

LoopNet, Inc.
Form 10-Q
November 04, 2009

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2009

OR

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

For the transition period from _____ to _____

**Commission file number 000-52026
LOOPNET, INC.**

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

77-0463987

(I.R.S. Employer Identification No.)

**185 Berry Street, Suite 4000
San Francisco, CA 94107**

(Address of principal executive offices)

(415) 243-4200

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

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

Yes No

As of October 30, 2009, there were 34,543,409 shares of the registrant's common stock outstanding.

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LOOPNET, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	December 31, 2008	September 30, 2009 (unaudited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 61,325	\$ 122,040
Short-term investments	3,262	3,416
Accounts receivable, net of allowance of \$121 and \$181, respectively	1,564	1,758
Prepaid expenses and other current assets	1,530	1,285
Deferred income taxes, net	607	607
Total current assets	68,288	129,106
Property and equipment, net	2,208	2,515
Goodwill	23,056	23,368
Intangibles, net	5,678	4,781
Deferred income taxes, net, non-current	5,829	7,031
Deposits and other noncurrent assets	3,151	3,876
Total assets	\$ 108,210	\$ 170,677
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	\$ 622	\$ 1,234
Accrued liabilities	2,020	2,603
Accrued compensation and benefits	2,759	2,793
Deferred revenue	10,358	9,793
Total current liabilities	15,759	16,423
Commitments and contingencies		
Series A convertible preferred stock		48,122
Stockholders equity:		
Common stock, \$.001 par value, 125,000,000 shares authorized; 39,218,665 and 39,443,402 shares issued, respectively; and 34,292,704 and 34,517,441 shares outstanding, respectively	39	39
Additional paid in capital	114,915	120,456
Other comprehensive loss	(276)	(428)
Treasury stock, at cost, 4,925,961 shares	(54,556)	(54,556)
Retained earnings	32,329	40,621

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Total stockholders' equity	92,451	106,132
Total liabilities and stockholders' equity	\$ 108,210	\$ 170,677

The accompanying notes are an integral part of these unaudited condensed financial statements.

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LOOPNET, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)
(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2008	2009	2008	2009
Revenues	\$ 22,403	\$ 18,795	\$ 65,019	\$ 58,145
Cost of revenue (1)	2,876	2,670	7,994	8,339
Gross margin	19,527	16,125	57,025	49,806
Operating expenses (1):				
Sales and marketing	4,711	2,650	14,375	11,394
Technology and product development	2,301	2,833	6,648	8,047
General and administrative	5,227	5,547	14,232	17,418
Total operating expenses	12,239	11,030	35,255	36,859
Income from operations	7,288	5,095	21,770	12,947
Interest and other income, net	459	52	1,914	159
Income before tax	7,747	5,147	23,684	13,106
Income tax expense	2,927	1,342	9,476	4,659
Net income	4,820	3,805	14,208	8,447
Convertible preferred stock accretion of discount		(85)		(155)
Net income applicable to common stockholders	\$ 4,820	\$ 3,720	\$ 14,208	\$ 8,292
Net income per share applicable to common stockholders				
Basic	\$ 0.14	\$ 0.09	\$ 0.39	\$ 0.20
Diluted	\$ 0.13	\$ 0.09	\$ 0.38	\$ 0.19
Weighted average shares				
Basic	35,503	41,915	36,243	41,833

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Diluted	36,787	42,919	37,693	42,765
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(1) Stock-based compensation is allocated as follows:

Cost of revenue	\$ 153	\$ 4	\$ 408	\$ 361
Sales and marketing	554	(755)	1,632	481
Technology and product development	347	699	919	1,745
General and administrative	465	1,174	1,418	2,475

Total	\$ 1,519	\$ 1,122	\$ 4,377	\$ 5,062
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The accompanying notes are an integral part of these unaudited condensed financial statements.

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LOOPNET, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(unaudited)

	Nine Months Ended September	
	30,	
	2008	2009
Cash flows from operating activities:		
Net income	\$ 14,208	\$ 8,447
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	1,584	1,922
Stock-based compensation	4,377	5,062
Tax benefits from exercise of stock options	(689)	(288)
Deferred income tax	(938)	(1,202)
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(652)	(193)
Prepaid expenses and other assets	(1,892)	(16)
Income taxes payable	(9)	288
Accounts payable	78	612
Accrued expenses and other current liabilities	2,084	583
Accrued compensation and benefits	29	35
Deferred revenue	1,314	(566)
Net cash provided by operating activities	19,494	14,684
Cash flows from investing activities:		
Purchase of property and equipment	(1,041)	(1,352)
Purchase of investments	(750)	(750)
Acquisitions, net of acquired cash	(12,584)	(312)
Net cash used in investing activities	(14,375)	(2,414)
Cash flows from financing activities:		
Net proceeds from exercise of stock options	327	190
Net proceeds from sale of preferred stock		47,967
Repurchase of common stock	(44,595)	
Tax benefits from exercise of stock options	689	288
Net cash provided by (used in) financing activities	(43,579)	48,445
Net increase (decrease) in cash and cash equivalents	(38,460)	60,715
Cash and cash equivalents at beginning of period	104,564	61,325

Cash and cash equivalents at end of period	\$ 66,104	\$ 122,040
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The accompanying notes are an integral part of these unaudited condensed financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Background and Basis of Presentation

Basis of Presentation

The accompanying condensed consolidated balance sheet as of September 30, 2009, the statements of income for the three and nine months ended September 30, 2008 and 2009 and the statements of cash flows for the nine months ended September 30, 2008 and 2009 are unaudited. These statements should be read in conjunction with the audited consolidated financial statements and related notes, together with management's discussion and analysis of financial position and results of operations, contained in the Company's annual report on Form 10-K for the year ended December 31, 2008.

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States. In the opinion of the Company's management, the unaudited condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements in the Company's annual report on Form 10-K for the year ended December 31, 2008 and include normal and recurring adjustments necessary for the fair presentation of the Company's financial position for the periods presented. The results for the three and nine months ended September 30, 2009 are not necessarily indicative of the results to be expected for the fiscal year ending December 31, 2009. The Company has evaluated subsequent events after the balance sheet date through the financial statement issuance date for appropriate accounting and disclosure.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ materially from these estimates.

Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) established the FASB *Accounting Standard Codification* (Codification) as the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements issued for interim and annual periods ending after September 15, 2009. The Codification, which launched July 1, 2009, has changed the manner in which GAAP guidance is referenced, but did not have an impact on the Company's financial position, results of operations or cash flows.

In December 2007, the FASB issued guidance regarding principles and requirements for how an acquirer accounts for business combinations. This guidance provides greater consistency in the accounting and financial reporting of business combinations. It requires the acquiring entity in a business combination to recognize all assets acquired and liabilities assumed in the transaction, establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed, and requires the acquiror to disclose the nature and financial effect of the business combination. This guidance is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Effective beginning January 1, 2009, the Company will account for future business combinations in accordance with its provisions. There has been no material impact on the financial statements; however, the future effects of this guidance will affect any future acquisitions completed by the Company.

In December 2007, the FASB issued guidance to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This guidance is effective for fiscal years beginning after December 15, 2008. Effective beginning January 1, 2009, the Company adopted this guidance and there has been no material impact on the financial statements.

Table of Contents**Note 2 Earnings Per Share (EPS)**

The share count used to compute basic and diluted net income per share is calculated as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2008	2009	2008	2009
Weighted average common shares outstanding	35,503	34,475	36,243	34,393
Convertible preferred stock		7,440		7,440
Shares used to compute basic net income applicable to common stockholders	35,503	41,915	36,243	41,833
Add dilutive common equivalents:				
Stock options	1,223	942	1,371	898
Restricted stock units	11	62	11	34
Unvested restricted stock (1)	50	0	68	0
Shares used to compute diluted net income applicable to common stockholders	36,787	42,919	37,693	42,765

(1) Outstanding unvested common stock purchased by employees is subject to repurchase by the Company and therefore is not included in the calculation of the weighted-average shares outstanding for basic earnings per share.

The following is a summary of the securities outstanding during the respective periods that have been excluded from the calculations because the effect on earnings per share would have been anti-dilutive (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2008	2009	2008	2009
Stock options	3,157	4,898	2,414	4,741
Restricted stock units		113		114

The following table sets forth the computation of basic and diluted EPS (in thousands, except in per share data):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2008	2009	2008	2009

Calculation of basic net income per share applicable to common stockholders

Net income	\$ 4,820	\$ 3,805	\$ 14,208	\$ 8,447
Convertible preferred stock accretion of discount		(85)		(155)

Net income applicable to common stockholders	\$ 4,820	\$ 3,720	\$ 14,208	\$ 8,292
Shares used to compute basic net income applicable to common stockholders	35,503	41,915	36,243	41,833

Basic net income per share applicable to common stockholders	\$ 0.14	\$ 0.09	\$ 0.39	\$ 0.20
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Calculation of diluted net income per share applicable to common stockholders

Net Income	\$ 4,820	\$ 3,805	\$ 14,208	\$ 8,447
Convertible preferred stock accretion of discount		(85)		(155)

Net income applicable to common stockholders	\$ 4,820	\$ 3,720	\$ 14,208	\$ 8,292
Shares used to compute diluted net income applicable to common stockholders	36,787	42,919	37,693	42,765

Dilutive net income per share applicable to common stockholders	\$ 0.13	\$ 0.09	\$ 0.38	\$ 0.19
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Table of Contents**Note 3 Acquisitions**

On April 7, 2008, the Company acquired all of the shares of capital stock of REApplications, Inc., a private company incorporated in Delaware (REApps) pursuant to a Stock Purchase Agreement dated as of April 7, 2008, by and among the Company and the shareholders of REApps for a purchase price of \$9.2 million net of acquired cash.

On July 29, 2008, the Company acquired all of the shares of capital stock of RPB Media, Inc., a private company incorporated in Massachusetts pursuant to a Stock Purchase Agreement dated as of July 29, 2008, by and among the Company and the sole shareholder of RPB Media, Inc. for a purchase price of \$2.1 million net of acquired cash. In addition, the Company is obligated to make additional cash payments up to \$750,000 if certain performance targets are met, which would be treated as additional consideration for the acquisition. On February 26, 2009, the Company made a cash payment of \$187,500, which represents the first of four potential contingent payment obligations. On July 27, 2009, the Company made a second cash payment of \$125,000. On August 19, 2008, Articles of Amendment were filed with The Commonwealth of Massachusetts to amend the exact name of the corporation from RPB Media, Inc. to LandAndFarm.com, Inc. (LandAndFarm).

The acquisitions of REApps and LandAndFarm were accounted for as a purchase consistent with the authoritative guidance of Business Combinations (see the Company's 2008 Form 10-K for additional information).

Note 4 Series A Convertible Preferred Stock

On April 14, 2009, the Company completed a \$50 million private placement to accredited investors (the Purchasers). The transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended. Pursuant to the Securities Purchase Agreement (the Purchase Agreement), the Company agreed to sell to the Purchasers an aggregate of 50,000 shares of its newly-created Series A Convertible Preferred Stock, par value \$0.001 per share (the Series A Preferred Stock). The Series A Preferred Stock is initially convertible into an aggregate of 7,440,476 shares of the Company's common stock, par value \$0.001 per share (the Common Stock), at a conversion price of \$6.72 per share (as may be adjusted for stock dividends, stock splits or similar recapitalizations).

The holders of the Series A Preferred Stock are entitled to receive, prior to any distribution to the holders of the Common Stock, an amount per share equal to the greater of (1) the Original Issue Price, plus any declared and unpaid dividends and (2) the amount that Purchasers would receive in respect of the shares of Common Stock issuable upon conversion of the Series A Preferred Stock if all of the then outstanding Series A Preferred Stock were converted into Common Stock. The rights, privileges and preferences of the Series A convertible preferred stock are set forth in the Certificate of Designations of Series A Convertible Preferred Stock attached as an exhibit to the Company's Form 8-K filed with the SEC on April 2, 2009.

The transaction closed on April 14, 2009. The net proceeds of \$48 million from the issuance of the Series A Preferred Stock are net of issuance costs of \$2 million. The Series A Preferred Stock reported on the Company's condensed consolidated balance sheet consists of the net proceeds plus the amount of accretion for issuance costs. Such accretion costs are being accreted over 72 months with such accretion being recorded as a reduction in retained earnings. For the three months and nine month periods ended September 30, 2009, the Company recorded accretion on the issuance costs of \$85,000 and \$155,000, respectively.

Note 5 Stock-Based Compensation

In the first quarter of 2006, the Company adopted the authoritative guidance of stock-based compensation accounting. This guidance requires that share-based payment transactions with employees be recognized in the financial statements based on their fair value and recognized as compensation expense over the vesting period. The Company adopted this guidance effective January 1, 2006, prospectively for new equity awards issued subsequent to January 1, 2006.

In connection with this guidance, the Company reviewed and updated, among other things, its forfeiture rate, expected term and volatility assumptions. The weighted average expected lives of the options for the three and nine month periods ended September 30, 2009 reflects the application of the simplified method. The simplified method defines the life as the average of the contractual term of the options and the weighted average vesting period for all option tranches. Estimated volatility for the three and nine month periods ended September 30, 2009 also reflects the application of the authoritative guidance and, accordingly, incorporates historical volatility of similar companies whose share price is publicly available.

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The fair value of each option is estimated on the date of grant using the Black-Scholes method with the following assumptions:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2008	2009	2008	2009
Risk-free interest rate	3.11%	2.47%	3.00%	2.15%
Expected volatility	42%	51%	42%	49%
Expected life	4.6 years	4.6 years	4.6 years	4.6 years
Dividend yield	0%	0%	0%	0%