INSWEB CORP
Form 10-Q
May 12, 2010

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2010

Or

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

For the transition period from to

Commission file number 0-26083

INSWEB CORPORATION
(Exact name of Registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	94-3220749 (IRS Employer Identification Number)

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

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

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

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

The aggregate market value of registrant’s voting and non-voting common equity held by non-affiliates of registrant, based upon the closing sale price of the common stock as of the last business day of registrant’s most recently completed second fiscal quarter (June 30, 2009), as reported on the Nasdaq Capital Market, was approximately $6,885,000. Registrant is a smaller reporting company as defined in Regulation S-K. Shares of common stock held by each officer, director and holder of 5% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

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

The number of outstanding shares of the Registrant’s Common Stock, par value $0.001 per share, on April 30, 2010 were 4,829,823 shares.

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PART I: FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

INSWEB CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)
(unaudited)

	March 31, 2010	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 7,660	$ 6,401
Short-term investments	1,278	-
Accounts receivable, net	2,589	2,014
Prepaid expenses and other current assets	355	710
Restricted cash and short-term investments	950	2,105
Total current assets	12,832	11,230
Related party receivables	313	311
Property and equipment, net	80	109
Other assets	216	230
Total assets	$ 13,441	$ 11,880
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 2,362	$ 2,113
Accrued expenses	451	635
Deferred revenue	1,671	804
Total current liabilities	4,484	3,552
Commitments and contingencies		
Stockholders' equity:		
Common stock	8	8
Paid-in capital	207,753	207,617
Treasury stock	(6,334)	(6,334)
Unrealized loss on available-for-sale securities	(6)	-
Accumulated deficit	(192,464)	(192,963)
Total stockholders' equity	8,957	8,328
Total liabilities and stockholders' equity	$ 13,441	$ 11,880

See accompanying notes.

INSWEB CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)
(unaudited)

	Three Months Ended March 31, 2010	2009
Revenues:		
Transaction fees	$ 9,458	$ 9,484
Other	42	42
Total revenues	9,500	9,526
Operating expenses:		
Direct marketing	6,428	6,545
Sales and marketing	1,334	1,770
Technology	502	958
General and administrative	738	803
Total operating expenses	9,002	10,076
Income (loss) from operations	498	(550)
Interest income	5	14
Income (loss) before income taxes	503	(536)
Provision (benefit) for income taxes	4	(35)
Net income (loss)	$ 499	$ (501)
Net income (loss) per share:		
Basic	$ 0.10	$ (0.10)
Diluted	$ 0.09	$ (0.10)
Weighted-average shares used in computing per share amounts		
Basic	4,824	4,787
Diluted	5,382	4,787

See accompanying notes.

INSWEB CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)
(unaudited)

	Three Months Ended March 31, 2010	2009
Cash flows from operating activities:		
Net income (loss)	$ 499	$ (501)
Adjustments to reconcile net income (loss) to net cash used by operating activities:		
Share-based compensation	118	101
Depreciation and amortization	40	47
Interest income from related party receivables	(2)	(2)
Net changes in operating assets and liabilities:		
Accounts receivable	(575)	(2,033)
Prepaid expenses and other current assets	357	167
Other assets	1	17
Accounts payable	249	1,226
Accrued expenses	(184)	19
Deferred revenue	867	(15)
Net cash provided (used) by operating activities	1,370	(974)
Cash flows from investing activities:		
Change in restricted cash	1,155	(2,229)
Purchases of restricted and unrestricted short-term investments	(1,285)	(1,998)
Net cash used in investing activities	(130)	(4,227)
Cash flows from financing activities:		
Proceeds from issuance of common stock through stock plans	19	22
Net cash provided by financing activities	19	22
Net increase (decrease) in cash and cash equivalents	1,259	(5,179)
Cash and cash equivalents, beginning of period	6,401	9,238
Cash and cash equivalents, end of period	$ 7,660	$ 4,059

See accompanying notes.

INSWEB CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Business of InsWeb

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

InsWeb's principal source of revenues is transaction fees from participating insurance providers, either directly from an insurance company or from a local insurance agent. While quotes and other information obtained through InsWeb's online insurance marketplace are provided to consumers free of charge, InsWeb earns revenues from participating insurance companies or agents based on the delivery of qualified leads. In certain instances, consumers are provided the opportunity to link directly to a third party insurance provider's website ("Sponsored Web Link" program). In these situations, the consumer will complete the third-party company's online application, and InsWeb will be paid a fee for that consumer link or "click-through." InsWeb also distributes leads to (and buys leads from) other lead aggregators/lead distributors, such as NetQuote. In these situations, InsWeb receives a share of the revenues earned by these aggregators on leads we send them (and pays them a share of revenues we earn on leads we receive from them).

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

2. Basis of Presentation

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

The accompanying unaudited interim financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, they do not contain all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, the accompanying unaudited interim condensed consolidated financial statements reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly InsWeb’s financial position as of March 31, 2010 and the results of operations for the three months ended March 31, 2010 and 2009 and of cash flows for the three months ended March 31, 2010 and 2009. The financial data and other information disclosed in these notes to the condensed consolidated financial statements related to these periods are unaudited. The results for the three months ended March 31, 2010 are not necessarily indicative of the results to be expected for any future period.

INSWEB CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in InsWeb's Annual Report on Form 10-K and other information as filed with the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations. The December 31, 2009 condensed consolidated balance sheet was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States. The Company believes the disclosures in its notes to the condensed consolidated financial statements are adequate to make the information presented not misleading.

InsWeb has evaluated subsequent events through the time of filing these financial statements. Based upon the evaluation, there was no material impact on InsWeb's consolidated financial statements.

3. Share-Based Payments

InsWeb maintains a stock option plan and an employee stock purchase plan. The following table sets forth the total share-based compensation expense relating to these plans included in InsWeb's operating expenses in its condensed consolidated statements of operations for the three months ended March 31, 2010 and 2009 (in thousands):

	Three Months Ended March 31,			
		2010		2009
Technology	$	10	$	5
Sales and marketing		16		28
General and administrative		92		68
	$	118	$	101

4. Concentration of Risk — Significant Customers

In many cases, InsWeb has separate contractual relationships with an insurance carrier and the individual agents who are appointed to produce business for that carrier. For the purpose of determining concentration of risk, we view the appointed agents as separate customers unless the insurance carrier is responsible for payment of fees generated by the agent's lead purchases. For the three months ended March 31, 2010, three customers (State Farm, American Family, and NetQuote) accounted for 15%, 11%, and 11% of total revenues, respectively. For the three months ended March 31, 2009, two customers (American Family and NetQuote) each accounted for 10% of total revenues. At March 31, 2010, three customers (21st Century, American Family, and NetQuote) accounted for 20%, 12%, and 11% of accounts receivable, respectively. At December 31, 2009, three customers (American Family, Insurance.com, and NetQuote) accounted for 16%, 13%, and 12% of accounts receivable, respectively.

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INSWEB CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

5. Fair Value Measurements

The following table presents the financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2010 (in thousands):

	March 31, 2010	Level 1	Level 2	Level 3
Assets:				
Cash equivalents	$ 5,988	$ 5,988	$ —	$ —
Short-term investments	1,278	1,278		
Restricted cash and short-term investments	950	950		
Total	$ 8,216	$ 8,216	$ —	$ —

Cash equivalents and restricted cash include certificates of deposit, money market funds and commercial paper from corporations whose credit ratings are P-1 by Moody's or A-1 by Standard & Poor's. For these securities, the Company uses quoted prices in active markets for identical assets to determine their fair value, thus they are considered to be Level 1 instruments.

6. Related Party Receivables

As of March 31, 2010 and December 31, 2009, related party receivables relate to promissory notes totaling $300,000 from three non-officer employees of InsWeb in exchange for cash and the related interest accrued on these notes. These notes are unsecured loans with a per annum rate of 2.42%. Principal and interest are payable in full on or before July, 2011.

7. Prepaid Expenses and Other Current Assets

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

	March 31, 2010	December 31, 2009
Prepaid software licenses	$ 129	$ 122
Prepaid payroll taxes	-	172
Prepaid insurance	49	131
Prepaid rent and current portion of lease deposits	96	95
Other	81	190
	$ 355	$ 710

8. Restricted Cash and Short-Term Investments

As of March 31, 2010, restricted cash and short-term investments consist of $950,000 used as collateral to obtain a commercial credit line. Pursuant to the agreement the collateral value of the securities account should be no less than $900,000, based upon the net margin percentage of the investment portfolio holdings. The collateral value may become unrestricted, upon notification from InsWeb to the issuing bank.

INSWEB CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

9. Accrued Expenses

Accrued expenses consist of the following (in thousands):

	March 31, 2010	December 31, 2009
Deferred rent	$ 123	$ 150
Accrued employee compensation	267	430
Other	61	55
	$ 451	$ 635

10. Comprehensive Income (Loss)

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

	Three months ended March 31, 2010	Three months ended March 31, 2009
Net income (loss)	$ 499	$ (501)
Other comprehensive income (expense) - change in unrealized gain (loss) on investments	(6)	1
Comprehensive income (loss)	$ 493	$ (500)

11. Net Income (Loss) Per Share

Basic net income (loss) per share is computed using the weighted-average number of shares of common stock outstanding. Diluted income (loss) per share is a measure of the potential dilution that would occur if stock options had been exercised. Potentially dilutive securities of 55,000 shares have been excluded from the computation of diluted net loss per share, for the three months ended March 31, 2009, as their effect would be anti-dilutive.

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

(In thousands, except per share amounts)	Three months ended March 31, 2010	Three months ended March 31, 2009

Numerator for basic and diluted net income (loss) per share:				
Net income (loss) available to common stockholders	$	499	$	(501)
Denominator for net income (loss) per share:				
Basic—weighted average shares of common stock outstanding		4,824		4,787
Dilutive effect of employee stock options		558		—
Diluted		5,382		4,787
Net income (loss) per share:				
Basic	$	0.10	$	(0.10)
Diluted	$	0.09	$	(0.10)

INSWEB CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

12. Commitments and Contingencies

Leases

InsWeb has a non-cancelable 10-year operating lease agreement through April 2011 for office space in the Sacramento area which houses its corporate headquarters. InsWeb has an option to extend the lease at the end of the lease term, and has the right of first refusal on other office space in the complex.

Securities Class Action

A securities class action lawsuit was filed on December 5, 2001 in the United States District Court for the Southern District of New York, (the “Court”) purportedly on behalf of all persons who purchased our common stock from July 22, 1999 through December 6, 2000. The complaint named as defendants InsWeb, certain current and former officers and directors, and three investment banking firms that served as underwriters for InsWeb’s initial public offering in July 1999. The complaint, as subsequently amended, alleges violations of Sections 11 and 15 of the Securities Act of 1933 and Sections 10 and 20 of the Securities Exchange Act of 1934, on the grounds that the prospectuses incorporated in the registration statements for the offering failed to disclose, among other things, that (i) the underwriters had solicited and received excessive and undisclosed commissions from certain investors in exchange for which the underwriters allocated to those investors material portions of the shares of our stock sold in the offerings and (ii) the underwriters had entered into agreements with customers whereby the underwriters agreed to allocated shares of the stock sold in the offering to those customers in exchange for which the customers agreed to purchase additional shares of InsWeb stock in the aftermarket at pre-determined prices. No specific damages are claimed. Similar allegations have been made in lawsuits relating to more than 300 other initial public offerings conducted in 1999 and 2000, all of which have been consolidated for pretrial purposes. In October 2002, all claims against the individual defendants were dismissed without prejudice. In February 2003, the Court dismissed the claims in the InsWeb action alleging violations of the Securities Exchange Act of 1934 but allowed the plaintiffs to proceed with the remaining claims. In June 2003, the plaintiffs in all of the cases presented a settlement proposal to all of the issuer defendants. Under the proposed settlement, the plaintiffs would dismiss and release all claims against participating defendants in exchange for a contingent payment guaranty by the insurance companies collectively responsible for insuring the issuers in all the related cases, and the assignment or surrender to the plaintiffs of certain claims the issuer defendants may have against the underwriters. InsWeb and most of the other issuer defendants have accepted the settlement proposal. While the District Court was considering final approval of the settlement, the Second Circuit Court of Appeals vacated the class certification of plaintiffs’ claims against the underwriters in six cases designated as focus or test cases. On December 14, 2006, the District Court ordered a stay of all proceedings in all of the lawsuits pending the outcome of plaintiffs’ petition to the Second Circuit for rehearing en banc and resolution of the class certification issue. On April 6, 2007, the Second Circuit denied the plaintiffs’ petition for rehearing, but clarified that the plaintiffs may seek to certify a more limited class in the District Court. Because of the significant technical barriers presented by the Court’s decision, the parties withdrew the proposed settlement and the plaintiffs filed an amended complaint. Representatives of all of the parties to the IPO litigation agreed to a revised settlement, and this settlement was approved by the District Court on October 5, 2009. As with the earlier settlement proposal, the revised settlement proposal does not require InsWeb to contribute any cash. The revised settlement was approved by the District Court on October 5, 2009, but a number of plaintiffs appealed the approval to the Second Circuit Court of

Appeal. There is no assurance that the new settlement will be upheld on appeal. If the settlement is not upheld, InsWeb intends to defend the lawsuit vigorously. The litigation and settlement process is inherently uncertain and management cannot predict the outcome, though, if unfavorable, it could have a material adverse effect on InsWeb's financial condition, results of operations and cash flows.

INSWEB CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

12. Commitments and Contingencies (continued)

Section 16(b) Lawsuit

On October 12, 2007, Vanessa Simmonds, a purported stockholder of InsWeb, filed a complaint in the United States District Court for the Western District of Washington, against InsWeb and two investment banking firms that served as underwriters for the initial public offering of our common stock in July 1999. The complaint alleges that: (i) the defendants, other underwriters of the offering, and unspecified officers, directors and principal stockholders of InsWeb constituted a "group" that owned in excess of 10% of InsWeb's outstanding common stock between July 23, 1999 and July 20, 2000; (ii) the defendants were therefore subject to the "short swing" prohibitions of Section 16(b) of the Securities Exchange Actgroup of 1934; and (iii) the defendants engaged in purchases and sales, or sales and purchases, of InsWeb's common stock within periods of less than six months in violation of the provisions of Section 16(b). The complaint seeks disgorgement of all profits allegedly received by the defendants, with interest and attorneys fees, for transactions in violation of Section 16(b). InsWeb, as the statutory beneficiary of any potential Section 16(b) recovery, is named as a nominal defendant in the complaint. A number of similar lawsuits against underwriters of other public offerings have recently been filed by the same plaintiff and law firm. On February 11, 2008, the court approved a stipulated order that InsWeb need not answer or otherwise respond to the complaint. On February 28, 2008, the plaintiff filed an amended complaint, and InsWeb was again excused from filing an answer. On March 12, 2009 the court issued an order dismissing the lawsuit with prejudice, but plaintiffs may appeal this order to the Ninth Circuit Court of Appeal. If the lawsuit is reinstated on appeal, InsWeb intends to defend the lawsuit vigorously. The litigation and settlement process is inherently uncertain and management cannot predict the outcome, though, if unfavorable, it could have a material adverse effect on InsWeb's financial condition, results of operations and cash flows.

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

This Quarterly Report on Form 10-Q, and in particular Management's Discussion and Analysis of Financial Condition and Results of Operations, contains "forward-looking statements" with respect to InsWeb's future financial performance. The words or phrases "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," and similar expressions are generally intended to identify forward-looking statements. Such forward-looking statements are subject to various known and unknown risks and uncertainties, and InsWeb cautions you that any forward-looking information provided by, or on behalf of, InsWeb is not a guarantee of future performance. Actual results could differ materially from those anticipated in such forward-looking statements due to a number of factors, some of which are beyond InsWeb's control, including, but not limited to, uncertain economic conditions which could result in lower growth rates, fluctuations in revenues, anticipated and unanticipated losses, the unpredictability of consumer shopping and/or buying behavior, especially on the internet, potential increases in advertising and marketing costs on the internet, the rate of participation by insurance companies and agents, reliance on key customers, who are themselves subject to volatility in their operating cycles, reliance on third party lead aggregators who provide leads to their networks of insurance providers on InsWeb's behalf, competition, risks associated with system development and operation risks, management of potential growth and risks of new business areas, business combinations, litigation in which InsWeb is a party, and strategic alliances. These risks and uncertainties, as well as other risks and uncertainties, which are described in greater detail in InsWeb's Annual Report on Form 10-K for the year ended December 31, 2009 and other documents filed with the Securities and Exchange Commission, could cause InsWeb's actual results to differ materially from historical results or those currently anticipated. All forward-looking statements are based on information available to InsWeb on the date hereof, and InsWeb assumes no obligation to update such statements.

Overview

InsWeb (the "Company," "InsWeb," "we," "us," or "our") operates an online insurance marketplace that electronically matches consumers and providers of automobile, property, health, term life and small business insurance. InsWeb has combined extensive knowledge of the insurance industry, technological expertise and close relationships with insurance companies, agents and other providers to develop an integrated online marketplace.

InsWeb's principal source of revenues is transaction fees from participating insurance providers, either directly from an insurance company or from a local insurance agent. While quotes obtained through our online insurance marketplace are provided to consumers free of charge, we earn revenues when a qualified lead is delivered to a participating insurance provider or local agent. In certain instances, consumers are provided the opportunity to link directly to a third party insurance provider's website. In these situations, we will be paid a fee for that consumer link or click-through. InsWeb also distributes leads to (and buys leads from) other lead aggregators/lead distributors, such as NetQuote. In these situations, InsWeb receives a share of the revenues earned by these aggregators on leads we send them (and pays them a share of revenues we earn on leads we receive from them).

We have focused our efforts on automobile insurance, which accounted for approximately 83% and 84% of our transaction revenues in 2009 and 2008 respectively. For the three month period ending March 31, 2010, automobile insurance accounted for 82% of our transaction revenues. For the comparable three month period in 2009, automobile insurance accounted for approximately 84% of transaction revenues. We anticipate that automobile insurance will continue to account for a substantial portion of our revenues for the foreseeable future.

Results of Operations

The following financial highlights and key metrics are provided as a resource for our investors

	Three months Ended March 31, 2010		Three months Ended March 31, 2009	
Revenues (in thousands):				
Auto	$	7,769	$	7,986
Property		992		895
Term life		481		449
Agent directory		101		111
Other		115		43
Total transaction fees	$	9,458	$	9,484
Direct marketing costs (in thousands):	$	6,428	$	6,545
Direct marketing costs as a percent of transaction revenues:		68%		69%
Cash, cash equivalents, short-term investments and restricted cash and short-term investments (in thousands):	$	9,888	$	8,286
Account receivable (in thousands):	$	2,589	$	3,483
Day sales outstanding (DSO):		22		23
Headcount:		62		89

Transaction Fees.

Automobile insurance transaction fees (consisting of lead fees and click through fees) decreased to $7.8 million for the three months ended March 31, 2010, from $8.0 million for the comparable period in 2009. Revenue per consumer was $1.40 for the three months ended March 31, 2010, a decrease from $2.75 for the comparable period in 2009. The decrease in revenue per consumer is a direct result of more consumers being acquired through other lead aggregators. Consumers acquired through aggregators generate less revenue since we are only able to sell these leads to insurance companies that the consumer has not already seen from the other aggregators. We expect revenue per consumer to remain at current levels for the remainder of 2010 as we do not expect significant changes in our marketing sources.

Property insurance transaction fees (consisting primarily of lead fees) increased to $1.0 million for the three months ended March 31, 2010 compared to $0.9 million for the same period in 2009. Revenue per consumer was $1.35 for the three months ended March 31, 2010, a decrease from $4.77 for the comparable period in 2009. The decrease in revenue per consumer can be partially attributed to more consumers being acquired through other lead aggregators. Consumers acquired through other aggregators generate less revenue since we are only able to sell these leads to insurance companies that the consumer has not already seen from the other aggregators. We expect revenue per consumer to remain at current levels for the remainder of 2010, as we do not expect significant changes in our marketing sources.

Term life insurance transaction fees (consisting primarily of lead fees) increased to $0.5 million for the three months ended March 31, 2010 from $0.4 million for the comparable period in 2009. Revenue per consumer was $5.66 for the three months ended March 31, 2010, a decrease from $10.37 for the comparable period in 2009. The decrease in revenue per consumer can be partially attributed to more consumers being acquired through other lead aggregators. Consumers acquired through other aggregators generate less revenue since we are only able to sell these leads to insurance companies that the consumer has not already seen from the other aggregators. The increase in term life transaction revenues in 2010 compared to 2009 is primarily due to continued expansion of term life lead distribution to agents through our AgentInsider program.

We expect auto, property and term life transaction fees to remain at current levels for the remainder of 2010.

Transaction Fees (continued).

Agent directory revenues (consisting of subscription revenue and advertising revenues) remained level at $0.1 million for the three months ended March 31, 2010 and 2009. Agent directory revenues are expected to remain at current levels for the remainder of 2010.

Fees from sales of leads in all other lines of business (including health and small business) were immaterial and are expected to decrease in the fourth quarter.

Operating Expenses

(in thousands, except percentages)	Three months ended March 31, 2010	Three months ended March 31, 2009	Percentage change from prior period
Operating expenses:			
Direct marketing	$ 6,428	$ 6,545	(2)%
Sales and marketing	1,334	1,770	(25)%
Technology	502	958	(48)%
General and administrative	738	803	(8)%

Direct Marketing. Direct marketing expenses consist of advertising, promotions and fees incurred to drive consumer traffic to the InsWeb online marketplace. Our marketing strategy is designed to increase consumer traffic to our website and to drive awareness of our insurance products and services. We employ various means of advertising, which consist primarily of online advertising, sponsored search, portal advertising, e-mail campaigns and strategic partnerships with high-profile online companies and other online lead generators that use our network to complement their network of providers. Fees related to our online marketing are expensed in the period in which the consumer clicks through from a partner's website to InsWeb's website, or in some cases, when the consumer's activity on the InsWeb website generates a lead to an insurance provider.

Direct marketing expenses for the three months ending March 31, 2010 decreased to $6.4 million from $6.5 million for the comparable period in 2009. Direct marketing expenses as a percent of total revenues were 68% for the three months ended March 31, 2010, compared to 69% for the comparable period in 2009. Direct marketing expenses per consumer for all products were $0.84 for the three months ended March 31, 2010, a decrease from $1.60 for the comparable period in 2009. The preceding numbers reflect a significant increase in consumers acquired through InsWeb's agent directory program, with minimal costs associated with the acquisition of these consumers. Also, more consumers were acquired from other aggregators with whom we have revenue sharing arrangements. As mentioned earlier, consumers acquired through other aggregators generate less revenue per consumer. As a result, direct marketing expenses per consumer, excluding consumers acquired through the agent directory, fell to $0.97 for the three months ending March 31, 2010 from $2.04 for the comparable period in 2009.

We expect direct marketing levels to remain at current levels for the remainder of 2010 as we do not expect significant changes in our marketing sources.

Sales and Marketing. Sales and marketing expenses consist primarily of payroll and related expenses, including employee benefits, facility costs, telecommunications and systems costs, for our sales and marketing personnel. Sales and marketing expenses decreased to $1.3 million for the three months ended March 31, 2010, from $1.8 million for the comparable period in 2009. The decrease was due to a reduction in headcount related expenses in 2010 compared to 2009. Sales and marketing expenses are expected to remain at or near current levels.

Technology. Technology expenses consist primarily of payroll and related expenses, including employee benefits, facility and systems costs, for product and site development personnel involved with our technology initiatives. Technology expenses decreased to $0.5 million for the three months ended March 31, 2010, from $1.0 million for the comparable period in 2009. The decrease was primarily due to a reduction in headcount related expenses in 2010 compared to 2009. Technology expenses are expected to remain at or near current levels.

General and Administrative. General and administrative expenses consist primarily of payroll and related expenses, including employee benefits, facility costs, telecommunications and systems costs, for our general management, administrative and accounting personnel, as well as other general corporate expenses. General and administrative expenses decreased to $0.7 million for the three months ended March 31, 2010 from $0.8 million for the comparable period in 2009. The decrease was primarily due to a reduction in headcount related expenses in 2010 compared to 2009. General and administrative expenses are expected to remain at or near current levels.

Income Taxes.

A provision of $4,000 for income taxes was recognized for the three months ended March 31, 2010, compared to a benefit from income taxes of $35,000 for the three months ended March 31, 2009.

Interest Income

Interest income was $5,000 for the three months ended March 31, 2010, a decrease from $14,000 for the comparable period in 2009 relating to the decrease in InsWeb’s cash and investment balances and decrease in yield on InsWeb’s investment securities. Interest income represents interest earned on InsWeb’s investment securities.

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Critical Accounting Policies

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

Revenue Recognition. InsWeb's principal source of revenues is transaction fees from participating insurance providers, either directly from an insurance company or from a local insurance agent. In some cases, the insurance company may fund the cost of these transactions in advance of the actual delivery of leads. In these instances, InsWeb receives the cash, and shows a liability on the balance sheet in the form of deferred revenue. While quotes and other information obtained through InsWeb's online insurance marketplace are provided to consumers free of charge, InsWeb earns revenues from participating insurance companies or agents based on the delivery of qualified leads. In certain instances, consumers are provided the opportunity to link directly to a third-party insurance provider's website ("Sponsored Web Link" program). In these situations, the consumer will complete the third-party company's online application, and InsWeb will be paid a fee for that consumer link or "click-through." InsWeb recognizes revenue when (i) persuasive evidence of an arrangement between InsWeb and the customer exists, (ii) delivery of the product to the customer has occurred or service has been provided to the customer, (iii) the price to the customer is fixed or determinable and (iv) collectability of the sales price is reasonably assured.

Contingencies. As discussed in Part I, Item 1, "Financial Statements — Note 12 — Commitments and Contingencies."Notes to Consolidated Financial Statements of this report, InsWeb is a defendant in: i) a class action lawsuit that alleges InsWeb violated certain federal securities laws at the time of its initial public offering; and ii) a securities lawsuit alleging certain officers and directors and significant shareholders violated the short swing trading prohibition of Section 16(b) of the Securities Exchange Act. InsWeb cannot accurately predict the ultimate outcome of these matters at this time and therefore, cannot estimate the range of probable loss, if any, due to the inherent uncertainties of litigation. InsWeb believes it has meritorious defenses; however InsWeb cannot assure that it will prevail in any of these actions. An unfavorable outcome could have a material adverse effect on InsWeb's financial condition, results of operations and cash flows.

Share-Based Compensation. InsWeb accounts for share-based compensation in accordance with ASC 718, Compensation – Stock Compensation. Under the provisions of ASC 718, share-based compensation cost is generally estimated at the grant date based on the award's fair value as calculated by the Black-Scholes-Merton (BSM) option-pricing model. The BSM model requires various highly judgmental assumptions including expected option life, volatility, and forfeiture rates. If any of the assumptions used in the BSM model change significantly, share-based compensation expense may differ materially in the future from that recorded in the current period. Generally, compensation cost is recognized over the requisite service period. However, to the extent performance conditions affect the vesting of an award; compensation cost will be recognized only if the performance condition is satisfied. Compensation cost will not be recognized, and any previously recognized compensation cost will be reversed, if the performance condition is not satisfied.

Critical Accounting Policies (continued)

Income Taxes. Under the asset and liability method prescribed under ASC 740, Income Taxes, InsWeb recognizes deferred tax assets and liabilities for the future tax consequences attributable to differences between financial statement carrying amounts of assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled.

For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. At December 31, 2008 and December 31, 2009, InsWeb had unrecognized tax benefits of approximately $0.3 million and $0.3 million, respectively (none of which, if recognized, would favorably affect InsWeb's effective tax rate). InsWeb does not believe there will be any material changes in its unrecognized tax positions over the next twelve months.

For tax return purposes, InsWeb had net operating loss carry forwards at December 31, 2009 of approximately $193 million and $77 million for federal income tax and state income tax purposes, respectively. Included in these amounts are unrealized federal and state net operating loss deductions resulting from stock option exercises of approximately $3.6 million each. The benefit of these unrealized stock option-related deductions has not been included in the deferred tax assets table below and will be recognized as a credit to additional paid-in capital when realized. Federal and state net operating loss carry forwards begin expiring in 2011 and 2012, respectively.

The carrying value of our deferred tax assets, which was approximately $71 million at December 31, 2009, is dependent upon our ability to generate sufficient future taxable income. We have established a full valuation allowance against our net deferred tax assets to reflect the uncertainty of realizing the deferred tax benefits, given historical losses. A valuation allowance is required when it is more likely than not that all or a portion of a deferred tax asset will not be realized. This assessment requires a review and consideration of all available positive and negative evidence, including our past and future performance, the market environment in which we operate, the utilization of tax attributes in the past, and the length of carryforward periods and evaluation of potential tax planning strategies. We expect to continue to maintain a full valuation allowance until an appropriate level of profitability is sustained or we are able to develop tax strategies that would enable us to conclude that it is more likely than not that a portion of our deferred tax assets would be realizable.

Liquidity and Capital Resources

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

	Three months ended March 31, 2010	Three months ended March 31, 2009
Cash provided (used) by operating activities	$ 1,370	$ (974)
Cash used in investing activities	(130)	(4,227)
Cash provided by financing activities	19	22

At March 31, 2010, InsWeb's principal source of liquidity was $7.7 million in cash and cash equivalents. Since inception, we have financed our operations primarily through the sale of preferred and common stock.

For the three months ended March 31, 2010, net cash provided by operating activities was $1.4 million, primarily consisting of our net income adjusted for non-cash share-based compensation and depreciation and amortization of property, equipment and intangible assets of $0.7 million. An increase in accounts receivable of $0.6 million and a decrease in accrued expenses of $0.2 million decreased cash provided by operations, while an increase in accounts payable of $0.2 million, a decrease in prepaid expenses and other assets of $0.4 million, and an increase in deferred revenue of $0.9 million increased cash provided by operations. For the comparable three months ended March 31, 2009, net cash used by operating activities was $1.0 million, primarily consisting of our net loss adjusted for non-cash share-based compensation and depreciation and amortization of property, equipment and intangible assets of $0.4 million. An increase in accounts receivable of $2.0 million decreased cash provided by operations, but was partially offset by an increase in accounts payable of $1.2 million and a decrease in prepaid expenses and other assets of $0.2 million.

For the three months ended March 31, 2010, net cash used in investing activities was $0.1 million consisting of a decrease in cash restricted for the use as collateral to obtain a commercial credit line of $1.2 million offset by purchases of short term investments of $1.3 million. InsWeb uses this commercial credit line for many of its larger, recurring accounts payable and will earn a cash rebate of approximately 50-95 basis points, dependent upon the purchase volume during the 2010 calendar year. For the comparable three months ended March 31, 2009 net cash used in investing activities was $4.2 million representing $2.0 million relating to purchases of short term investments and $2.2 million relating to cash restricted for the use as collateral to obtain a commercial credit line.

For the three months ended March 31, 2010 and 2009, net cash provided by financing activities was $19,000 and $22,000 respectively, and was primarily attributable to proceeds from employee stock plans.

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

Aggregate contractual cash obligations, net of contractual sublease income, as of March 31, 2010 is summarized as follows (in thousands):

	Gross lease commitments	Sublease income	Net lease commitment
Year ending December 31, 2010	809	(27)	782
Year ending December 31, 2011	359	—	359
Thereafter	—	—	—

	$ 1,168	$ (27)	$ 1,141

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

Reconciliation of Non-GAAP Financial Measure

In evaluating InsWeb's business, the Company's management considers and uses Adjusted EBITDA as a supplemental measure of operating performance. Adjusted EBITDA refers to a financial measure that the Company defines as net income (loss) excluding interest, taxes, depreciation, amortization, share-based compensation, and other non-recurring gains and losses that are not related to the Company's continuing operations. This measure is an essential component of InsWeb's internal planning process because it facilitates period-to-period comparisons of the Company's operating performance by eliminating potential differences in net income (loss) caused by the existence and timing of non-cash charges and non-recurring gains and losses. Furthermore, Adjusted EBITDA reflects the key revenue and expense items for which InsWeb's operating managers are responsible.

InsWeb Corporation

NON-GAAP FINANCIAL MEASURE AND RECONCILIATION

(In thousands)
(unaudited)

	Three months ended		
	March 31, 2010	December 31, 2009	March 31, 2009
Net income (loss)	$ 499	$ 705	$ (501)
Less			
Interest income	5	5	14
Add			
Provision (benefit) for income taxes	4	-	(35)
Share-based compensation expense	118	28	101
Depreciation and amortization of property, equipment and intangible assets from continuing operations	40	46	47
Severance and related	-	11	-
Adjusted EBITDA from continuing operations	$ 656	$ 785	$ (402)

Adjusted EBITDA is not a measurement of the Company's financial performance under U.S. GAAP and has limitations as an analytical tool. You should not consider it in isolation or as a substitute for the Company's U.S. GAAP net income (loss). The principal limitations of this measure are that: 1) it does not reflect the Company's actual expenses and may thus have the effect of inflating or reducing the Company's net income (loss) and net income (loss) per share; and 2) it may not be comparable to Adjusted EBITDA as reported by other companies.

ITEM 4. CONTROLS AND PROCEDURES

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

(b) There has been no change in our internal control over financial reporting during the three months ended March 31, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II: OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Part I, Item 1, "Financial Statements — Note 12 — Commitments and Contingencies."

ITEM 1A. RISK FACTORS.

Set forth below are the risks that we believe are material to our investors. This section contains forward-looking statements. You should refer to the explanation of the qualifications and limitations on forward-looking statements set forth at the beginning of Item 1 of this report.

We have a history of losses and we may not maintain profitability

We incurred operating losses of $1.3 million in 2009 and $2.5 million in 2008. As of December 31, 2009, our accumulated deficit was $193.0 million. Our operating results for future periods are subject to numerous uncertainties, and we may not generate sufficient revenues to achieve or maintain profitability on a quarterly or annual basis. If we are unable to sustain profitability, we may need to seek additional financing to continue our business operations. Such financing could be on terms that are dilutive to our existing stockholders or could involve the issuance of securities that have rights and preferences that are senior to those associated with our common stock. Moreover, if such financing were not available or were available only upon terms that were unacceptable to us, we could be required to delay, reduce, or cease certain of our operations, any of which could materially harm our business and financial results.

Depressed general economic conditions or further adverse changes in general economic conditions could adversely affect our operating results

The recent, severe economic downturn in the United States has impacted the financial services sector of which our customers (insurance companies and their agents) are a part. As a result of this downturn, insurance companies may choose to scale back the number of policies they write as they file new rates with the state insurance regulators. Similarly, many agents who purchase leads from us operate as a small business, and as such may be less prepared to withstand an extended period of recession. In addition, consumer demand for our insurance shopping service is adversely impacted by the current economic climate because fewer consumers are shopping for cars and homes, two of the primary motivations to shop for insurance. Accordingly, the uncertainty about the impact of economic conditions on our business makes it difficult for us to forecast operating results and to make decisions about future investments.

If we are unable to continue generating positive cash flows from operations, our ability to operate could suffer or cease

Our operating activities in 2009 and 2008 consumed substantial amounts of cash, cash equivalents and short-term investments: during 2009 and 2008 our operations used cash of $0.8 million for each year. At December 31, 2009, we had cash and cash equivalents of $8.5 million, including restricted cash of $2.1 million. Restricted cash consists of cash equivalents used as collateral to obtain a commercial credit line. Pursuant to the agreement the commercial credit agreement, the collateral value of the securities account should be no less than $2.0 million, based on investments held by the Company. As of December 31, 2009, restricted cash used as collateral for the credit line was $2.1 million. The collateral value may become unrestricted, if InsWeb elects to cancel the commercial credit agreement with the issuing bank. In order to remain competitive, we must continue to make investments essential to our ability to operate, including in particular, investments in direct consumer marketing. In addition, we will continue to face the costs of being a public company. In the event that we are unable to generate revenues sufficient to offset our costs, or if our costs of marketing and operations are greater than we anticipate, we may be unable to grow our business at the rate desired or may be required to delay, reduce, or cease certain of our operations, any of which could materially harm our business and financial results.

Our future revenues are unpredictable and our operating results are likely to fluctuate from quarter to quarter

An evaluation of our future prospects is very difficult. An investor in our common stock must consider the possibility that we may not be able to successfully address the uncertainties inherent in a relatively new and rapidly evolving business model. Moreover, due to recent changes in our business model, including the evolution of InsWeb’s agent network program, InsWeb believes that period-to-period comparisons of its operating results are not necessarily meaningful and should not be relied upon as an indication of future performance.

Factors that may cause fluctuations in our operating results include the following, many of which are outside our control:

- We may experience consumer dissatisfaction with our online marketplace as we add or change features, or as the insurance coverage offered by participating insurance companies varies;

- We may experience increases in our direct marketing expenses due to unanticipated increases in the cost of online advertising for insurance;

- Consumer traffic may also fluctuate as a result of changes in level of advertising by entities with which we have insurance marketing relationships;

- Our revenues may be harmed if we lose one or more significant insurance company relationships or if any of our participating insurance companies merge with one another;

- Our revenues may be harmed by inadequate levels of participation by local personal lines insurance agents in our agent network initiative;

- Our revenues may be harmed if the agent network programs offered by third-party intermediaries are unsuccessful or discontinued and we are unsuccessful in securing a replacement;

- Use of the Internet by consumers may fluctuate due to seasonal factors or other uncontrollable factors affecting consumer behavior;

- Our ability to convert site visits into transaction fees and/or revenue from insurance agency activities may fluctuate due to changes in our user interface or other features on our site; and

- Our ability to generate transaction fees and/or revenue from insurance agency activities may also be harmed due to technical difficulties on our website that hamper a consumer's ability to start or complete a shopping session.

Seasonality affecting insurance shopping and Internet advertising may cause fluctuations in our operating results

We typically experience seasonality in our business associated with general slowness in the insurance industry during the year-end holiday period. In addition, online advertising for insurance products becomes more expensive during the holiday period as internet portals and other online firms dedicate an increasing percentage of their inventory to seasonal goods and services. Conversely, the inventory of online advertising typically expands substantially in the first quarter of the year. Because of this seasonality, investors may not be able to predict our annual operating results based on a quarter-to-quarter comparison of our operating results. We believe seasonality will have an ongoing impact on our business.

Because a significant portion of our revenue is attributable to automobile insurance shopping on our online marketplace, we are especially vulnerable to risks related to the online market for automobile insurance or the automobile insurance industry generally

Automobile insurance accounted for approximately 83% of our transaction revenues in 2009 and approximately 84% of our transaction revenues in 2008. We anticipate that automobile insurance will continue to account for a substantial portion of our revenues for the foreseeable future. As a result, if we fail to attract a broad base of consumers to shop for automobile insurance on our site, our ability to generate revenue will be reduced and our business will be harmed. In addition, property and casualty insurance, including automobile insurance, is subject to operating cycles. During a cycle in which loss ratios rise, insurance companies may choose to restrict the amount of business they write while they await approval of rate increases from the various state insurance departments. Our business could be harmed if our participating insurance companies reduce their participation in our online marketplace.

The outcome of current discussions with potential acquisition targets is uncertain, and any acquisition may not improve our operating results.

We recently announced our intention to explore two acquisitions that we believe have the potential for accelerating profitable growth by expansion into other product lines and bolstering our marketing expertise. The discussions with the potential acquisition targets are in the very early stages and InsWeb is unable to predict whether either opportunity would meet our requirements; and therefore we cannot determine if an acquisition will take place. The process of evaluating acquisitions and conducting due diligence reviews is time consuming and may distract our senior managers from their other duties, which may harm our business. In addition, any acquisition that is completed may not provide the improvement to our operating results that we expect because of a variety of factors, including difficulties associated with integrating the acquired company into our existing operations. If an acquisition does not improve our operating results, our business could be harmed.

We are exposed to increased costs and risks associated with complying with the increasing regulation of corporate governance and disclosure standards

We have spent a significant amount of management time and external resources to comply with changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, new SEC regulations and Nasdaq Stock Market rules. In particular, Section 404 of the Sarbanes-Oxley Act of 2002 requires management's annual review and evaluation of our internal control systems, and attestations of the effectiveness of these systems by our independent registered public accounting firm. This process may require us to hire additional personnel and outside advisory services which will result in significant additional accounting and legal expenses. We may be unsuccessful in obtaining an unqualified report on the effectiveness of our internal controls over financial reporting from our independent auditors. In the event that our Chief Executive Officer or Chief Financial Officer determine that our controls over financial
reporting are not effective as defined under Section 404, investor perceptions of our company may be adversely affected and could cause a decline in the market price of our stock.

If we are unable to promote our brands and expand our brand recognition, our ability to draw consumers and agents to our services will be limited

A growing number of websites offer services that are similar to and competitive with the services offered on our online insurance marketplace. Therefore, a positive recognition of our brand is critical to attracting additional consumers to our website. Our current consumer marketing program consists of the maintenance of certain network online relationships and other selective cost effective marketing campaigns, designed to maintain consumer awareness of InsWeb and our online insurance marketplace. Our contracts with companies that direct traffic to InsWeb's website requires use of advertising materials approved by InsWeb. Nevertheless, InsWeb is exposed to the risk that a company may generate consumer traffic to InsWeb by using unapproved content that damages the consumer perception of InsWeb or our participating insurance providers.

InsWeb's local agent sales and marketing efforts seek to identify personal line insurance agents interested in participating in the AgentInsider program through direct mail, email and telephone solicitation, referrals from other local agents and general advertising. In addition, sales efforts are directed toward signing carrier sponsored agreements, whereby insurance carriers promote and market the AgentInsider program to their participating local agents, both captive and independent. In order to attract and retain consumers and local agents and to promote and maintain our brands, we are continuing our financial commitment to both the consumer and agent marketing efforts. However, if our marketing efforts do not generate a corresponding increase in revenues or we otherwise fail to successfully promote our brand, or if these efforts require excessive expenditures, our business will be harmed. Moreover, if consumers or agents do not perceive our existing services to be of high quality, or if we alter or modify our brand image, introduce new services or enter into new business ventures that are not favorably received, the value of our brand could be harmed.

Our ability to maintain a positive recognition of our brand also depends in part on the quality of the products and services consumers receive from our participating providers, including timely response to requests for quotes or coverage. If we are unable to provide consumers with high-quality products and services, the value of our brand may be harmed and the number of consumers using our services may decline.

Competition in the market for online distribution of insurance is intense, and if we are unable to compete effectively with current competitors or new competitors that enter the market, the fees paid to us by participating insurance companies may fall, the fees charged by online companies with which we have strategic relationships may rise, and our market share may suffer

The online insurance distribution market, like the broader electronic commerce market, is both rapidly evolving and highly competitive. Increased competition, particularly by companies offering online insurance distribution, could reduce the fees we are able to charge our participating insurance providers or increase the fees we are required to pay for online advertising, resulting in reduced margins or loss of market share, any of which could harm our business. In addition, our current and future competitors may be able to:

- undertake more extensive marketing campaigns for their brands and services;
- devote more resources to website and systems development;
- adopt more aggressive pricing policies; and
- make more attractive offers to potential employees, online companies and third-party service providers.

Accordingly, we may not be able to maintain or grow consumer traffic to our website and our base of participating insurance companies, our competitors may grow faster than we do, or companies with whom we have strategic relationships may discontinue their relationships with us, any of which would harm our business.

We do not have exclusive relationships or long-term contracts with insurance companies, which may limit our ability to retain these insurance companies as participants in our marketplace and maintain the attractiveness of our services to consumers

We do not have an exclusive relationship with any of the insurance companies whose insurance products are offered on our online marketplace, and thus, consumers may obtain quotes and coverage from these insurance companies without using our website. Our participating insurance companies also offer their products directly to consumers through insurance agents, mass marketing campaigns or through other traditional methods of insurance distribution. In most cases, our participating insurance companies also offer their products and services over the Internet, either directly to consumers or through one or more of our online competitors, or both. In addition, most of our agreements with our participating insurance companies are cancelable at the option of either party upon 90 days' notice or less. Furthermore, our agreements permit the insurance company to limit its participation to certain states. We have experienced, and expect to continue to experience, reductions in the level of participation in our marketplace or complete termination by participating insurance companies.These reductions in participation, terminations, or an inability to attract additional insurance companies to our marketplace could materially affect our revenues and harm our business.

The outcome and impact of the securities class action lawsuit involving InsWeb is uncertain

A securities class action lawsuit was filed on December 5, 2001 in the United States District Court for the Southern District of New York, (the “Court”) purportedly on behalf of all persons who purchased our common stock from July 22, 1999 through December 6, 2000. The complaint named as defendants InsWeb, certain current and former officers and directors, and three investment banking firms that served as underwriters for InsWeb’s initial public offering in July 1999. The complaint, as subsequently amended, alleges violations of Sections 11 and 15 of the Securities Act of 1933 and Sections 10 and 20 of the Securities Exchange Act of 1934, on the grounds that the prospectuses incorporated in the registration statements for the offering failed to disclose, among other things, that (i) the underwriters had solicited and received excessive and undisclosed commissions from certain investors in exchange for which the underwriters allocated to those investors material portions of the shares of our stock sold in the offerings and (ii) the underwriters had entered into agreements with customers whereby the underwriters agreed to allocated shares of the stock sold in the offering to those customers in exchange for which the customers agreed to purchase additional shares of InsWeb stock in the aftermarket at pre-determined prices. No specific damages are claimed. Similar allegations have been made in lawsuits relating to more than 300 other initial public offerings conducted in 1999 and 2000, all of which have been consolidated for pretrial purposes. In October 2002, all claims against the individual defendants were dismissed without prejudice. In February 2003, the Court dismissed the claims in the InsWeb action alleging violations of the Securities Exchange Act of 1934 but allowed the plaintiffs to proceed with the remaining claims. In June 2003, the plaintiffs in all of the cases presented a settlement proposal to all of the issuer defendants. Under the proposed settlement, the plaintiffs would dismiss and release all claims against participating defendants in exchange for a contingent payment guaranty by the insurance companies collectively responsible for insuring the issuers in all the related cases, and the assignment or surrender to the plaintiffs of certain claims the issuer defendants may have against the underwriters. InsWeb and most of the other issuer defendants have accepted the settlement proposal. While the District Court was considering final approval of the settlement, the Second Circuit Court of Appeals vacated the class certification of plaintiffs’ claims against the underwriters in six cases designated as focus or test cases. On December 14, 2006, the District Court ordered a stay of all proceedings in all of the lawsuits pending the outcome of plaintiffs’ petition to the Second Circuit for rehearing en banc and resolution of the class certification issue. On April 6, 2007, the Second Circuit denied the plaintiffs’ petition for rehearing, but clarified that the plaintiffs may seek to certify a more limited class in the District Court. Because of the significant technical barriers presented by the Court’s decision, the parties withdrew the proposed settlement and the plaintiffs filed an amended complaint. Representatives of all of the parties to the IPO litigation agreed to a revised settlement; as with the earlier settlement proposal, the revised settlement proposal does not require InsWeb to contribute any cash. The revised settlement was approved by the District Court on October 5, 2009, but a number of plaintiffs appealed the approval to the Second Circuit Court of Appeal. There is no assurance that the new settlement will be upheld on appeal. If the settlement is not upheld, InsWeb intends to defend the lawsuit vigorously. The litigation and settlement process is inherently uncertain and management cannot predict the outcome, though, if unfavorable, it could have a material adverse effect on InsWeb’s financial condition, results of operations and cash flows.

Laws and regulations that govern the insurance industry could expose us, or our participating insurance companies, our officers, or agents with whom we contract, to legal penalties if we fail to comply, and could require changes to our business

We perform functions for licensed insurance companies and are, therefore, required to comply with a complex set of rules and regulations that often vary from state to state. If we fail to comply with these rules and regulations, we, an insurance company doing business with us, our officers, or agents with whom we contract, could be subject to various sanctions, including censure, fines, a cease-and-desist order or other penalties. This risk, as well as changes in the regulatory climate or the enforcement or interpretation of existing law, could expose us to additional costs, including indemnification of participating insurance companies for their costs, and could require changes to our business or otherwise harm our business. Furthermore, because the application of online commerce to the consumer insurance market is relatively new, the impact of current or future regulations on InsWeb’s business is difficult to anticipate.

If we are unable to safeguard the security and privacy of consumers’ and participating insurance companies’ confidential data, consumers and insurance companies may not use our services and our business may be harmed

A significant barrier to electronic commerce and communications is the secure transmission of personally identifiable information of Internet users as well as other confidential information over public networks. If any compromise or breach of security were to occur, it could harm our reputation and expose us to possible liability. A party who is able to circumvent our security measures could misappropriate proprietary information or cause interruptions in our operations. We may be required to make significant expenditures to protect against security breaches or to alleviate problems caused by any breaches. To date, we have experienced no breaches in our network security. We rely on encryption and authentication technology licensed from third parties to provide the security and authentication necessary to effect secure transmission of confidential information, such as names, addresses, Social Security and credit card numbers, user names and passwords and insurance company rate information. Advances in computer capabilities, new discoveries in the field of cryptography, or other events or developments could result in a compromise or breach of the algorithms we use to protect consumers’ and insurance companies’ confidential information.

System failures or internet service failures could reduce or limit traffic on our website or interrupt our communications with individual insurance companies and harm our ability to generate revenue

Since launching our online marketplace, we have experienced occasional minor system failures or internet service failures that have resulted in all or a portion of our online marketplace being out of service for a period of time while our technicians brought backup systems online. We may experience further system failures or internet service failures in the future that could disrupt the operation of our website and could harm our business. Our revenues depend in large part on the volume of traffic on our website and, more particularly, on the number of insurance quotes generated by our website in response to consumer inquiries. Accordingly, the performance, reliability and availability of our website, quote-generating systems and network infrastructure are critical to our reputation and our ability to attract a high volume of traffic to our website and to attract and retain participating insurance companies. Moreover, we believe that consumers who have a negative experience with an electronic commerce website may be reluctant to return to that site. Thus, a significant failure or outage affecting our systems could result in severe long-term damage to our business.

Additionally, several of our participating insurance companies have chosen a technical solution that requires that our website servers communicate with these insurance companies’ computer systems in order to perform the underwriting and risk analysis and rating functions required to generate quotes. Thus, the availability of quotes from a given insurance company may depend in large part upon the reliability of that insurance company's own computer systems, over which we have no control.

Our facilities and systems are vulnerable to natural disasters and other unexpected losses, and we may not have adequate insurance to cover such losses

Our computer hardware operations are located in leased facilities in Gold River, California. If this location experienced a system failure, the performance of our website would be harmed. These systems are also vulnerable to damage from fire, power loss, telecommunications failures, break-ins, natural disasters and similar events. If we seek to replicate our systems at other locations, we will face a number of technical challenges, particularly with respect to database replications, which we may not be able to address successfully. Although we carry property and business interruption insurance, our coverage may not be adequate to compensate us for all losses that may occur. Our servers may also be vulnerable to computer viruses, physical or electronic break-ins and similar disruptions.

We rely on the services of our executive officers and other key personnel, whose knowledge of our business and the insurance industry and technical expertise would be extremely difficult to replace

Our future success is substantially dependent on the continued services and continuing contributions of our senior management and other key personnel, particularly Hussein A. Enan, Chairman of our Board and Chief Executive Officer. The loss of the services of any of our executive officers or other key employees could harm our business. We have no long-term employment agreements with any of our key personnel, although Kiran Rasaretnam, our Chief Financial Officer, L. Eric Loewe, our Senior Vice President and General Counsel, and Steven Yasuda, our Controller and Chief Accounting Officer and certain other key employees are entitled to certain severance benefits should their employment be involuntarily terminated. We maintain a $2 million life insurance policy on Mr. Enan that names InsWeb as the beneficiary, but we maintain no similar insurance on any of our other key employees. InsWeb has granted stock options as incentives to executive officers, new employees and certain other key personnel. As the value of these incentives is highly dependent on an increase in the market price of our common stock, we may be unable to retain such key employees, nor retain or recruit other officers and key employees in the future.

We are subject to claims for infringement of intellectual property, which, with or without merit, could be costly to defend or settle

From time to time we have been subject to claims of infringement of other parties’ proprietary rights or claims that our own trademarks, patents or other intellectual property rights are invalid. Infringement claims of this type, with or without merit, could be time-consuming to defend, result in costly litigation, divert management attention and resources or require us to enter into royalty or license agreements. License agreements may not be available on reasonable terms, if at all. InsWeb’s assertion or prosecution of any infringement claims against other entities also could be time-consuming and divert management’s attention.

Our stock price has fluctuated widely

The trading price of our common stock has been volatile and may be significantly affected by factors including actual or anticipated fluctuations in our operating results, limited trading volume, new products or new contracts by us or our competitors, loss of key insurance providers, conditions and trends in the electronic commerce and insurance industries, general market conditions and other factors. These fluctuations may continue and could harm our stock price. Any negative change in the public’s perception of the prospects of Internet or electronic commerce companies could also depress our stock price regardless of our results.

Delaware law and our charter documents contain provisions that could discourage or prevent a potential takeover, even if such a transaction would be beneficial to our stockholders

Provisions of Delaware law and our certificate of incorporation and bylaws could make more difficult the acquisition of us by means of a tender offer, a proxy contest, or otherwise, and the removal of incumbent officers and directors.

ITEM 6. EXHIBITS

Exhibit Number	Description of Document
31.1	Certification of Chief Executive Officer, pursuant to Exchange Act Rule 13a-14(a).
31.2	Certification of Chief Financial Officer, pursuant to Exchange Act Rule 13a-14(a).
32	Certification of Chief Executive Officer and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350.