nine months ended September 30, 2011 are consistent with those in *Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates* in Part II, Item 7, of our Amendment No. 1 to Annual Report on Form 10-K/A for the year ended December 31, 2010. We do not expect the adoption of recently issued accounting pronouncements to have a significant impact on our results of operations, financial position, or cash flows.

Recent Accounting Pronouncements

Changes to GAAP are established by the FASB in the form of ASUs to the FASB s Accounting Standards Codification. We consider the applicability and impact of all recent ASUs. ASUs not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on our consolidated financial position and results of operations.

In June 2011, the FASB issued guidance on presentation of comprehensive income. The new guidance will require companies to present the components of net income and other comprehensive income either as one continuous statement or as two consecutive statements. It eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders equity. The standard does not change the items which must be reported in other comprehensive income, how such items are measured, or when they must be reclassified to net income. This standard is effective for us as of January 1, 2012. Because this ASU impacts presentation only, and we already present our other comprehensive income consistent with the June 2011 guidance, it will have no effect on our financial condition, results of operations, or cash flows.

In September 2011, the FASB issued guidance on testing goodwill for impairment. The new guidance provides an entity the option to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is more than its carrying amount. If an entity determines that this is not the case, it is required to perform the currently prescribed two-step goodwill impairment test. The new guidance is effective for us beginning October 1, 2011.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our market risks at September 30, 2011 have not changed significantly from those discussed in Part II, Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2010.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

In October 2011, the Company identified an error related to its accounting for goodwill that required the restatement of the consolidated financial statements for all periods from the second quarter of 2010 to the second quarter of 2011 *(for further detail on this error and the restatements, see the Explanatory Note and Note 1 to our consolidated financial statements in Amendment No. 1 to our Annual Report for fiscal 2010 on Form 10-K/A filed on November 14, 2011)*. As a result of this error, our management re-evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of September 30, 2011. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures were not effective as of September 30, 2011 due to a material weakness in our internal control over financial reporting, as further described in Management s Report on Internal Control Over Financial Reporting in Item 9A of Amendment No. 1 to our Annual Report on Form 10-K/A, filed on November 14, 2011. The conclusion regarding the ineffectiveness of our disclosure controls and procedures is solely the result of this material weakness, and we expect that upon the remediation of this material weakness, our disclosure controls and procedures will be effective.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the third quarter of 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended).

Remediation of Material Weakness in Internal Control Over Financial Reporting

In October 2011, the Company reviewed the specific accounting judgments and conclusions resulting in the material weakness of internal controls over financial reporting, as further described in Management s Report on Internal Control Over Financial Reporting in Item 9A of Amendment No. 1 to our Annual Report on Form 10-K/A, filed with the SEC on November 14, 2011. As of the filing, management believes this control weakness has been remediated through strengthening controls over the application of GAAP with respect to business acquisitions and restating the affected financial statements in amended periodic filings.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

See the litigation disclosure under the subheading Litigation in Note 5 to our Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Item 1A. Risk Factors

RISKS RELATED TO OUR BUSINESS

Most of our revenue is attributable to Google and Yahoo!, and the loss of, or a payment dispute with, either of these search customers (or any future significant search customer) would harm our business and financial results.

We rely on our ability to acquire rights to content from third-party content providers, who we refer to as search customers, and our future success in our search business is highly dependent upon our ability to maintain and renew relationships with these search customers. Google and Yahoo! jointly accounted for over 95% of our total revenues in the third quarter of 2011, with revenue from Google constituting a large majority of that amount, and we expect that concentration will continue. Google and Yahoo! compete with each other, and the way we do business with one of them may not be acceptable to the other, or to any of their competitors with whom we may also do business. Google and Yahoo! are also our competitors in search, and they have had relationships with some of our current and potential search distribution partners, and may, in the future, contract directly with some of our distribution partners to provide search services.

If Google, Yahoo!, or any future significant search customer were to substantially reduce or eliminate the content it provides to us or to our distribution partners, our business results could materially suffer to the extent we are unable to establish and maintain new search customer relationships, or expand our remaining search customer relationships, to replace the lost or disputed revenue. We recently extended our agreements with Yahoo! and Google. Our agreement with Yahoo! runs through December 31, 2013 and our agreement with Google runs through March 31, 2013, and may be extended until March 31, 2014 in our sole discretion, provided that we have not assigned this agreement to another party. The long-term operational and financial impact of any new and changed provisions in the recently renewed and revised Yahoo! and Google agreements are currently unknown. If these new or changed provisions result in a loss or reduction of our, or our distribution partners , ability to successfully attract Internet users or to display content or advertisements, our operations and financial performance could be materially impacted.

If a third-party content provider, including Yahoo! or Google, is unwilling to pay us amounts that it owes us, or if it disputes amounts it owes us or has previously paid to us for any reason (including for the reasons described in the risk factors below), our business and financial results could materially suffer to the extent we were unable to establish and maintain new search customer relationships, or expand our remaining search customer relationships, to replace the lost or disputed revenue. In addition, Yahoo! recently signed an agreement with Bing, under which Bing provides all of Yahoo! s algorithmic search results and some of its paid search results. If Yahoo! cannot maintain an agreement with Bing on favorable terms, or if Bing is unable to adequately perform its obligations to Yahoo!, then Yahoo! s ability to provide us with algorithmic and paid search results may be impaired, and our operations and financial performance may be materially impacted as a result.

Failure by us or our search distribution partners to comply with the guidelines promulgated by Google and Yahoo! relating to the use of content may cause that search customer to temporarily or permanently suspend the use of its content or terminate its agreement with us, or may require us to modify or terminate certain distribution relationships.

If we or our search distribution partners fail to meet the guidelines promulgated by Google or Yahoo! for the use of their content, we may not be able to continue to use their content or provide the content to such distribution partners. Our agreements with Google and Yahoo! give them the ability to suspend the use and the distribution of their content for non-compliance with their requirements and guidelines and, in the case of breaches of certain other provisions of their agreements, to terminate their agreements with us immediately, regardless of whether such breaches could be cured.

The terms of the search customer agreements with Google and Yahoo! and the related guidelines are subject to differing interpretations by the parties. Google and Yahoo! have in the past suspended, and may in the future, suspend their content provided to our websites or the websites of our distribution partners, without notice, when they believe that we or our distribution partners are not in compliance with their guidelines or are in breach of the terms of their agreements. During such suspension we will not receive any revenue from any property, ours or our distribution partners , affected by the suspended content, and the loss of such revenue could harm our business and financial results.

Additionally, as our business evolves, we expect that the guidelines of Google and Yahoo!, as well as the parties interpretations of compliance, breach, and sufficient justification for suspension of use of content will change. Both Yahoo! and Google have recently changed their guidelines and requirements as part of our renegotiation of our agreements with them. These changes in the guidelines and any changes in the parties interpretations of those guidelines may result in restrictions on our use of the Google and Yahoo! search services, and may require us to terminate our agreement with distribution partners or forego entering into agreements with distribution partners. The loss or reduction of content that we can use or make available to our distribution partners as a result of suspension, termination, or modification of distribution or search customer agreements, particularly our Google and Yahoo! agreements, could have a material adverse effect on our business and financial results.

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

We rely on our relationships with search distribution partners, including Internet service providers, web portals, and software application providers, for distribution of our search services. In the third quarter of 2011, 81% of our total revenues came from searches conducted by end users on the web properties of our search distribution partners. We generated approximately 49% and 46% of our total revenues through relationships with our top five distribution partners in the third quarter of 2011 and second quarter of 2011, respectively. There can be no assurance that these relationships will continue or will result in benefits to us that outweigh their cost. Moreover, as the proportion of our revenue generated by distribution partners has increased in previous quarters, we have experienced, and expect to continue to experience, less control and visibility over performance. One of our challenges is providing our distribution partners with relevant services at competitive prices in rapidly evolving markets. Distribution partners may create their own services or may seek to license services from our competitors or replace the services that we provide. Also, many of our distribution partners have limited operating histories and evolving business models that may prove unsuccessful even if our services are relevant and our prices competitive. If we are unable to maintain relationships with our distribution partners, our business and financial results could be materially adversely affected.

Our agreements with most of our distribution partners come up for renewal in 2011 and 2012. In addition, some of our distributors have the right to immediately terminate their agreements in the event of certain breaches. Such agreements may be terminated, may not be renewed, or may not be renewed on favorable terms, any of which could adversely impact our business and financial results. We anticipate that our distribution costs for our revenue sharing arrangements with our distribution partners will increase as revenue grows, 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 search market. Recently, we have experienced increased competition from our search customers as they seek to enter into content provider 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 business and financial 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 Google, Yahoo!, or other search customers perceive that they are not receiving quality traffic from our own websites or the web property of a distribution partner, they may reduce the fees they pay to us. Either of these factors could have a negative material impact on our business and financial results.

Most of our revenue from our search business is based on the number of paid clicks on commercial search results served on our owned and operated web properties or our distribution partners web properties. Each time a user clicks on a commercial search result, the search customer that provided the commercial search result receives a fee from the advertiser who paid for the click and the search customer pays us a portion of that fee. If the click originated from one of our distribution partners web properties, we share a portion of the fee we receive with such partner. If an advertiser receives what it perceives to be poor quality traffic, meaning that the advertiser s objectives are not met for a sufficient percentage of clicks for which it pays, the advertiser may reduce or eliminate its advertisements through the search customer that provided the commercial search result to us. This leads to a loss of revenue for our search customers and consequently fewer fees paid to us. Also, if a search customer perceives that the traffic originating from one of our web properties or the web property of a distribution partner is of poor quality, the search customer may discount the amount it charged all advertisers whose paid click advertisements appeared on such website or web property based on the amount of poor quality traffic the search customer deems to have been generated, and accordingly may reduce the fees it would have otherwise paid us. The search customer may also suspend or terminate our ability to provide its content through such websites or web properties if such activities are not modified to satisfy the search customer s concerns. The payment of fewer fees to us or the inability to provide content through such websites or web properties, particularly the content of Google and Yahoo!, could have a material negative effect on our business and financial results.

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 webpage underlying the commercial search result. Some of this invalid click activity is referred to as click fraud. When such invalid click activity is detected, the search 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 search customer pays us. The resulting loss of revenue, particularly with respect to Google or Yahoo! content, could harm our business and financial results.

Initiatives we undertake to improve the quality of the traffic that we send to our search customers may not be successful and, even if successful, may result in loss of revenue in a given reporting period. For example, during the first half of 2010, we removed certain traffic from some distribution partners in an effort to improve traffic quality, and these actions, while successful in improving traffic quality, had a material negative impact on our revenues for the first and second quarters of 2010.

A significant part of our strategy involves identifying and acquiring businesses or technologies. We may not be successful in executing this strategy, and thus may not be able to use our capital in the way that provides the best possible return to stockholders.

An important component of our strategy for future growth is to identify and acquire new businesses or technologies. We had cash, cash equivalents, and short-term investments (*cash*) of approximately $279 million as of September 30, 2011 and we had approximately $788 million of net operating losses as of December 31, 2010 that may provide a tax benefit on our taxable income substantially through 2020. Thus, in addition to operating our current businesses, we have a growth strategy predicated on the expectation that we will deploy a significant portion of our assets, including cash, to acquire businesses or technologies, in an effort to, among other things, use some or all of our tax asset. However, we may be unable to identify acceptable targets for acquisition. Competition for acquisitions, especially acquisitions that will allow us to use our net operating losses, has been intense, and will likely continue to be intense in the future. As a result, even if we are able to identify an acquisition that we would like to complete, we may not be able to complete the acquisition on commercially reasonable terms.

Acquisitions or development of new businesses or technologies may involve the use of cash, dilutive issuances of stock, the incurrence of debt and contingent liabilities, and amortization expenses related to certain intangible assets. If outside financing is needed, we may be unable to obtain it on acceptable terms, or at all, in light of the current capital market conditions or other factors. The cost of development or acquisition, as the case may be, may be greater than anticipated by us or investors.

We believe that our strategy of growth through acquisitions of new businesses and technology is the best way to use our assets. However, this belief may turn out to be incorrect. If we are unable to successfully identify and acquire new businesses or technologies on terms that allow us to operate them profitably, we will be unable to execute our current strategy for growth and use of our assets. As a result, we may be unable to grow to the extent that we currently intend, and we may be unable to use our assets in the way that provides the best possible return to stockholders.

Our financial and operating results will suffer if we are unsuccessful in integrating our acquisitions. If we are successful in acquiring new businesses or technologies, they may not be complementary to our current operations or leverage our current infrastructure and operational experience.

The successful integration of newly-acquired or developed businesses or technologies into InfoSpace is critical for our success. If we are successful in identifying and acquiring targets, those targets may not be complementary to our current operations and may not leverage our existing infrastructure or operational experience. In addition, any acquisitions or developments of businesses or technologies may not 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. Most recently, our May 2010 purchase of the Mercantila business did not meet our expectations and, as a result, we sold that business for a loss in June 2011.

Acquisitions involve numerous other risks that could materially and adversely affect our results of operations or stock price, including:

- difficulties in assimilating the operations, products, technology, information systems and management, and other personnel of acquired companies that result in unanticipated costs, delays, or allocation of resources;
- the dilutive effect on earnings per share as a result of issuances of stock, as well as, incurring operating losses and the amortization of intangible assets for the acquired business;
- stock volatility due to the perceived value of the acquired business by investors;
- diverting management s attention from current operations and other business concerns, including potential strain on financial and managerial controls and reporting systems and procedures;
- disruption of our ongoing business or the ongoing acquired business, including impairment of existing relationships with our employees, distributors, suppliers, or customers or those of the acquired companies;
- diversion of capital from other uses;
- failing to achieve the anticipated benefits of the acquisitions in a timely manner, or at all;
- 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; and
- adverse outcome of litigation matters or other contingent liabilities assumed in or arising out of the acquisitions.

Developing or acquiring a business or technology, and then integrating it into InfoSpace, will be complex, time consuming, and expensive, particularly if we acquire a business or technology that is not in our current industry of search. For example, the successful integration of an acquisition requires, among other things, that we: retain key personnel; maintain and support preexisting supplier, distribution, and customer relationships; and integrate accounting and support functions. The complexity of the technologies and operations being integrated and, in the case of an acquisition, the disparate corporate cultures and/or industries being combined, may increase the difficulties of integrating an acquired technology or business. If our integration of acquired or internally developed technologies or businesses is not successful, we may experience adverse financial or competitive effects. Moreover, there can be no assurance that the short- or long-term value of any business or technology that we develop or acquire will be equal to the value of the cash and other consideration that we paid or expenses we incurred.

The value of equity-based awards, including stock options, restricted stock units, and market stock units granted to employees may cease to provide sufficient incentive to retain our employees and to attract new talent.

Like many technology companies, we use stock options, restricted stock units, and other equity-based awards (such as market stock units, which are a form of share price performance-based restricted stock units granted under our 2011 long-term executive compensation plan) to recruit and retain senior level employees. With respect to those employees to whom we issue such equity-based awards, we face a significant challenge in retaining them if the value of equity-based awards in aggregate or individually is either not deemed by the employee to be substantial enough or deemed so substantial that the employee leaves after their equity-based awards vest. If our stock price does not increase significantly above the exercise prices of our options or does not increase significantly above the comparative index price for our market stock units, we may need to issue new equity-based awards in order 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, or any other incentive programs, we undertake will be successful in motivating and retaining our employees.

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 management, technical, sales and marketing, and corporate development personnel. Qualified personnel with experience relevant to our 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 search 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 experienced significant changes at our executive management level and we may experience more changes in the future. Changes of management or key employees may cause disruption to our operations, which may materially and adversely affect our business and financial results or delay achievement of our business objectives. 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 and timely manage our business or achieve our business objectives. For example, the success of our search business is partially dependent on key personnel who have long-term relationships with our search customers and distribution partners. There can be no assurance that any retention program we initiate will be successful at retaining employees, including key employees.

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. Between October 1, 2009 and September 30, 2011, our stock price ranged from $6.69 to $11.82. On, November 4, 2011, the closing price of our common stock was $8.59. Our stock price could decline or fluctuate wildly in response to many factors, including the other risks discussed in this Item 1A 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 search customers, new distribution partner relationships, or other business developments by us, our search customers, distribution partners, or competitors;
- conditions or trends in the search services market;
- changes in general conditions in the U.S. and global economies or financial markets;
- announcements of technological innovations or new services by us or our competitors;
- changes in financial estimates or recommendations by securities analysts;
- disclosures of any accounting issues, such as restatements or material weaknesses in internal control over financial reporting;
- equity offerings resulting in the dilution of stockholders;
- the adoption of new regulations or accounting standards; and
- 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 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.

Although we generated net income in our last two years and in the first and third quarters of 2011, we have incurred net losses on an annual basis for all but five of the years since our inception, and as of September 30, 2011, we had an accumulated deficit of $1.0 billion. We may incur net losses in the future, including but not limited to losses resulting 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 achieve and maintain consistent profitability in the future.

Our financial results are likely to continue to fluctuate, which could cause our stock price to continue 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. Many factors could cause our quarterly results to fluctuate materially, including but not limited to:

- changes or potential changes in our relationships with Google or Yahoo! or future significant search customers, such as effects of changes to their requirements or guidelines or their measurement of the quality of traffic we send to their advertiser networks, and any resulting loss or reduction of content that we can use or make available to our distribution partners;

the loss, termination, or reduction in scope of key distribution relationships in our search business, for example, as a result of distribution partners licensing content directly from content providers, or any suspension by our search customers (particularly Google and Yahoo!) of the right to use or distribute content on the web properties of our distribution partners;

our strategic initiatives and our ability to implement those initiatives in a cost effective manner;

the mix of search revenue generated by our owned and operated web properties versus our distribution partners web properties (including the impact to our financial results from our acquisition of certain assets including web properties from Make The Web Better, a distribution partner, in April 2010);

the mix of revenues generated by our search business versus other businesses we develop or acquire;

our ability to attract and retain quality traffic;

litigation expenses, including but not limited to settlement costs;

expenses incurred in finding, negotiating, consummating, and integrating acquisitions;

variable demand for our services, rapidly evolving technologies and markets, and consumer preferences;

the effects of acquisitions by us, our search customers, or our distribution partners;

increases in the costs or availability of content for our search services;

additional restructuring charges we may incur in the future;

the continuing impact of the economic downturn, which has in the past led to and may in the future lead to lower online advertising spend by advertisers, resulting in lower revenue per click for paid searches;

new court rulings, or the adoption of new laws, rules, or regulations, that adversely affect our ability to acquire content and distribute our search services, that affect our ability to offer non-search products and services, or that otherwise increase our potential liability;

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; and

the adoption of new regulations or accounting standards.

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 and financial results volatility could make us less attractive to investors, either of which could cause the trading price of our stock to decline.

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

Our search services link users, either directly through our own websites or indirectly through the web properties of our distribution partners, to third-party webpages 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 search customers was obtained or provided by our search 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 was 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 an obligation to indemnify and hold harmless certain of our search customers or distribution partners from 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 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 downloadable 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 search 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 search 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 website and transaction management software, data center systems, or the systems of the third-party co-location facilities in which they are located could fail or become unavailable, which could harm our reputation, result in a loss of revenues and current or potential customers, and cause us to breach agreements with our partners.

Any system interruptions that result in the unavailability or unreliability of our websites, transaction processing systems, or network infrastructure could reduce our sales and impair our ability to properly process transactions. We use internally developed and third-party systems for our websites and certain aspects of transaction processing. Some of our systems are relatively new and untested, and thus may be subject to failure or unreliability. Any system unavailability or unreliability may cause unanticipated system disruptions, slower response times, degradation in customer satisfaction, additional expense, or delays in reporting accurate financial information.

We provide our own data center services for our search business from two geographically diverse third-party co-location facilities. Although the two data centers provide some redundancy, not all of our systems and operations have backup redundancy. Our systems and operations could be damaged or interrupted by fire, flood, earthquakes, or other natural disasters, power loss, telecommunications failure, Internet breakdown, break-in, or other events beyond our control. 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. In addition, such third-party co-location facilities and data center systems use sophisticated equipment, infrastructure, and software that may contain bugs or suffer outages that could interrupt service. During the period in which service is unavailable, we will be unable or severely limited in our ability to generate revenues, and we may also be exposed to liability from those third parties to whom we provide services through our data centers. For these reasons, our business and financial results could be materially harmed if our systems and operations are damaged or interrupted, including if we are unable to develop, or if we or our third-party co-location facility providers are unable to successfully manage, the infrastructure necessary to meet current or future demands for reliability and scalability of our systems.

If the volume of traffic to our search services infrastructure increases substantially, we must respond in a timely fashion by expanding our systems, which may entail upgrading our technology, transaction processing systems, 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 co-location facility providers. Due to the number of our customers and the services that we offer, we could experience periodic capacity constraints which may cause temporary unanticipated system disruptions, slower response times and lower levels of customer service, and limit our ability to develop, offer, or 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 search 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. Security breaches may pose risks to the uninterrupted operation of our systems and could cause us to breach agreements with our customers and distribution partners, expose us to mitigation costs, litigation, potential investigation and penalties by authorities, potential claims by persons whose information was disclosed, and damage our reputation.

Our networks or those from third parties that we use may be vulnerable to unauthorized access by hackers, rogue employees or contractors, or other persons, 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. We receive, retain, and transmit certain personal information about our website visitors, using technology and networks provided by third parties to provide the security and authentication used to transmit confidential information, including payment information. Subscribers to some of our search services are required to provide information that may be considered to be personally identifiable or private information. Unauthorized access to, and abuse of, this information could result in significant harm to our business.

We take, and we believe our third-party providers take, reasonable steps to protect the security, integrity, and confidentiality of the information that is collected and stored, 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, or other persons or companies who suffer damages as a result of unauthorized disclosure. Any such claims could result in costly litigation or liability, be time consuming to resolve, damage our reputation, and divert the attention and resources of management and other personnel.

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 and financial results.

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

Companies and individuals with rights relating to the Internet, software, and application services industries have frequently resorted to litigation regarding intellectual property 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.

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. Responding to any such claims could be time-consuming, result in costly litigation, divert management s attention, cause product or service release delays, require us to redesign our services, or require us to enter into royalty or licensing agreements. Our technology and intellectual property may not be able to withstand any third-party claims or rights against their use. If a successful claim of infringement were made against us and we could not develop non-infringing technology or license the infringed or similar technology on a timely and cost-effective basis, our business could suffer.

We do not regularly conduct patent searches to determine whether the technology used in our services infringes patents held by third parties. Patent searches may not return every issued patent that may be deemed relevant to a particular product or service. It is therefore difficult 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 immediately publicly disclosed, applications may have been filed by third parties that relate to our services that may not be discovered in a patent search. 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 or affect filed applications.

If we were to discover that our services violated or potentially violated third-party proprietary rights, we might be required to obtain licenses that are costly or contain terms unfavorable to us, or expend substantial resources to reengineer those services so that they would not violate such third-party rights. Any reengineering effort may not be successful, and any such licenses may not be available on commercially reasonable terms, if at all. 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 business and financial results. We may have to litigate to enforce our intellectual property rights, which can be time consuming, expensive, and difficult to predict.

To protect our rights in our services and technology, we rely on a combination of copyright and trademark laws, patents, trade secrets, confidentiality agreements with employees and third parties, and protective contractual provisions. We also rely on laws 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 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, our competitive position could be weakened.

Effectively policing the unauthorized use of our services and technology is time-consuming and costly, and the steps taken by us may not prevent misappropriation of our technology or other proprietary assets. The efforts we have taken to protect our proprietary rights may not be sufficient or effective, and unauthorized parties may obtain and use information, marks, or technology that we regard as proprietary, copy aspects of our services, or use similar marks or domain names. 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. 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 services and technology are available and it is often more difficult and costly to enforce our rights in foreign jurisdictions. Moreover, 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.

We may have to litigate to enforce our intellectual property rights, to protect our trade secrets, or to determine the validity and scope of others proprietary rights, which are sometimes not clear or may change. Litigation can be time consuming, expensive, and difficult to predict.

Delaware law and our charter documents may impede or discourage a takeover, which could cause the market price of our shares to decline.

We are a Delaware corporation and the anti-takeover provisions of Delaware law impose various impediments to the ability of a third party to acquire us, even if a change of control would be beneficial to our existing stockholders. For example, Section 203 of the Delaware General Corporation Law may discourage, delay, or prevent a change in control by prohibiting us from engaging in a business combination with an interested stockholder for a period of three years after the person becomes an interested stockholder. In addition, our certificate of incorporation and bylaws contain provisions that may discourage, delay, or prevent a third party from acquiring us without the consent of our board of directors, even if doing so would be beneficial to our stockholders. Provisions of our charter documents that 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 requirement for supermajority approval by stockholders for certain business combinations;
- the ability of our board of directors to authorize the issuance of shares of undesignated preferred stock without a vote by stockholders;
- the ability of our board of directors to amend or repeal the bylaws;

limitations on the removal of directors;

limitations on stockholders ability to call special stockholder meetings;

advance notice requirements for nominating candidates for election to our board of directors or for proposing matters that can be acted upon by stockholders at stockholder meetings; and

certain limited transfer restrictions in our charter and stockholder rights plan on our common stock designed to preserve our federal net operating loss carryforwards (***NOLs***).

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 of common stock (except the acquiring person, together with its affiliates and associates and certain transferees thereof, that becomes the beneficial owner of 15% or more of the common stock, whose rights will be null and void following a trigger event), to receive shares of our preferred stock, or shares of an acquiring entity. The security issuable upon exercise of one right approximates the value and voting rights of one share of common stock.

In addition, at our 2009 annual meeting, our stockholders approved an amendment to our certificate of incorporation that restricts any person or entity from attempting to transfer our stock, without prior permission from the Board of Directors, to the extent that such transfer would (i) create or result in an individual or entity becoming a five-percent stockholder of our stock, or (ii) increase the stock ownership percentage of any existing five-percent stockholder. This amendment provides that any transfer that violates its provisions shall be null and void and would require the purported transferee to, upon demand by the Company, transfer the shares that exceed the five percent limit to an agent designated by the Company for the purpose of conducting a sale of such excess shares. The stockholder rights plan and the amendment to the certificate of incorporation would make the acquisition of the Company more expensive to the acquirer and could significantly delay, discourage, or prevent third parties from acquiring the Company without the approval of our board of directors.

If there is a change in our ownership within the meaning of Section 382 of the Internal Revenue Code, our ability to use our NOLs may be severely limited or potentially eliminated.

As of December 31, 2010, we had NOLs of approximately $788 million that will expire over a ten to twenty year period. If we were to have a change of ownership within the meaning of Section 382 of the Internal Revenue Code (defined as a cumulative change of 50 percentage points or more in the ownership positions of certain stockholders owning five percent or more of a company s common stock over a three-year rolling period), then under certain conditions, the amount of NOLs we could use in any one year could be limited to an amount equal to our market capitalization, net of substantial non-business assets, at the time of the ownership change multiplied by the federal long-term tax exempt rate. Our certificate of incorporation imposes certain limited transfer restrictions on our common stock that we expect will assist us in preventing a change of ownership and preserving our NOLs, but there can be no assurance that these restrictions will be sufficient. In addition, other restrictions on our ability to use the NOLs may be triggered by a merger or acquisition, depending on the structure of such a transaction. It is our intention to limit the potential impact of these restrictions, but there can be no guarantee that such efforts will be successful. If we are unable to use our NOLs before they expire, or if the use of this tax benefit is severely limited or eliminated, 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 our ability to engage in certain transactions.

Restructuring and streamlining our business, including implementing reductions in workforce, discretionary spending, and other expense reductions, may harm our business.

We have in the past and may in the future find it advisable to take measures to streamline operations and reduce expenses, including, without limitation, reducing our workforce or discontinuing products or businesses. Such measures may place significant strains on our management and employees, and could impair our development, marketing, sales, and customer support efforts. We may also incur liabilities from these measures, including liabilities from early termination or assignment of contracts, potential failure to meet obligations due to loss of employees or resources, and resulting litigation. Such effects from restructuring and streamlining could have a negative impact on our business and financial results.

RISKS RELATED TO THE INDUSTRIES IN WHICH WE OPERATE

We may be unable to compete successfully in the search market.

We face intense competition in the search market, which is 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 brand recognition, better access to vendors, 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 search 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 in search are currently search customers of ours, the loss of

any of which could harm our business. In addition, we may face increasing competition for search market share from new search startups, mobile search providers, and social media sites and applications. If we are unable to match or exceed our competitors marketing reach and customer service experience, our business may not be successful. Because of these competitive factors and due to our relatively small size and financial resources, we may be unable to compete successfully in the search market and, to the extent that these competitive factors apply to other markets that we pursue, in such other markets.

Additionally, our business and financial results could be adversely affected if our search distribution partners create their own services that compete or replace the services we provide or they acquire such services from other sources. We continue to experience increased competition from search 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 search industry 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:

- search customers could acquire or be acquired by one of our other search customers, 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 search distribution partners could acquire or be acquired by one of our competitors and terminate their relationship with us;

- our search distribution partners could merge with each other, which could reduce our ability to negotiate favorable terms.

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

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, in both the U.S. and foreign jurisdictions. Application of these laws can be unclear. For example, it is unclear how many existing laws regulating or requiring licenses for certain businesses (such as gambling, online auctions, distribution of pharmaceuticals, alcohol, tobacco, firearms, insurance, securities brokerage, or legal services) apply to search services, online advertising, and our business. The costs of complying or failure to comply with these laws and regulations could limit our ability to operate in our market (including limiting our ability to distribute our services; conduct targeted advertising; collect, use, or transfer user information; or comply with new data security requirements), expose us to compliance costs and substantial liability, and result in costly and time-consuming litigation. It is impossible to predict whether or when any new legislation may be adopted or existing legislation or regulatory requirements will be deemed applicable to us, any of which could materially and adversely affect our business.

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. For example, there are a large number of legislative proposals before the U.S. Congress and various state legislative bodies regarding privacy and data protection issues related to our businesses. 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 that search engine providers delineate paid-ranking search results from non-paid results. To the extent that we are required to modify presentation of search results as a result of specific regulations or requirements that may be issued in the future by the FTC or other state or federal agencies or legislative bodies with respect to the nature of such delineation or other aspects of advertising in connection with search services, revenue from the affected search engines could be negatively impacted. Addressing these regulations may require us to develop additional technology or otherwise expend significant time and expense.

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 services 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 business and financial results.

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

The Company s sale of unregistered securities in the third quarter was disclosed under Items 1.01 and 3.02 in a Current Report on Form 8-K filed on August 23, 2011.

Item 3. Defaults Upon Senior Securities

Not applicable with respect to the current reporting period.

Item 4. [Removed and Reserved]

Item 5. Other Information

On November 9, 2011, the Company filed with the Delaware Secretary of State a Restated Certificate of Incorporation that combined into one document, pursuant to Section 245 of the Delaware General Corporation Law, the 2003 Restated Certificate of Incorporation, the 2009 Certificate of Amendment to the Certificate of Incorporation approved by the Company s shareholders, and the Powers, Designations, Preferences and Rights of Series C Participating Preferred Stock. This Restated Certificate of Incorporation, a copy of which is attached to this Quarterly Report as Exhibit 3.1, supersedes all previous Certificate of Incorporation documents.

Also on November 9, 2011, immediately prior to filing the above-referenced Restated Certificate of Incorporation, the Company filed several documents with the Delaware Secretary of State for the purpose of (1) correcting inconsistencies in the 2003 Restated Certificate of Incorporation and the 2009 Certificate of Amendment and (2) eliminating the Series A and Series B Preferred Stock. The 2003 Restated Certificate of Incorporation and the 2009 Certificate of Amendment each contained a number of minor errors that were corrected by certificates of correction for each. In addition, pursuant to authorization from the Company s Board of Directors to eliminate the Series A and Series B Preferred Stock, neither of which had any outstanding shares, the Company filed the Certificate of Elimination for the Series A and Series B Preferred Stock, a copy of which is attached to this Quarterly Report as Exhibit 3.2. The 2011 Restated Certificate of Incorporation attached as Exhibit 3.1 hereto was filed immediately after this Certificate of Elimination, and attached thereto is the Powers, Designations, Preferences and Rights of Series C Participating Preferred Stock. The Series C Preferred Stock, which was approved by the Company s Board of Directors in 2002, is now the only series of preferred stock that remains authorized, though no shares are outstanding.

Effective November 13, 2011, Eric Emans title has changed from Interim Chief Financial Officer to Chief Financial Officer. The Company will report the specific terms of this change in a Current Report on Form 8-K within four business days of the change.

Item 6. Exhibits

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

SIGNATURE

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

INFOSPACE, INC.

By /s/ Eric M. Emans
Eric M. Emans
Chief Financial Officer
(Principal Financial Officer)

Dated: November 14, 2011

INDEX TO EXHIBITS

Exhibit Number	Exhibit Description	Form	Date of First Filing	Exhibit Number	Filed Herewith
3.1	Amended and Restated Certificate of Incorporation				X
3.2	Certificate of Elimination for the Series A and Series B Preferred Stock				X
10.1	Securities Purchase Agreement between InfoSpace, Inc. and Cambridge Information Group I LLC, dated August 23, 2011	8-K	August 23, 2011	10.1	
10.2	Warrant to Purchase Common Stock granted by InfoSpace, Inc. to Cambridge Information Group I LLC, dated August 23, 2011	8-K	August 23, 2011	10.2	
10.3	Stockholder Agreement between InfoSpace, Inc. and Cambridge Information Group I LLC, dated August 23, 2011	8-K	August 23, 2011	10.3	
10.4*	Second Amendment to Employment Agreement between Eric M. Emans and InfoSpace, Inc. dated August 19, 2011				X
31.1	Certification of Principal Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
31.2	Certification of Principal Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				X
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				X
101**	The following financial statements from the Company s 10-Q for the fiscal quarter ended September 30, 2011, formatted in XBRL: (i) Unaudited Condensed Consolidated Balance Sheets (ii) Unaudited Condensed Consolidated Statements of Operations, (iii), Unaudited Condensed Consolidated Statements of Cash Flows, and (iv) Notes to Unaudited Condensed Consolidated Financial Statements.				X

* Indicates a management contract or compensatory plan or arrangement.

** Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and are otherwise not subject to liability under those sections.