INFOSPACE INC
Form 10-Q
August 06, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2008

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from __________ to __________

Commission File Number: 000-25131

INFOSPACE, INC.

(Exact name of registrant as specified in its charter)

Delaware	**91-1718107**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

601 108th Avenue NE, Suite 1200

Bellevue, Washington	**98004**
(Address of principal executive offices)	**(Zip Code)**

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

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

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

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

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

¨ Yes x No

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

Class	Outstanding at August 1, 2008
Common Stock, Par Value $.0001	34,554,671

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INFOSPACE, INC.

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Item 1. Financial Statements

INFOSPACE, INC.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(amounts in thousands, except share data)

	June 30, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 161,624	$ 498,326
Short-term investments, available-for-sale	29,690	39,019
Accounts receivable, net of allowance of $102 and $202	16,155	17,081
Notes and other receivables	944	7,104
Prepaid expenses and other current assets	1,788	1,902
Assets of discontinued operations	25	4,730
Total current assets	210,226	568,162
Property and equipment, net	18,239	10,945
Long-term investments, available-for-sale	27,179	37,472
Goodwill and other intangible assets, net	44,123	44,123
Other long-term assets	9,283	10,722
Total assets	$ 309,050	$ 671,424
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 7,104	$ 5,148
Accrued expenses and other current liabilities	24,336	78,703
Special dividend payable		299,296
Liabilities of discontinued operations	3,114	21,753
Total current liabilities	34,554	404,900
Other long-term liabilities	1,481	634
Total liabilities	36,035	405,534
Commitments and contingencies (Note 5)		
Stockholders equity:		
Common stock, par value $.001 authorized, 900,000,000 shares; issued and outstanding, 34,394,872 and 34,321,954 shares	3	3
Additional paid-in capital	1,293,348	1,286,219
Accumulated deficit	(1,021,874)	(1,021,034)
Accumulated other comprehensive income	1,538	702
Total stockholders equity	273,015	265,890
Total liabilities and stockholders equity	$ 309,050	$ 671,424

See accompanying notes to unaudited Condensed Consolidated Financial Statements.

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INFOSPACE, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(amounts in thousands, except per share data)

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Revenues	$ 38,328	$ 31,763	$ 80,510	$ 67,627
Operating expenses:				
Content and distribution	18,062	12,597	39,854	27,545
Systems and network operations	2,774	2,406	5,216	4,685
Product development	2,929	2,484	5,138	4,763
Sales and marketing	6,041	6,665	9,830	11,490
General and administrative	4,960	29,557	12,682	39,199
Depreciation	1,731	1,273	3,218	2,656
Restructuring and other, net	(2,011)	(1,669)	(1,871)	(2,502)
Total operating expenses	34,486	53,313	74,067	87,836
Operating income (loss)	3,842	(21,550)	6,443	(20,209)
Gain (loss) on investments, net	(4,362)	65	(11,069)	65
Other income, net	2,654	4,360	4,897	9,685
Income (loss) from continuing operations before income taxes	2,134	(17,125)	271	(10,459)
Income tax benefit (expense)	577	(3,894)	395	(6,969)
Income (loss) from continuing operations	2,711	(21,019)	666	(17,428)
Loss from discontinued operations, net of taxes	(821)	(7,111)	(1,311)	(11,242)
Gain (loss) on sale of discontinued operations, net of taxes	43		(195)	
Net income (loss)	$ 1,933	$ (28,130)	$ (840)	$ (28,670)
Earnings (loss) per share Basic				
Income (loss) from continuing operations	$ 0.08	$ (0.64)	$ 0.02	$ (0.54)
Loss from discontinued operations	(0.02)	(0.22)	(0.04)	(0.35)
Gain (loss) on sale of discontinued operations	0.00		(0.00)	
Net income (loss) per share	$ 0.06	$ (0.86)	$ (0.02)	$ (0.89)
Weighted average shares outstanding used in computing basic income (loss) per share	34,334	32,626	34,316	32,047
Earnings (loss) per share Diluted				
Income (loss) from continuing operations	$ 0.08	$ (0.64)	$ 0.02	$ (0.54)
Loss from discontinued operations	(0.02)	(0.22)	(0.04)	(0.35)
Gain (loss) on sale of discontinued operations	0.00		(0.00)	
Net income (loss) per share	$ 0.06	$ (0.86)	$ (0.02)	$ (0.89)
Weighted average shares outstanding used in computing diluted income (loss) per share	34,755	32,626	34,628	32,047

Comprehensive income (loss)				
Net income (loss)	$ 1,933	$ (28,130)	$ (840)	$ (28,670)
Foreign currency translation adjustment	26	(5)	114	19
Unrealized loss on investments, available-for-sale	(2,691)	(12)	(10,347)	(28)
Reclassification adjustment for other than temporary losses on investments, available-for-sale, included in net income (loss)	4,362		11,069	
Comprehensive income (loss)	$ 3,630	$ (28,147)	$ (4)	$ (28,679)

See accompanying notes to unaudited Condensed Consolidated Financial Statements.

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INFOSPACE, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(amounts in thousands)

	Six months ended June 30, 2008	Six months ended June 30, 2007
Operating activities:		
Net loss	$ (840)	$ (28,670)
Adjustments to reconcile net loss to net cash used by operating activities:		
Loss from discontinued operations	1,311	17,428
Loss on sale of discontinued operations	195	
Loss on investments	11,069	
Stock-based compensation	7,201	9,486
Depreciation	3,218	2,947
Restructuring and other, net	26	811
Deferred income taxes	(819)	800
Net gain on sale of non-core assets	(1,897)	(3,313)
Other	40	(36)
Cash provided (used) by changes in operating assets and liabilities:		
Accounts receivable	847	(2,359)
Notes and other receivables	5,741	1,847
Prepaid expenses and other current assets	114	83
Other long-term assets	2,442	135
Accounts payable	(991)	(5,169)
Accrued expenses and other current and long-term liabilities	(55,030)	(9,971)
Net cash used by operating activities	(27,373)	(15,981)
Investing activities:		
Purchases of property and equipment	(5,715)	(4,173)
Other long-term assets	(1,003)	
Loan to equity investee		(2,000)
Proceeds from the sale of assets	2,316	2,223
Proceeds from sales and maturities of investments	27,300	225,480
Purchases of investments	(17,984)	(74,523)
Net cash provided by investing activities	4,914	147,007
Financing activities:		
Special dividend paid	(299,146)	(208,203)
Proceeds from stock option and warrant exercises	15	12,756
Proceeds from issuance of stock through employee stock purchase plan	219	741
Repayment of capital lease obligation	(32)	
Net cash used by financing activities	(298,944)	(194,706)
Discontinued operations:		
Net cash provided (used) by operating activities attributable to discontinued operations	(15,299)	20,839
Net cash used by investing activities attributable to discontinued operations		(9,674)
Net cash provided (used) by discontinued operations	(15,299)	11,165
Net decrease in cash and cash equivalents	(336,702)	(52,515)
Cash and cash equivalents:		

Beginning of period	498,326	162,387
End of period	$ 161,624	$ 109,872
Non cash items:		
Purchases of property and equipment under capital lease	$ 1,300	$

See accompanying notes to unaudited Condensed Consolidated Financial Statements.

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INFOSPACE, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. The Company and Basis of Presentation

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

In 2007, the Company sold its directory and mobile businesses. The operating results of the directory and mobile businesses have been presented as discontinued operations in the accompanying unaudited Condensed Consolidated Financial Statements for all periods presented.

The accompanying unaudited Condensed Consolidated Financial Statements include all adjustments, consisting of normal recurring adjustments that, in the opinion of management, are necessary to present fairly the financial information set forth herein. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) have been condensed or omitted pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC). Results of operations for the three and six months ended June 30, 2008 are not necessarily indicative of future financial results. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts may differ, perhaps materially, from these financial estimates.

The Company s chief executive officer, who is its chief operating decision maker, reviews financial information presented on a consolidated basis accompanied by revenue information disaggregated by geographic region and other measures for purposes of allocating resources and evaluating financial performance. The Company s operations are not organized into components below the consolidated unit level, and operating results are not reported to the chief executive officer for components below the consolidated unit level. Accordingly, the Company s management considers InfoSpace to be in a single reporting segment and a single operating unit structure.

Investors should read these interim unaudited Condensed Consolidated Financial Statements and related notes in conjunction with the audited financial statements and related notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2007.

2. Fair Value Measurements

On January 1, 2008, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, issued by the Financial Accounting Standards Board (FASB). SFAS No. 157 defines fair value, establishes a framework for measuring fair value for the purposes of GAAP, and expands required disclosures about fair value measurements. SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy of the Company s financial assets carried at fair value and measured on a recurring basis is as follows (in thousands):

		Fair value measurements at the reporting date using		
	June 30, 2008	Quoted prices in active markets using identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash and cash equivalents	$ 161,624	$ 161,624	$	$
Available-for-sale securities	56,869	29,690		27,179
Equity investment	2,000			2,000
Warrants	188			188

	$ 220,681	$ 191,314	$	$ 29,367

The Company s available-for-sale securities include $27.2 million of auction rate securities (ARS), which are classified as long-term, in the Level 3 category within the input hierarchy, because there are significant unobservable inputs associated with those investments. The Company s ARS are floating rate securities with either long-term maturities or no maturity date, which are marketed by financial institutions with auction reset dates primarily at 28 day intervals to provide short-term

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liquidity. The ARS that the company owns are comprised of two types. The first type of ARS is collateralized by investment-grade corporate debt and prime-rated mortgage-backed debt, has a long-term maturity date, and is insured in the event of default by monoline insurance companies. The second type of ARS has no maturity date and, in the event of default or liquidation of the collateral by the ARS issuer, the Company is entitled to receive non-convertible preferred shares in the ARS issuer; ARS of that type are also known as auction rate preferred securities (ARPS). Beginning in August 2007, auctions for the ARS that the Company held at June 30, 2008 began to fail due to insufficient bids from buyers which resulted in higher interest rates being earned on those securities. While the Company receives regular interest payments for those ARS, the Company does not expect to be able to receive the principal amounts until one or more of the following events occur: future auctions of those ARS are successful, the Company sells those securities in a secondary market which is currently not active, or the issuers redeem those ARS.

Changes in the fair values of financial assets measured on a recurring basis by using significant Level 3 inputs in the three and six months ended June 30, 2008 are as follows (in thousands):

	Financial assets using significant Level 3 inputs for determining fair value Three and six months ended June 30, 2008					
	ARS rated AA	ARPS rated from AA to B	Total ARS and ARPS	Equity investment	Warrants	Total
Balance at January 1, 2008	$ 20,905	$ 16,567	$ 37,472	$ 2,000	$ 188	$ 39,660
Other-than-temporary impairment		(6,707)	(6,707)			(6,707)
Temporary impairment	(1,279)		(1,279)			(1,279)
Temporary impairment reclassified to other-than-temporary		251	251			251
Balance at March 31, 2008	19,626	10,111	29,737	2,000	188	31,925
Other-than-temporary impairment	(2,331)	(2,031)	(4,362)			(4,362)
Temporary impairment reclassified to other-than-temporary	1,804		1,804			1,804
Balance at June 30, 2008	$ 19,099	$ 8,080	$ 27,179	$ 2,000	$ 188	$ 29,367

In the three and six months ended June 30, 2008, the Company recorded an other-than-temporary impairment in Loss on investments, net in the accompanying unaudited Condensed Consolidated Statement of Operations of $4.4 million and $11.1 million, respectively, which included $1.8 million and $2.1 million of impairments previously classified as temporary, respectively. The Company did not record any investment impairments in Loss from investments in the three and six months ended June 30, 2007.

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

At June 30, 2008, the Company held warrants to purchase shares in a privately-held company with a fair value of $188,000. The warrants are classified in Other long-term assets, in Level 3, because there are significant unobservable inputs associated with them. The Company considers the warrants to be derivatives, and follows SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* as amended and interpreted, which requires that all derivatives be carried at fair value. The Company accounts for all derivatives by recognizing the changes in their fair values as gains or losses on investments in its unaudited Condensed Consolidated Statements of Operations.

The Company uses fair value measurements on a recurring basis in the assessment of its equity investment in a privately-held company classified as Other long-term assets, in Level 3, because there are significant unobservable inputs associated with them. At June 30, 2008, the carrying value of its investment in a privately-held company is $2.0 million. The Company assesses its investment in a privately-held company for impairment in accordance with FASB Staff Position FAS 115-1/124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments* and the SEC s Staff Accounting Bulletin Topic 5M, *Other Than Temporary Impairment of Certain Investments in Debt and Equity Securities*. The Company did not record any impairment charges for the investment in a privately-held company in the three and six months ended June 30, 2008 or 2007.

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In the three and six months ended June 30, 2008 and 2007, the Company did not measure the fair value of any of its assets or liabilities other than cash and cash equivalents, available-for-sale investments, warrants and investment in a privately-held company. The Company s management considers the carrying values of accounts receivable, notes and other receivables, prepaid expenses and other current assets, accounts payable, accrued expenses and other current liabilities and assets and liabilities of discontinued operations to approximate fair values primarily due to their short-term nature.

3. Stock-Based Compensation

The Company has included the following amounts for stock-based compensation expense, including the cost related to the Employee Stock Purchase Plan (ESPP), in the accompanying unaudited Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2008 and 2007 (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Systems and network operations	$ 446	$ 264	$ 813	$ 465
Product development	1,047	616	1,640	1,185
Sales and marketing	1,038	1,390	1,891	2,702
General and administrative	1,643	2,809	2,857	5,134
Total	$ 4,174	$ 5,079	$ 7,201	$ 9,486

Excluded from the amounts for the three and six months ended June 30, 2008 and 2007 are the following amounts included in Restructuring, resulting from options held by terminated employees, amounts that were capitalized as part of internal-use software, and amounts that were reclassified as discontinued operations (amounts in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Restructuring	$	$ 86	$ 60	$ (68)
Internal-use software	54	138	437	202
Discontinued operations directory business	7	382	52	943
Discontinued operations mobile business	77	3,351	89	5,668
Total	$ 138	$ 3,957	$ 638	$ 6,745

To estimate the compensation expense that was recognized under SFAS No. 123(R), *Share-Based Payment*, for the three and six months ended June 30, 2008 and 2007, the Company used the fair value at date of grant for Restricted Stock Units (RSUs) and the Black-Scholes-Merton option-pricing model with the following weighted-average inputs for its stock option and ESPP incentive plans:

	Employee stock option plans				Employee stock purchase plan	
	Three months ended June 30,		Six months ended June 30,		Three and six months ended June 30,	
	2008	2007	2008	2007	2008	2007
Risk-free interest rate	2.19%	4.90%	2.46%	4.87%	3.78%	5.12%
Expected dividend yield	0%	0%	0%	0%	0%	0%
Expected volatility	47%	48%	47%	50%	63%	41%

Expected life	2.8 years	2.2 years	2.8 years	2.5 years	6 months	6 months

4. Net Loss Per Share

Basic net loss per share is computed using the weighted average number of common shares outstanding during the period. Diluted loss per share is computed using the weighted average number of common and potentially dilutive shares outstanding during the period. Potentially dilutive shares consist of the incremental common shares issuable upon the exercise of outstanding stock options and warrants using the treasury stock method. Potentially dilutive shares are excluded from the computation of earnings per share if their effect is antidilutive. The treasury stock method calculates the dilutive effect for stock options and warrants with an exercise price less than the average stock price during the period presented.

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(in thousands)	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
Weighted average common shares outstanding, basic	34,334	32,626	34,316	32,047
Dilutive stock options and warrants	421		312	
Weighted average common shares outstanding, diluted	34,755	32,626	34,628	32,047
Antidilutive stock option, RSU, and warrant equivalents excluded from dilutive share calculation	433	1,563	560	1,849
Outstanding stock options with an exercise price more than the average price during the quarter not included in dilutive share calculation	4,931	4,791	5,178	5,367

5. Commitments and Contingencies

The following are the Company s contractual commitments associated with its capital and operating lease obligations (in thousands):

	Remainder of 2008	2009	2010	2011	2012	2013	Total
Operating lease commitments	$ 859	$ 2,021	$ 2,100	$ 2,088	$ 2,158	$ 367	$ 9,593
Capital lease commitments (net of imputed interest and executory costs)	206	454	462	156			1,278
Total	$ 1,065	$ 2,475	$ 2,562	$ 2,244	$ 2,158	$ 367	$ 10,871

As of June 30, 2008, the Company has pledged $6.1 million as collateral for standby letters of credit and bank guaranties for certain of its property leases, which is included in Other long-term assets.

Litigation

On January 11, 2007, EMI Entertainment World, Inc. (EMI) and its associated music publishers filed a lawsuit against the Company and several alleged subsidiaries or predecessors-in-interest in the United States District Court for the Southern District of New York. The plaintiffs charged that the Company breached two ringtone license agreements by underpaying royalties, and infringed the plaintiffs copyrights by making unlicensed use of the plaintiffs works. The plaintiffs claimed in excess of $10 million in damages for the alleged breaches of contract and in excess of $100 million in statutory damages for alleged copyright infringement. The Company filed counterclaims for breach of contract and tortious interference, demanding in excess of $1.5 million in damages. Effective June 30, 2008, the parties entered into a settlement agreement. Pursuant to that settlement, both parties dismissed their claims with prejudice. The settlement agreement did not have a material adverse effect on the Company s business or results of operations and the Company does not expect that it will do so.

Contingencies

In the three months ended June 30, 2008, the Company determined that loss contingencies existed for certain contracts related to the Company s discontinued operations. In the three months ended June 30, 2008, the Company recorded an expense of $380,000 in Loss from discontinued operations in the accompanying unaudited Condensed Consolidated Statement of Operations for these estimated liabilities. Additionally, as of June 30, 2008, it is reasonably possible that additional losses may be incurred, although the Company cannot reasonably estimate any additional possible losses.

Other

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

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

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

6. Restructuring and Other, net

For the three months ended June 30, 2008 and 2007, the Company recorded the recapture of previously recorded Restructuring charges of $114,000 and expensed $378,000, respectively. Restructuring charges were $26,000 and $811,000 for the six months ended June 30, 2008 and 2007, respectively.

In 2007, the Company sold its directory and mobile businesses and, as a result, committed to a plan to make operational changes to its business, which included a reduction in its workforce and, as part of the workforce reduction, consolidation of its facilities.

In 2006, as a result of being informed by one of its carrier partners that it intended to develop direct relationships for mobile ringtone content with the major record labels beginning in 2007, the Company committed to a plan to substantially reduce its mobile content offerings and make operational changes to its business, which included a reduction in its workforce and, as part of the workforce reduction, consolidation of its facilities. The Company recorded $71.9 million of expense related to the plans described above through June 30, 2008.

The Company does not expect to incur material additional restructuring charges in 2008 related to initiatives identified to date that have not yet been recognized in the unaudited Condensed Consolidated Statements of Operations.

Restructuring for the three and six months ended June 30, 2008 and 2007 consists of the following (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Employee separation	$ (26)	$ 472	$ 54	$ 361
Stock-based compensation		86	60	(68)
Contractual commitments	(88)	61	(88)	473
Estimated future lease losses		(370)		(84)
Other		129		129
	$ (114)	$ 378	$ 26	$ 811

At June 30, 2008, the liability associated with the restructuring related charges was $75,000 and consisted of the following (in thousands):

	Employee separation	Contractual commitments	Facility abandonment	Total
Liability at December 31, 2007	$ 7,289	$ 230	$ 109	$ 7,628
Provision for Restructuring	24			24
Adjustments	138	2	(94)	46
Payments in three months ended March 31, 2008	(7,053)	(144)		(7,197)
Liability at March 31, 2008	398	88	15	501
Adjustments	(26)	(88)		(114)
Payments in three months ended June 30, 2008	(312)			(312)
Liability at June 30, 2008	$ 60	$	$ 15	$ 75

Other, net consists of costs and/or benefits that are not directly associated with other revenues or operating expense classifications. Other, net benefit of $1.9 million for the three and six months ended June 30, 2008, and $2.1 million and $3.3 million for the three and six months ended June 30, 2007, respectively, consisted of the net gain on sale of certain non-core assets.

7. Income Taxes

As discussed in Note 7 to the consolidated financial statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2007, the Company has a valuation allowance against the full amount of its net deferred tax asset. The Company currently provides a valuation allowance against deferred tax assets when it is more likely than not that some portion, or all of its deferred tax assets, will not be realized.

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The Company recorded an income tax benefit of $577,000 and $395,000 for the three and six months ended June 30, 2008, respectively. The Company recorded an income tax expense of $3.9 million and $7.0 million for the three and six months ended June 30, 2007, respectively. Income tax expense for each period included U.S. federal tax, state and foreign taxes. Income tax benefit for the three and six months ended June 30, 2008 differed from the tax expense at the statutory rates primarily due to non-deductible permanent differences and the U.S. federal alternative minimum tax and certain one-time items primarily attributable to restructuring. Income tax expense for the three and six months ended June 30, 2007 differed from the tax expense at the statutory rates due to certain one-time items primarily attributable to foreign operations.

During the three and six months ended June 30, 2008, there were no material changes to the unrecognized tax benefits, the total amount of unrecognized tax benefits that would affect the effective tax rate if recognized, the amount of interest and penalties recognized in connection with the unrecognized tax benefits, and the tax years that remain subject to examination. The Company does not believe there will be any material changes in its unrecognized tax benefits over the next twelve months.

8. Discontinued Operations

In 2007, the Company completed the sales of its directory and mobile businesses. The results of operations from the directory and mobile businesses are reflected in the unaudited Condensed Consolidated Financial Statements as discontinued operations for all periods presented. Revenue, income (loss) before taxes, income tax benefit (expense), income (loss) from discontinued operations, net of taxes and gain (loss) on sale of discontinued operations, net of taxes for the three and six months ended June 30, 2008 and 2007 are presented below (in thousands):

	Three months ended June 30, 2008			Three months ended June 30, 2007		
	Directory	Mobile	Total	Directory	Mobile	Total
Revenue from discontinued operations	$	$ 53	$ 53	$ 7,979	$ 30,788	$ 38,767
Income (loss) from discontinued operations before taxes	(7)	(934)	(941)	3,578	(14,869)	(11,291)
Income tax benefit (expense)	(5)	125	120	(1,259)	5,439	4,180
Income (loss) from discontinued operations, net of taxes	$ (12)	$ (809)	$ (821)	$ 2,319	$ (9,430)	$ (7,111)
Gain (loss) on sale of discontinued operations, net of taxes	$ 81	$ (38)	$ 43	$	$	$

	Six months ended June 30, 2008			Six months ended June 30, 2007		
	Directory	Mobile	Total	Directory	Mobile	Total
Revenue from discontinued operations	$	$ 80	$ 80	$ 17,154	$ 72,392	$ 89,546
Income (loss) from discontinued operations before taxes	204	(1,425)	(1,221)	7,889	(25,299)	(17,410)
Income tax benefit (expense)	(4)	(86)	(90)	(3,086)	9,254	6,168
Income (loss) from discontinued operations, net of taxes	$ 200	$ (1,511)	$ (1,311)	$ 4,803	$ (16,045)	$ (11,242)
Gain (loss) on sale of discontinued operations, net of taxes	$ 66	$ (261)	$ (195)	$	$	$

Income (loss) from discontinued operations includes previously unallocated depreciation, amortization, stock-based compensation expense, income taxes, and other corporate expenses that were attributable to the directory and mobile businesses.

Assets and liabilities from discontinued operations at June 30, 2008 and December 31, 2007, which entirely related to the Company s mobile business, consist of the following (in thousands):

	June 30, 2008	December 31, 2007

Accounts receivable	$ 14	$ 4,730
Other assets	11	
Assets of discontinued operations	$ 25	$ 4,730
Accounts payable	$ 45	$ 3,214
Other current liabilities	3,069	18,539
Liabilities of discontinued operations	$ 3,114	$ 21,753

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9. Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS No. 141(R)). In SFAS No. 141(R), the FASB retained the fundamental requirements of SFAS No. 141 to account for all business combinations using the acquisition method and for an acquiring entity to be identified in all business combinations. However, the revised standard requires the acquiring entity in a business combination to recognize all the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to immediately expense costs related to the acquisition. SFAS No. 141(R) is effective for annual periods beginning on or after December 15, 2008. Accordingly, any business combinations the Company engages in will be recorded and disclosed according to the provisions of SFAS No. 141 until January 1, 2009. The impact that SFAS No. 141(R) will have on the Company s consolidated financial statements when effective will depend upon the nature, terms and size of the acquisitions completed after the effective date.

On January 1, 2008, the Company adopted the provisions of SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosure of fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements and accordingly, does not require any new fair value measurements. On February 12, 2008, the FASB issued Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157*, which delayed the effective date of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008. The adoption of SFAS No. 157 for financial assets and liabilities did not have a material impact on the Company s financial position, cash flows, or results of operations. The Company is currently evaluating the remaining provisions of SFAS No. 157 to determine what effect its adoption on January 1, 2009 for nonfinancial assets and nonfinancial liabilities will have on its financial position, cash flows, and results of operations.

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

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

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

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

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

statements requiring the state of financial markets; and

statements regarding potential liability from contractual relationships.

Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause our results, levels of activity, performance, achievements and prospects, and those of the Internet industries generally, to be materially different from those expressed or implied by such forward-looking statements. These risks, uncertainties and other factors include, among others, those identified under Item 1A, Risk Factors and elsewhere in this report.

Overview

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

We offer search services that enable Internet users to locate information, merchants, individuals, and products online. We offer search services through our Web sites, Dogpile.com, WebCrawler.com, MetaCrawler.com, and WebFetch.com, as well as through the Web properties of distribution partners. Partner versions of our Web offerings are generally private-labeled and delivered with each distribution partner s unique requirements.

We were founded in 1996 and are incorporated in the state of Delaware. Our principal corporate office is located in Bellevue, Washington. We also have an office in Bangalore, India. Our common stock is listed on the NASDAQ Global Select Market under the symbol INSP.

From 2004 to 2007, InfoSpace was comprised of three businesses: online search, online directory, and mobile. The mobile business was comprised of a mobile content product offering and a mobile services offering. In 2006, as a result of being informed by one of our carrier partners that it intended to develop direct relationships for mobile ringtone content with the major record labels beginning in 2007, we restructured our operations accordingly, substantially reduced our mobile content offerings in 2007 and sold significant portions of our remaining mobile content assets. In addition, we undertook further strategic restructuring initiatives in 2007 which resulted in the sales of our online directory business and mobile services business in the fourth quarter of 2007. In December 2007, as a result of the sales of those businesses, we committed to a plan to make operational changes to our business, which included a reduction in our workforce and, as part of the workforce reduction, consolidation of our facilities. Following the sale of our mobile and directory businesses, our revenues are derived exclusively from providing search products and services.

Company Internet Site and Availability of SEC Filings

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

Overview of Second Quarter 2008 Operating Results

The following is an overview of our operating results for the three months ended June 30, 2008. A more detailed discussion, comparing our operating results for the three and six months ended June 30, 2008 and 2007, is included under the heading Historical Results of Operations in this Management s Discussion and Analysis of Financial Condition and Results of Operations.

We generate revenues from our Web search services when an end user of our services clicks on a paid search link displayed on our Web site or displayed on a distribution partner s Web property. In addition, we earn services revenue from certain distribution partners, such as a fixed monthly fee in exchange for portal infrastructure services. Revenues from continuing operations for the three months ended June 30, 2008 increased to $38.3 million from $31.8 million in the three months ended June 30, 2007. This increase was due to an increase in revenue from search results delivered through certain of our distribution partners and was partially offset by decreased paid click volume on our owned properties. During the three months ended June 30, 2008, approximately 63% of our search revenues came from our search distribution partners, as compared to approximately 53% during the three months ended June 30, 2007.

Content and distribution costs from continuing operations for the three months ended June 30, 2008 increased to $18.1 million from $12.6 million in the three months ended June 30, 2007, primarily due to increases in revenue from search results delivered through certain of our distribution partners and increases in our revenue sharing rates.

Other operating expenses from continuing operations for the three months ended June 30, 2008 were $18.4 million, a decrease from $42.4 million in the three months ended June 30, 2007. Other operating expenses include expenses related to Systems and network operations, Product development, Sales and marketing, General and administrative, and Depreciation, and exclude Restructuring and other, net. The decrease from the three months ended June 30, 2007 was primarily attributable to decreases in payments made to employees related to the cash distribution to shareholders in May 2007, stock-based compensation expense relating to stock-based incentives provided to our employees, and other operating expenses as a result of our restructuring described above.

Restructuring and other, net for the three months ended June 30, 2008 primarily consisted of the $1.9 million gain on sale of certain non-core assets.

In the three months ended June 30, 2008, we recorded a loss on investments of $4.4 million related to the illiquid auction rate securities investments that we held at June 30, 2008.

Other income, net for the three months ended June 30, 2008 was $2.7 million, as compared to $4.4 million in the three months ended June 30, 2007. The decrease was primarily attributable to a decrease in interest income on a lower average balance of investments due to the dividends paid during the second quarter of 2007 and the first quarter of 2008 and was partially offset by income of $1.1 million related to the resolution of a bankruptcy claim. Additionally, we recorded an income tax benefit from continuing operations of $577,000 in the second quarter of 2008, as compared to expense of $3.9 million in the second quarter of 2007.

The operating results of the directory and mobile businesses have been presented as discontinued operations in our unaudited Condensed Consolidated Financial Statements for all periods presented. The process used to separately present continuing and discontinued operations relied on certain estimates and assumptions, and the historical results of operations presented in our unaudited Condensed Consolidated Financial Statements do not necessarily reflect the results of operations

that would have existed had we provided our search services as a standalone business throughout the periods presented. Due to the rapidly evolving nature of our business, overall market conditions and the process used to separately present continuing and discontinued operations, we believe that period-to-period comparisons of our revenues and operating results are not necessarily meaningful, and can be unreliable as indications of future performance.

Loss from discontinued operations for the three months ended June 30, 2008 was $821,000, as compared to $7.1 million in the three months ended June 30, 2007. Gain from the sale of discontinued operations was $43,000 in the three months ended June 30, 2008 as compared to zero for the three months ended June 30, 2007.

Net income for the three months ended June 30, 2008 was $1.9 million compared to a net loss of $28.1 million in the three months ended June 30, 2007. The increase in net income was primarily attributable to the items noted above.

Critical Accounting Policies and Estimates

Management s Discussion and Analysis of Financial Condition and Results of Operations, as well as disclosures included elsewhere in this Form 10-Q, are based upon our unaudited Condensed Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingencies.

The SEC has defined a company s most critical accounting policies as the ones that are the most important to the portrayal of the company s financial condition and results of operations, and which require the company to make its most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. On an ongoing basis, we evaluate the estimates used, including those related to impairment of goodwill, other-than-temporary impairment of investments, revenue recognition, the estimated allowance for sales returns and doubtful accounts, restructuring-related liabilities, accrued contingencies and valuation allowance for our deferred tax assets. We base our estimates on historical experience, current conditions and on various other assumptions that we believe to be reasonable under the circumstances and, based on information available to us at that time, we make judgments about the carrying values of assets and liabilities that are not readily apparent from other sources as well as identify and assess our accounting treatment with respect to commitments and contingencies. Actual results may differ significantly from these estimates under different assumptions, judgments or conditions. We believe the following critical accounting policies involve the more significant judgments and estimates used in the preparation of our unaudited Condensed Consolidated Financial Statements. We also have other accounting policies, which involve the use of estimates, judgments and assumptions that are significant to understanding our results. For additional information see Item 8 of Part II, Financial Statements and Supplementary Data Note 1: Summary of Significant Accounting Policies of our Annual Report on Form 10-K for the year ended December 31, 2007.

Revenue Recognition

Our revenues are derived from products and services delivered to our search customers. In general, we recognize revenues in the period in which the services are performed. Search revenue is recorded on a gross basis in accordance with Emerging Issues Task Force Issue 99-19, *Reporting Revenue Gross as a Principal versus Net as an Agent*. We are the primary obligor in the revenue-generating relationships with our search engine customers, we separately negotiate each revenue or unit pricing contract independent of any revenue sharing arrangements and assume the credit risk for amounts invoiced to such customers. We, through our metasearch technology, determine the paid click, content and information directed to our owned and operated Web sites and our distribution partners Web properties. We earn revenue from our search engine customers by providing paid search clicks generated from our distribution partners Web properties based on separately negotiated and agreed-upon terms with each distribution partner.

We recognize amounts due to our distribution partners in the period they are earned and classify such costs as Content and distribution expense in the unaudited Condensed Consolidated Statement of Operations. See Item 8 of Part II, Financial Statements and Supplementary Data Note 1: Summary of Significant Accounting Policies of our Annual Report on Form 10-K for the year ended December 31, 2007, for a description of products and services and the related revenue recognition policy.

Fair Value Measurements

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

Our $56.9 million of available-for-sale securities include $29.7 million of investments which are classified as short-term as of June 30, 2008, in the Level 1 input category, as defined by SFAS No. 157, because active markets and quoted prices exist for those assets. The remainder of our available-for-sale securities is comprised of $27.2 million of auction rate securities (ARS) which are classified as long-term, in the Level 3 category, as defined by SFAS No. 157, because there are significant unobservable inputs associated with those investments. We paid $40.4 million for our ARS. Our ARS are floating rate securities with either long-term maturities or no maturity date which are marketed by financial institutions with auction reset dates primarily at 28 day intervals to provide short-term liquidity. Beginning in August 2007, auctions for the ARS that we held at June 30, 2008 began to fail due to insufficient bids from buyers, which resulted in higher interest rates being earned on those securities. Although we receive regular interest payments on those ARS, we do not expect to be able to receive the principal amounts until one or more of the following events occur: future auctions of those ARS are successful, we sell those securities in a secondary market which is currently not active, or the issuers redeem those ARS.

We determined the ARS fair values by using a discounted cash flow model that relied upon certain unobservable inputs including the holding period and the discount rates applied to future cash flows. The holding period was based on our estimate of when we will be able to access those funds, and the discount rate was based on our estimate of default risk, which in part relied on historical credit default swap rates for the ARS issuers. The significant unobservable inputs used to determine the ARS fair values are consistent with a Level 3 assessment. Changes in our estimates of the Level 3 inputs used to value our ARS may have a material effect on our results of operations.

We review our available-for-sale investment impairments in accordance with the provisions of SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, and related guidance issued by the FASB and the SEC. We determine the impairment classification of any individual ARS as either temporary or other-than-temporary. The differentiating factors between temporary and other-than-temporary impairments are primarily the length of the time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer and the intent and our ability to retain our investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. We record other-than temporary impairments in Loss on investments, net in our unaudited Condensed Consolidated Statement of Operations, and we record temporary impairments within Accumulated other comprehensive income in our unaudited Condensed Consolidated Balance Sheet.

At June 30, 2008, we held $19.1 million of ARS which are rated AA and were issued by various insurance companies. Those ARS were rated AAA when we purchased them for $21.4 million. The underlying collateral of those ARS is investment-grade corporate debt and prime-rated mortgage-backed debt. Those ARS are also insured by monoline insurance companies. As of June 30, 2008, we have recorded $2.3 million of other-than-temporary impairments for those ARS, which were all recorded in the three months ended June 30, 2008, which included $1.3 million recorded as temporary impairments during the three months ended March 31, 2008, and $525,000 of impairments classified as temporary at December 31, 2007.

At June 30, 2008, we held $8.1 million of ARS which are rated from AA to B and were issued by various insurance companies. In the event of default or liquidation of the collateral by the ARS issuer, we are entitled to receive non-convertible preferred shares in the ARS issuer. Those ARS were rated AA when we purchased them for $19.0 million. As of June 30, 2008, we have recorded $10.9 million of other-than-temporary impairments for those ARS. In the three and six months ended June 30, 2008, we recorded other-than-temporary impairment charges of $2.0 million and $8.7 million, respectively. In the three months ended March 31, 2008, the $6.7 million of other-than-temporary impairment charges included $251,000 of impairments classified as temporary at December 31, 2007.

We did not record any impairments for our ARS in the three and six months ended June 30, 2007.

The global financial markets experienced unusual and significant distress during the first half of 2008. If the ARS issuers are unable to successfully close future auctions and their credit ratings deteriorate, the fair value of those ARS may continue to decline and we may record further other-than-temporary impairment charges.

At June 30, 2008, we held warrants to purchase shares in a privately-held company with a fair value of $188,000. The warrants are classified in Other long-term assets, in Level 3, because there are significant unobservable inputs associated with them. The Company considers the warrants to be derivatives, and follows SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* as amended and interpreted, which requires that all derivatives be carried at fair value. The Company accounts for all derivatives by recognizing the changes in their fair values as gains or losses in its unaudited Condensed Consolidated Statements of Operations.

We use fair value measurements on a recurring basis in the assessment of an equity investment in a privately-held company. At June 30, 2008, the carrying value of our investment in a privately-held company is $2.0 million. We initially recorded our equity investment in a privately-held company at fair value and have assessed those assets for impairment periodically thereafter. The lowest level of inputs for measuring the fair value of those assets is Level 3. The unobservable inputs used in the analysis of the fair value of the investment in a privately-held company primarily include our estimates of

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the privately-held company s business prospects and financial condition. Changes in these estimates and assumptions could materially affect the determination of fair value for our investment in a privately-held company. We assess our investment in a privately-held company for impairment in accordance with FASB Staff Position FAS 115-1/124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments* and the SEC s Staff Accounting Bulletin Topic 5M, *Other Than Temporary Impairment of Certain Investments in Debt and Equity Securities*. We did not record any impairment charges for the investment in a privately-held company in the three months ended June 30, 2008.

In the first two quarters of 2008 and 2007, we did not measure the fair value of any of our assets or liabilities other than our cash and cash equivalents, available-for-sale investments, warrants and investment in a privately-held company. We consider the carrying values of our accounts receivable, notes and other receivables, prepaid expenses and other current assets, accounts payable, accrued expenses and other current liabilities and assets and liabilities of discontinued operations to approximate fair values primarily due to their short-term nature.

For additional information see Item 1 of Part I of this Report, Financial Statements Note 2: Fair Value Measurements.

Accounting for Goodwill

SFAS No. 142, *Goodwill and Other Intangible Assets*, requires that goodwill be tested for impairment on an annual basis and between annual tests in certain circumstances. In addition, certain circumstances may require testing for impairment in conjunction with restructuring in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. On a quarterly basis, we assess whether business conditions indicate that our goodwill may not be recoverable.

Significant judgments required to estimate the fair value of goodwill include estimating future cash flows, determining appropriate discount rates and other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value for goodwill. At December 31, 2007 and June 30, 2008, we had $43.9 million of goodwill on our balance sheet.

Allowances for Sales and Doubtful Accounts

Our management must make estimates of potential future sales allowances related to current period revenues for our products and services. We analyze historical adjustments, current economic trends and changes in customer demand and acceptance of our products when evaluating the adequacy of the sales allowances. Estimates must be made and used in connection with establishing the sales allowance in any accounting period.

The allowance for doubtful accounts is a management estimate that considers actual facts and circumstances of individual customers and other debtors, such as financial condition and historical payment trends. We evaluate the adequacy of the allowance utilizing a combination of specific identification of potentially problematic accounts and identification of accounts that have exceeded payment terms.

Stock-Based Compensation

On January 1, 2006, we adopted SFAS No. 123(R), *Share-Based Payment*, which requires companies to record stock compensation expense for equity-based awards granted, including stock options and restricted stock unit grants, for which expense will be recognized over the service period of the equity-based award based on the fair value of the award at the date of grant. During the three months ended June 30, 2008 and 2007, we recognized $4.2 million and $5.1 million of stock-based compensation expense, respectively.

Calculating stock-based compensation expense relies upon certain assumptions, including the expected term of the stock-based awards, expected stock price volatility, and the expected pre-vesting forfeiture rate. If we use different assumptions due to changes in our business or other factors, our stock-based compensation expense could materially vary in the future.

Discontinued Operations

In accordance with the provisions of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-lived Assets*, the gains (losses) on sale, results of operations and cash flows of the directory and mobile businesses presented for all periods have been reported as discontinued operations. In addition, the assets and liabilities of the mobile business have been classified as assets and liabilities of discontinued operations at December 31, 2007 and June 30, 2008. The process used to separately present continuing and discontinued operations required significant judgment to implement and relied on certain estimates and assumptions. Different estimates and assumptions could materially affect the allocations of gain or loss on sale, results of operations, cash flows, assets and liabilities to the mobile businesses.

Contingencies

We are subject to various legal proceedings and claims and tax matters, the outcomes of which are subject to significant uncertainty. SFAS No. 5, *Accounting for Contingencies*, requires that an estimated loss from a loss contingency should be recorded by a charge to income if it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. Disclosure of a contingency is required if there is at least a reasonable possibility that a loss has been incurred. We evaluate, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. Changes in these factors could materially impact our financial position or our results of operations. See Note 5 to our unaudited Condensed Consolidated Financial Statements for further information regarding contingencies.

Income Taxes

We account for income taxes under the asset and liability method, under which deferred tax assets, including net operating loss carryforwards, and liabilities are determined based on temporary differences between the book and tax bases of assets and liabilities. We periodically evaluate the likelihood of the realization of deferred tax assets, and reduce the carrying amount of the deferred tax assets by a valuation allowance to the extent we believe a portion will not be realized. We consider many factors when assessing the likelihood of future realization of our deferred tax assets, including our recent cumulative earnings experience by taxing jurisdiction, expectations of future taxable income, the carryforward periods available to us for tax reporting purposes, and other relevant factors. The Company currently provides a valuation allowance against deferred tax assets when it is more likely than not that some portion, or all of its deferred tax assets, will not be realized.

In determining our income tax provision for interim periods, we use an estimated annual effective tax rate which is based on our expected annual income, permanent differences between financial and tax reporting and statutory tax rates in the various jurisdictions in which we operate. Each quarter we update our estimate of the annual effective tax rate, and if our estimated tax rate changes we make a cumulative adjustment. We separately recognize any subsequent recognition, derecognition and measurement of a tax position, taken in a previous period, in the quarter in which it occurs.

Historical Results of Operations

For the three months ended June 30, 2008, our net income was $1.9 million. We have incurred net losses on an annual basis for all but three of the years since our inception. Additionally, we incurred a net loss in the first quarter of 2008 and as of June 30, 2008, have an accumulated deficit of $1.0 billion.

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

Results of Operations for the Three and Six months ended June 30, 2008 and 2007

Revenue. We primarily receive revenues from our content providers, whom we refer to as our customers, when an end user of our Web search services clicks on a paid search link that is provided by a customer and displayed on our Web site or displayed on the Web property of a distribution partner. In addition, we earn services revenue from certain distribution partners, such as a fixed monthly fee in exchange for portal infrastructure services.

Revenue for the three and six months ended June 30, 2008 and 2007 is presented below (amounts in thousands):

	Three months ended June 30,		Change from	Six months ended June 30,		Change from
	2008	2007	2007	2008	2007	2007
Revenue	$ 38,328	$ 31,763	$ 6,565	$ 80,510	$ 67,627	$ 12,883

The increase in revenue for search products and services for the three months ended June 30, 2008 as compared to the three months ended June 30, 2007, is due to an increase in revenue from search results delivered through certain of our distribution partners and was partially offset by decreased paid click volume on our owned properties. During the three months ended June 30, 2008, approximately 63% of our revenues came from our search distribution partners, as compared to approximately 53% during the three months ended June 30, 2007.

The increase in revenue for search products and services for the six months ended June 30, 2008 as compared to the six months ended June 30, 2007, is due to an increase in revenue from search results delivered through certain of our distribution partners and was partially offset by decreased paid click volume on our owned properties. During the six months ended June 30, 2008, approximately 66% of our revenues came from our search distribution partners, as compared to approximately 55% during the six months ended June 30, 2007.

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Seasonality

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

Content and Distribution Expenses. Content and distribution expenses consist principally of costs related to revenue sharing arrangements with our distribution partners, as well as content and data licenses. Content and distribution expenses in total dollars (in thousands) and as a percent of total revenues for the three and six months ended June 30, 2008 and 2007 are presented below:

	Three months ended June 30,		Change from	Six months ended June 30,		Change from
	2008	2007	2007	2008	2007	2007
Content and Distribution Expenses	$ 18,062	$ 12,597	$ 5,465	$ 39,854	$ 27,545	$ 12,309
Percent of Revenue	47.1%	39.6%	7.5%	49.5%	40.7%	8.8%

The increase in search content and distribution expenses for the three and six months ended June 30, 2008 as compared to the three and six months ended June 30, 2007, is primarily due to an increase in revenue shared with our distribution partners from search results delivered through those distribution partners and increases in our revenue sharing rates with our distribution partners. We anticipate that our search content and distribution expenses will increase in absolute dollars if revenues increase through growth from existing arrangements with our search distribution partners or we add new search distribution partners. If search revenue generated from our distribution partners increases at a greater rate than revenues generated from our own Web sites, content and distribution expenses as a percentage of revenue will increase. We expect that search revenue from searches conducted by end users on sites of our distribution partners will continue to be a significant share of our search revenues for the foreseeable future.

Systems and Network Operations Expenses. Systems and network operations consists of expenses associated with the delivery, maintenance and support of our services and infrastructure, including personnel expenses, which include salaries, benefits and other employee related costs, stock-based compensation expense, and temporary help and contractors to augment our staffing, communication costs, equipment repair and maintenance, and professional service fees. Systems and network operations expenses in total dollars (in thousands) and as a percent of total revenues for the three and six months ended June 30, 2008 and 2007 are presented below:

	Three months ended June 30,		Change from	Six months ended June 30,		Change from
	2008	2007	2007	2008	2007	2007
Systems and Network Operations Expenses	$ 2,774	$ 2,406	$ 368	$ 5,216	$ 4,685	$ 531
Percent of Revenue	7.2%	7.6%	(0.4)%	6.5%	6.9%	(0.4)%

Systems and network operations expenses increased by $368,000 and $531,000 to $2.8 million and $5.2 million for the three and six months ended June 30, 2008, respectively, as compared to $2.4 million and $4.7 million for the three and six months ended June 30, 2007, respectively. There were no material variances between the expenses recorded for the three and six months ended June 30, 2007 and the three and six months ended June 30, 2008.

Product Development Expenses. Product development expenses consist principally of personnel expenses, which include salaries, stock-based compensation expense, benefits and other employee related costs, and temporary help and contractors to augment our staffing, research, development, support and ongoing enhancements of our products and services. Product development expenses in total dollars (in thousands) and as a percent of total revenues for the three and six months ended June 30, 2008 and 2007 are presented below:

	Three months ended June 30,		Change from	Six months ended June 30,		Change from
	2008	2007	2007	2008	2007	2007
Product Development Expenses	$ 2,929	$ 2,484	$ 445	$ 5,138	$ 4,763	$ 375
Percent of Revenue	7.6%	7.8%	(0.2)%	6.4%	7.0%	(0.6)%

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Product development expenses increased by $445,000 and $375,000 to $2.9 million and $5.1 million for the three and six months ended June 30, 2008, respectively, as compared to $2.5 million and $4.8 million for the three and six months ended June 30, 2007, respectively. The absolute dollar increase for the three and six months ended June 30, 2008 as compared to the three and six months ended June 30, 2007 was primarily due to an increase in stock-based compensation expense of $431,000 and $455,000 for the three and six months ended June 30, 2008, respectively. There were no other material variances between the expenses recorded for the three and six months ended June 30, 2007 and the three and six months ended June 30, 2008.

Product development costs may not be consistent with revenue trends as they represent key costs to develop and enhance our product offerings. We believe that investments in technology are necessary to remain competitive, and we anticipate that product development expenses will increase as a percent of revenue as we continue to invest in our products and services.

Sales and Marketing Expenses. Sales and marketing expenses consist principally of personnel costs, which include salaries, stock-based compensation expense, benefits and other employee related costs, and temporary help and contractors to augment our staffing, advertising, market research and promotion expenses. Sales and marketing expenses in total dollars (in thousands) and as a percent of total revenues for the three and six months ended June 30, 2008 and 2007 are presented below:

	Three months ended June 30,		Change from	Six months ended June 30,		Change from
	2008	2007	2007	2008	2007	2007
Sales and Marketing Expenses	$ 6,041	$ 6,665	$ (624)	$ 9,830	$ 11,490	$ (1,660)
Percent of Revenue	15.8%	21.0%	(5.2)%	12.2%	17.0%	(4.8)%

Sales and marketing expenses decreased by $624,000 and $1.7 million to $6.0 million and $9.8 million for the three and six months ended June 30, 2008, respectively, as compared to $6.7 million and $11.5 million for the three and six months ended June 30, 2007, respectively. The absolute dollar decrease for the three and six months ended June 30, 2008 as compared to the three and six months ended June 30, 2007 was primarily attributable to a decrease of $1.7 million in payments made to employees related to the cash distribution to shareholders in May 2007 and decreases of $352,000 and $811,000, respectively, in stock-based compensation expense. These decreases were partially offset by increases in advertising and marketing expense of $1.3 million and $920,000 for the three and six months ended June 30, 2008, respectively.

Sales and marketing expenses may increase in absolute dollars as we continue to invest in marketing initiatives and sales promotions and expand our products, services and distribution channels.

General and Administrative Expenses. General and administrative expenses consist primarily of personnel expenses, which include salaries, benefits and other employee related costs, stock-based compensation expense, professional service fees, which include legal fees, audit fees, SEC compliance costs, which include costs related to compliance with the Sarbanes-Oxley Act of 2002, legal settlements, occupancy and general office expenses, and general business development and management expenses. General and administrative expenses in total dollars (in thousands) and as a percent of total revenues for the three and six months ended June 30, 2008 and 2007 are presented below:

	Three months ended June 30,		Change from	Six months ended June 30,		Change from
	2008	2007	2007	2008	2007	2007
General and Administrative Expenses	$ 4,960	$ 29,557	$ (24,597)	$ 12,682	$ 39,199	$ (26,517)
Percent of Revenue	12.9%	93.0%	(80.1)%	15.8%	58.0%	(42.2)%

General and administrative expenses decreased by $24.6 million to $5.0 million for the three months ended June 30, 2008 as compared to $29.6 million for the three months ended June 30, 2007. The absolute dollar decrease for the three months ended June 30, 2008 as compared to the three months ended June 30, 2007 was primarily attributable to a decrease in payments made to employees related to the cash distribution to shareholders in May 2007 of $16.5 million, a decrease in professional service fees of $5.4 million, a decrease in stock-based compensation expense of $1.2 million, and a decrease in litigation settlements of $626,000.

General and administrative expenses decreased by $26.5 million to $12.7 million for the six months ended June 30, 2008 as compared to $39.2 million for the six months ended June 30, 2007. The absolute dollar decrease for the six months ended June 30, 2008 as compared to the six months ended June 30, 2007 was primarily attributable to a decrease in payments made to employees related to the cash distribution to shareholders in May 2007 of $16.5 million, a decrease in professional service fees of $6.1 million, a decrease in stock-based compensation expense of $2.3 million, and a decrease in litigation settlements of $1.1 million.

Depreciation. Depreciation of property and equipment includes depreciation of network servers and data center equipment, computers, software, office equipment and fixtures and leasehold improvements. Depreciation of property and equipment totaled $1.7 million and $3.2 million for the three and six months ended June 30, 2008, respectively, compared to $1.3 million and $2.7 million for the three and six months ended June 30, 2007, respectively.

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Restructuring and Other, Net. During the three and six months ended June 30, 2008, we recaptured restructuring charges of $114,000 and recorded a total restructuring charge of $26,000, respectively, as part of the restructuring plan announced in 2007. We recorded a total restructuring charge of $378,000 and $811,000 in the three and six months ended June 30, 2007, respectively. In future periods, adjustments and additions may be made to the amounts recorded as of June 30, 2008.

Other, net totaled $1.9 million for the three and six months ended June 30, 2008 and $2.1 million and $3.3 million for the three and six months ended June 30, 2007, respectively, and consists primarily of the gains on sale of certain non-core assets.

Gain (Loss) on Investments, Net. In the three and six months ended June 30, 2008, we recorded a loss on investments of $4.4 million and $11.1 million, respectively, related to our illiquid ARS that we held at June 30, 2008. In the three and six months ended June 30, 2007, we recorded a gain on an equity investment of $65,000.

Other Income, Net. Other income, net totaled $2.7 million and $4.9 million for the three and six months ended June 30, 2008, respectively, compared to $4.4 million and $9.7 million for three and six months ended June 30, 2007, respectively. Other income, net, primarily consists of interest income. The decrease in interest income for the three and six months ended June 30, 2008, as compared to the three and six months ended June 30, 2007, was primarily attributable to a lower balance of investments as a result of the aggregate $507.3 million of special dividends paid in May 2007 and January 2008. The decrease in interest income for the three and six months ended June 30, 2008 was partially offset by income of $1.1 million related to the resolution of a bankruptcy claim. We expect interest income to decline due to the reduced balance in investments.

Income Tax Expense. We recorded an income tax benefit of $577,000 and $395,000 for the three and six months ended June 30, 2008, respectively. We recorded an income tax provision of $3.9 million and $7.0 million for the three and six months ended June 30, 2007, respectively. For each period, the income tax provision included U.S. federal tax, state and foreign taxes. Income tax expense for the three and six months ended June 30, 2008 differed from the tax expense at the statutory rates primarily due to non-deductible permanent differences, the U.S. federal alternative minimum tax and certain one-time items primarily attributable to restructuring. Income tax expense for the three and six months ended June 30, 2007 differed from the tax expense at the statutory rates due to certain one-time items primarily attributable to foreign operations.

Income from Discontinued Operations. In the fourth quarter of 2007, we completed the sales of our directory and mobile businesses and have reflected loss from those businesses as loss from discontinued operations. Revenue, loss before taxes, income tax benefit (expense), loss from discontinued operations and gain (loss) on sale of discontinued operations for the three and six months ended June 30, 2008 and 2007 are presented below (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2008	**2007**	**2008**	**2007**
Revenue from discontinued operations	$ 53	$ 38,767	$ 80	$ 89,546
Loss from discontinued operations before taxes	(941)	(11,291)	(1,221)	(17,410)
Income tax benefit (expense)	120	4,180	(90)	6,168
Loss from discontinued operations, net of taxes	$ (821)	$ (7,111)	$ (1,311)	$ (11,242)
Gain (loss) on sale of discontinued operations, net of taxes	$ 43	$	$ (195)	$

Liquidity and Capital Resources

As of June 30, 2008, we had cash and marketable investments of $218.5 million, consisting of cash and cash equivalents of $161.6 million, short-term investments available-for-sale of $29.7 million, and long-term investments available-for-sale of $27.2 million. We generally invest our excess cash in high quality marketable investments. These investments include securities issued by U.S. government agencies, certificates of deposit, money market funds, and taxable municipal bonds.

Commitments and Pledged Funds

The following are our contractual commitments associated with our capital and operating lease obligations (in thousands):

	Remainder of 2008	2009	2010	2011	2012	2013	Total
Operating lease commitments	$ 859	$ 2,021	$ 2,100	$ 2,088	$ 2,158	$ 367	$ 9,593
Capital lease commitments (net of imputed interest and executory costs)	206	454	462	156			1,278
Total	$ 1,065	$ 2,475	$ 2,562	$ 2,244	$ 2,158	$ 367	$ 10,871

For certain of our revenue share agreements with our search distribution partners, we are required to make non-cancelable guaranteed minimum revenue share payments to those partners over the term of the respective agreements. We typically recognize expense related to the minimum revenue share payments on a straight-line basis over the expected service period. As of June 30, 2008, we have no material commitments with our search distribution partners because the commitments have expired or were terminated.

We have pledged a portion of our cash and cash equivalents as collateral for standby letters of credit and bank guaranties for certain of our property leases. At June 30, 2008, the total amount of collateral pledged under these agreements was $6.1 million.

Cash Flows

Net cash provided by operating activities consists of net loss offset by certain adjustments not affecting current period cash flows, and the effect of changes in our operating assets and liabilities. Our net cash flows are comprised of the following for the six months ended June 30, 2008 and 2007 (in thousands):

	Six months ended June 30,	
	2008	**2007**
Net cash used by operating activities from continuing operations	$ (27,373)	$ (15,981)
Net cash provided by investing activities	4,914	147,007
Net cash used by financing activities	(298,944)	(194,706)
Net cash provided (used) by discontinued operations	(15,299)	11,165
Net decrease in cash and cash equivalents	$ (336,702)	$ (52,515)

Net cash used by operating activities was $27.4 million for the six months ended June 30, 2008, consisting of our net loss of $840,000, cash used by changes in our operating assets and liabilities of $56.0 million primarily consisting of the payments of employee expenses related to the $299.1 million special dividend paid on January 8, 2008 and employee separation payments, which resulted in decreases in accrued expenses and other current and long-term liabilities, and accounts payable, and adjustments not affecting cash flows used by operating activities of $2.7 million related to deferred income taxes and the gain on sale of certain non-core assets. Partially offsetting these decreases were changes in our operating assets and liabilities of $9.1 million, consisting of decreases in notes and other receivables, other long-term assets, accounts receivable, and prepaid expenses and other current assets and adjustments not affecting cash flows provided by operating activities of $23.1 million, primarily consisting of loss on investments, net, stock-based compensation expense, depreciation, loss from discontinued operations, and loss on the sale of discontinued operations.

Net cash used by operating activities was $16.0 million for the six months ended June 30, 2007, consisting of our net loss of $28.7 million, changes in our operating assets and liabilities of $17.5 million primarily consisting of decreases in accrued expenses and other current and long-term liabilities and accounts payable, and increases in accounts receivable and adjustments not affecting cash flows provided by operating activities of $3.3 million primarily consisting of the gain on the sale of assets. Partially offsetting these decreases is cash provided by changes in our operating assets and liabilities of $2.1 million, consisting of decreases in notes and other receivables, other long-term assets, and prepaid expenses and other current assets, and adjustments not affecting cash flows provided by operating activities of $31.5 million, consisting of loss from discontinued operations, stock-based compensation expense, depreciation, restructuring, and deferred income taxes.

Net cash provided by investing activities totaled $4.9 million for the six months ended June 30, 2008, primarily consisting of the net decrease in short-term investments of $9.3 million and proceeds from the sale of assets of $2.3 million. These increases in cash were partially offset by $5.7 million used to purchase property and equipment and the increase in other long-term assets of $1.0 million.

Net cash provided by investing activities totaled $147.0 million for the six months ended June 30, 2007, primarily consisting of the net decrease in short-term investments of $151.0 million and proceeds from the sale of assets $2.2 million, partially offset by $4.2 million used to purchase property and equipment and a $2.0 million loan to an equity investee.

Net cash used by financing activities totaled $298.9 million in the six months ended June 30, 2008, and primarily consisted of the $299.1 million special dividend paid to shareholders in January 2008. Partially offsetting this decrease was cash proceeds of $234,000 from the exercise of stock options and from sales of shares through our employee stock purchase plan.

Net cash used by financing activities totaled $194.7 million in the six months ended June 30, 2007 and primarily consisted of the $208.2 million special dividend paid to shareholders in May 2007. Partially offsetting this decrease was cash proceeds of $13.5 million from the exercise of stock options, warrants, and from sales of shares through our employee stock purchase plan.

Net cash used by discontinued operations totaled $15.3 million for the six months ended June 30, 2008, primarily consisting of loss from discontinued operations of $1.3 million and cash used by decreases in liabilities net of operating assets of discontinued operations of $14.0 million.

Net cash provided by discontinued operations totaled $11.2 million for the six months ended June 30, 2007, primarily consisting of cash provided by decreases in operating assets net of liabilities of discontinued operations of $38.3 million. This increase was partially offset by $9.7 million to purchase property and equipment and the loss from discontinued operations of $17.4 million.

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

We believe that existing cash balances, cash equivalents, short term investments and cash generated from operations will be sufficient to meet our anticipated cash needs for working capital and capital expenditures for at least the next 12 months. However, the underlying assumed levels of revenues and expenses may not prove to be accurate. Our anticipated cash needs exclude any payments for pending or future litigation matters. In addition, we evaluate acquisitions of businesses, products or technologies that complement our business from time to time. Any such transactions, if completed, may use a significant portion of our cash balances and marketable investments. If we are unable to liquidate these investments when we need such liquidity for business purposes, as further discussed below, we may need to change or postpone such business purposes or find alternative financing for such business purposes, if available. We may seek additional funding through public or private financings or other arrangements prior to such time. Adequate funds may not be available when needed or may not be available on favorable terms. If we raise additional funds by issuing equity securities, dilution to existing stockholders will result. If funding is insufficient at any time in the future, we may be unable to develop or enhance our products or services, take advantage of business opportunities or respond to competitive pressures, any of which could harm our business.

Illiquid Investments

The $27.2 million of ARS that we held at June 30, 2008 began failing to trade at auctions in August 2007 and have continued to fail as of June 30, 2008 due to insufficient bids from buyers. While we now earn a premium interest rate on the ARS that failed to settle in the auction process, the investments cannot be quickly converted into cash. We considered them illiquid as of June 30, 2008 and we have classified them as long-term investments. The global financial markets experienced unusual and significant distress during the first half of 2008 and that distress may continue for the duration of 2008 and possibly longer, which may continue to impair our ability to liquidate those ARS.

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

Stock Repurchase Program

On June 16, 2008, our Board of Directors authorized the repurchase of up to $100 million of our outstanding common stock over the succeeding twelve months. As of June 30, 2008, no shares have been purchased under this plan.

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

Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS No. 141(R)). In SFAS No. 141(R), the FASB retained the fundamental requirements of SFAS No. 141 to account for all business combinations using the acquisition method and for an acquiring entity to be identified in all business combinations. However, the revised standard requires the acquiring entity in a business combination to recognize all the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to immediately expense costs related to the acquisition. SFAS No. 141(R) is effective for annual periods beginning on or after December 15, 2008. Accordingly, any business combinations we engage in will be recorded and disclosed according to the provisions of SFAS No. 141 until January 1, 2009. The impact that SFAS No. 141(R) will have on our consolidated financial statements when effective will depend upon the nature, terms and size of the acquisitions completed after the effective date.

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On January 1, 2008, we adopted the provisions of SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosure of fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements and accordingly, does not require any new fair value measurements. On February 12, 2008, the FASB issued Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157*, which delayed the effective date of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008. The adoption of SFAS No. 157 for financial assets and liabilities did not have a material impact on our financial position, cash flows, or results of operations. We are currently evaluating the remaining provisions of SFAS No. 157 to determine what effect its adoption on January 1, 2009 for nonfinancial assets and nonfinancial liabilities will have on our financial position, cash flows, and results of operations.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our market risks at June 30, 2008 have not changed significantly from those discussed in Item 7A of our Form 10-K for the year ended December 31, 2007 on file with the Securities and Exchange Commission. See also Management s Discussion and Analysis of Financial Condition and Results of Operations section of Item 2 of Part I of this Form 10-Q for additional discussions of our market risks.

Item 4. Controls and Procedures

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

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

PART II OTHER INFORMATION

Item 1. Legal Proceedings

See the litigation disclosure under the subheading Litigation in Note 5 to our unaudited Condensed Consolidated Financial Statements.

Item 1A. Risk Factors

RISKS RELATED TO OUR BUSINESS

Our strategic direction is changing, including through the completed sales of our directory and mobile services businesses, and our focus on online search may not be successful.

We have recently completed a major restructuring of our business. On October 31, 2007, we completed the sale of our directory business to Idearc Inc. and, on December 28, 2007, we completed the sale of our mobile services business to Motricity, Inc. This significantly reduced the size of our business and our revenues, and our business model now centers on our online search products and services. There can be no assurance that our focus on online search will produce acceptable results. If we are not successful in implementing or operating under this new business model, our stock price will suffer. Moreover, any other future changes to our business may not prove successful in the short or long term due to a variety of factors, including competition, consumer adoption and demand for our products and services, and other factors described in this section, and may have a material negative impact on our financial results.

In addition, we have in the past and may in the future find it advisable to streamline operations and reduce expenses, including, without limitation, such measures as reductions in our workforce, discretionary spending, and/or capital expenditures, as well as other steps to reduce expenses. We have streamlined operations and reduced expenses as a result of

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the sale of our directory and mobile services businesses, including reductions in our workforce. Effecting any restructuring or streamlining places significant strains on management, our employees, and our operational, financial, and other resources. In addition, such actions could impair our development, marketing, sales and customer support efforts or alter our product development plans. We may also incur liability from early termination or assignment of contracts, potential failure to meet required support levels of our platforms due to loss of employees who maintain such platforms, potential litigation and other effects from such restructuring and streamlining. Such effects from restructuring and streamlining could have a negative impact on our financial results.

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

We rely on our relationships with online search distribution partners, including internet service providers, Web portals and software application providers, for distribution of our online search products and services. We generated approximately 43% and 50% of our online search revenues through relationships with our top ten distribution partners for the second and first quarters of 2008, respectively. We cannot assure you that these relationships will continue or will result in benefits to us that outweigh the cost of the relationships. One of our challenges is providing our distribution partners with relevant products and services at competitive prices in rapidly evolving markets. Distribution partners may create their own products and services or may seek to license products and services from others that we compete with or replace the products and services that we provide. Also, many of our distribution partners are developing companies with limited operating histories and evolving business models that may prove unsuccessful even if our products and services are relevant and our prices competitive. If we are not able to maintain our relationships with our distribution partners, our financial results would be materially adversely affected.

Our agreements with most of our distribution partners come up for renewal in 2008 and 2009. Such agreements may be terminated or may not be renewed or replaced on favorable terms, which could adversely impact our financial results. In particular, competition is increasing for quality consumer traffic in the online search market. Recently, we have experienced increased competition from our content providers, whom we refer to as customers, seeking to enter into agreements directly with our existing or potential distribution partners, making it increasingly difficult for us to renew agreements with existing major distribution partners or to enter into distribution agreements with new partners on favorable terms. We anticipate that our content and distribution costs for our revenue sharing arrangements with our distribution partners will increase as revenues grow and may increase as a percentage of revenues to the extent that there are changes to existing arrangements or we enter into new arrangements on less favorable terms.

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

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

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

Poor quality traffic may be a result of invalid click activity. Such invalid click activity occurs, for example, when a person or automated click generation program clicks on a commercial search result to generate fees for the Web property displaying the commercial search result rather than to view the Web page underlying the commercial search result or when a

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

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

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

We acquire rights to content from numerous third-party content providers, whom we refer to as customers, and our future success is highly dependent upon our ability to maintain relationships with these customers and enter into new relationships with other customers. We derive a substantial portion of our revenues from continuing online search operations from a small number of customers. We expect that concentration will continue in the foreseeable future. Google and Yahoo! jointly accounted for 95% or more of our online search revenues in both the second and first quarters of 2008 and each accounted for more than 10% of our revenues in the same periods. Our principal agreements with these customers expire in 2011. Also, our customers are competitors of each other, and the way we do business with one of them may not be acceptable to one or some of their competitors with whom we also do business, which may result in such competitors not renewing their agreements with us on favorable terms. If any of our top customers significantly reduces or eliminates the content it provides to us under our existing contracts, or we are unable to renew the contracts on favorable terms, or any of these customers are unwilling to pay us amounts that they owe us, or dispute amounts they owe us or have paid to us, our financial results would materially suffer.

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

If our search distribution partners or we fail to meet the requirements and guidelines promulgated by our customers, we may not be able to continue to use such customers content or provide the content to such distribution partners, we may be liable to such customers for certain damages they may suffer, and such customers may terminate their agreements with us. In the past, certain of our customers had notified us that we were not in compliance with respect to our use of their content or the redistribution of their content by our distribution partners. We have been able to cure such breaches, however, there can be no assurance that if we breach our agreements in the future we will be able to cure the breach. Our agreements with some of our major customers, including Google and Yahoo!, give such customers the ability to terminate their agreements with us immediately in the case of certain breaches, regardless of whether such breaches could be cured.

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

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

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

Under our agreements with our former mobile content providers, we calculated our royalty liability based on inputs from various sources of data and have been and continue to be subject to audits by our former mobile content providers. If our former mobile content providers disagree with the royalty amounts we calculated were due to them and we are unable to resolve those disagreements amicably, it may subject us to potential litigation and substantial costs even if it is found that the amounts we determined were due to them were accurate. If a former mobile content provider prevails in showing that the royalty amount due to it was not what was intended under our agreement with them and our estimate of the royalty liability was significantly different, it could subject us to significant liability to the affected mobile content provider and have an adverse effect on our financial results. As we announced in January 2007, one of our former mobile content providers, EMI Entertainment World, Inc. (EMI), instituted litigation against us due to a disagreement, among other things, over the amount of royalties that were due to it from the mobile content it provided. Although the EMI litigation has been settled, there can be no assurance that other former mobile content providers will not also disagree with the royalty amount due to them and initiate their own litigation, which could have a material adverse effect on our financial results.

We have in the past identified a material weakness in our internal controls over financial reporting that we have been able to remediate; however, there can be no assurance that in the future a material weaknesses may be identified that, if not properly remediated, could result in material misstatements in our financial statements in future periods.

Under Section 404 of the Sarbanes-Oxley Act of 2002, our management is required to evaluate and determine the effectiveness of our internal control over financial reporting. In 2006, as part of its evaluation of our internal control over financial reporting, our management determined that we had a material weakness in our internal control over financial reporting pertaining to our deferred income tax benefit and related income tax asset, which we believe has since been remediated. As defined in Public Company Accounting Oversight Board Auditing Standard No. 5, a material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company s annual or interim financial statements will not be prevented or detected on a timely basis. We strive to maintain effective internal controls over financial reporting in order to prevent and detect material misstatements in our annual and quarterly financial statements and prevent fraud. We cannot assure, however, that such efforts will be effective. If we fail to maintain effective internal controls in future periods, our operating results, financial position and stock price could be adversely affected.

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

We have incurred net losses on an annual basis for all but three of the years since our inception. In addition, we incurred a net loss in the first quarter of 2008. As of June 30, 2008, we had an accumulated deficit of $1.0 billion. We may incur net losses in the future, including from our operations, the impairment of goodwill or other intangible assets, losses from acquisitions, restructuring charges or expense related to stock-based compensation and other equity awards. There can be no assurance that we will be able to conduct our business profitably in the future.

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

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

- the loss, termination or reduction in scope of key distribution relationships, such as by distribution partners licensing content directly from content providers;
- increased costs related to investments for new initiatives, including new products and services, marketing and new distribution channels, and data centers;

our ability to attract and retain quality traffic;

cash distributions to our shareholders or stock repurchases;

additional restructuring charges we may need to incur in the future;

- litigation expense, including settlement;
- variable demand for our products and services, including seasonal fluctuations, rapidly evolving technologies and markets and consumer preferences;
- the impact on revenues or profitability of changes in pricing for our products and services;
- the results from shifts in the mix of products and services we provide;
- the effects of acquisitions by us, our customers or our distribution partners;
- increases in the costs or availability of content for our products and services;
- the requirement to expense the fair value of our employee stock options and other equity awards;
- the adoption of new laws, rules or regulations, or new court rulings, regarding intellectual property that may adversely affect our ability to continue to acquire content and distribute our products and services, or the ability of our customers or distribution partners to continue to provide us with their content or distribute our products and services or increase our potential liability;
- impairment in the value of long-lived assets or the value of acquired assets, including goodwill, core technology and acquired contracts and relationships;
- the effect of changes in accounting principles or in our accounting treatment of revenues or expenses;
- the adoption of new regulations or accounting standards;
- actual or perceived economic downturn that may lead to lower online advertising spend by advertisers, resulting in lower monetization rates for paid search;
- the foreign currency effects from transactions denominated in currencies other than the U.S. dollar; and
- volatility in the financial markets and the related potential changes to the fair value of our long-term investments.

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

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

We do not issue or invest in financial instruments or their derivatives for trading or speculative purposes. Included within our investment portfolio are auction rate securities (ARS) that we purchased for $40.4 million. These investments failed to trade at recent auctions due to insufficient bids from buyers. While we now earn a premium interest rate on the ARS that failed to settle in the auction process, the investments cannot be quickly converted into cash and were considered illiquid as of June 30, 2008. We determined that the fair value of those ARS was $27.2 million at June 30, 2008, and we recorded impairment charges to a portion of the ARS of $4.4 million, $6.7 million and $2.2 million in the second and first quarters of 2008 and the fourth quarter of 2007, respectively. If the issuers of such ARS are unable to successfully close future auctions and their credit ratings deteriorate, the fair value of those ARS may continue to decline and we may record further impairment charges, including impairments classified as temporary at June 30, 2008. Additionally, if such issuers default with respect to such securities, we may no longer continue to receive any interest and may have to further impair such investments. If we are unable to liquidate these investments when we need such liquidity for business purposes, we may need to change or postpone our business plans or find alternative financing for such business plans, if available.

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

The trading price of our common stock has been highly volatile. Since our common stock began trading on December 15, 1998, our stock price has ranged from $3.70 to $1,385.00 (as adjusted for stock splits). On August 1, 2008, the closing price of our common stock was $9.39. Our stock price could decline or be subject to wide fluctuations in response to factors such as the other risks discussed in this section and the following, among others:

- actual or anticipated variations in quarterly and annual results of operations;

- announcements of significant acquisitions, dispositions, charges, changes in or loss of material contracts, new customer or partner relationships or other business developments by us, our customers, distribution partners or competitors;

- conditions or trends in the search products and services markets;
- announcements of technological innovations or new products or services by us or our competitors;
- changes in financial estimates or recommendations by securities analysts;
- disclosures of any material weaknesses in internal control over financial reporting;
- the adoption of new regulations or accounting standards; and
- announcements or publicity relating to litigation and similar matters.

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

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

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

- execute our business strategy based on our new business model;
- attract and retain users to our owned and operated sites;
- attract and retain distribution partners for our online search services;
- attract and retain customers;
- manage our growth, control expenditures and align costs with revenues;
- respond quickly and appropriately to competitive developments, including:

- rapid technological change;
- consolidation of customers or their advertising networks;
- alternatives to access the Internet;
- changes in customer requirements;
- new products introduced into our markets by our competitors; and
- regulatory changes affecting the industries we operate in or the markets we serve both in the United States and foreign countries; and

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

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

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

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

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Our business and operations are substantially dependent on the performance of our key employees, all of whom, except our chief executive officer, are employed on an at-will basis. We have recently experienced significant changes at our executive management level, and may do so in the future. If we lose the services of one or more key employees and are unable to recruit and retain a suitable successor(s), we may not be able to successfully manage our business or achieve our business objectives. There can be no assurance that any retention program we initiate will be successful at retaining employees, including key employees.

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

Like many technology companies, we use stock options, restricted stock units and other equity-based awards to recruit technology professionals and senior level employees. We have instituted a restricted stock unit program in lieu of issuing stock options to employees, other than executives and selected employees, because stock options are not currently seen as providing enough incentive to attract or retain employees and because, beginning in 2006, the accounting treatment of options required us to expense the fair value of our employee stock options, which may make it difficult or overly expensive for us to issue stock options to our employees in the future. Additionally, due to the reduction in our stock price as a result of our recent dividends, most outstanding options held by employees have an exercise price significantly higher than the current market price of our stock. With respect to those employees to whom we also issue options, we face a significant challenge in retaining them if the value of these stock options is either not substantial enough or so substantial that the employee leaves after their stock options have vested. If our stock price does not increase significantly above the prices of our options, or option programs become impracticable, we may need to issue new options or other equity incentives or increase other forms of compensation to motivate and retain our executives. We may undertake or seek stockholder approval to undertake other equity-based programs to retain our employees, which may be viewed as dilutive to our stockholders or may increase our compensation costs. Additionally, there can be no assurance that any such programs we undertake, including the restricted stock unit awards, will be successful in motivating and retaining our employees.

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

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

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

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Our financial and operating results will suffer if we are unsuccessful at integrating acquired technologies and businesses.

We have acquired a number of technologies and businesses in the past and may engage in further acquisitions in the future. Acquisitions may involve use of cash, potentially dilutive issuances of stock, the potential incurrence of debt and contingent liabilities or amortization expenses related to certain intangible assets. In the past, our financial results have suffered significantly due to impairment charges of goodwill and other intangible assets related to prior acquisitions. Acquisitions also involve numerous risks which could materially and adversely affect our results of operations or stock price, including:

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

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

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

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

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

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

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If the third party that provides us with data center services is unable to provide us with such services at the performance and reliability levels we require, or we are unable to transition such services effectively, our operations and financial results could be adversely affected.

Our success depends, in part, on the performance, reliability and availability of our services. In connection with our recently completed sale of our mobile services business, we disposed of most of our data center assets and transferred the personnel who operated such assets, and, through a transition period currently set to end in January 2009, a third party will be providing data center services to us for our on-going online search business. During this transition period, as we develop our own data centers for our on-going online search business, we will be dependent on such third party to provide us with the data center services we previously provided to ourselves at the same or better levels of performance and reliability. Additionally, the data center infrastructure and components of the third party providing us these services is also used by the third party to provide similar services to itself. Changes made by the third party to the infrastructure may result in unforeseen and adverse effects on the services being provided to us. Failure by the third party to provide us such services at such levels of performance and reliability, or adverse effects resulting from changes to the infrastructure, could have a material adverse effect on our operations and our financial results.

Furthermore, the cost of replacing the services currently being provided to us by the third party will most likely result in significant additional capital and operating expenses, which could have a material adverse effect on our financial results. Also, if we have not replaced the services currently being provided by the third party when the transition period expires, we will need to operate our systems either through an extension with such third party or an alternative provider. There can be no assurance that the third party provider will extend the transition period, and the transition to an alternative provider may result in significant additional capital and operating expenses. The potential alternative provider may expose us to similar risks as our current provider, which may have a material adverse effect on our operations and financial performance. The migration of the services to us or to an alternative service provider also exposes us to the potential loss or corruption of our data as a result of the transition, which may have a negative effect on our operations. Furthermore, there may be other unforeseen technical or logistical issues that may delay or increase the cost of the transition. We will also need to hire new personnel to operate our own data centers. There can be no assurance that we will be able to identify, hire and retain adequate and trained personnel to operate our own data centers, which could have a material adverse effect on our operations and financial results.

Our systems could fail or become unavailable, which could harm our reputation, result in a loss of current and potential customers and cause us to breach agreements with our partners.

In connection with our recently completed sale of our mobile services business, we disposed of most of our data center assets and the transferred personnel who operated such assets, and, through a transition period currently set to end in January 2009, a third party will be providing data center services to us for our on-going online search business. Thereafter, either we or another third party will need to provide data center services to support our business. Regardless of whether we or a third party provides the data center services for use in our business, we or the third party may not have disaster and redundancy planning or facilities in place so that business-critical systems services are redundant across two physical locations. Such systems and operations could be damaged or interrupted by fire, flood, power loss, telecommunications failure, Internet breakdown, break-in, earthquake or similar events. We would face significant damage as a result of these events, and our business interruption insurance may not be adequate to compensate us for all the losses that may occur. In addition, such systems use sophisticated software that may contain bugs that could interrupt service. For these reasons, we and, during the transition period, the third party providing us with these services may be unable to develop or successfully manage the infrastructure necessary to meet current or future demands for reliability and scalability of our systems, which could have a material adverse effect on our operations or financial results.

If the volume of traffic to our products and services increases substantially, we must respond in a timely fashion by expanding our systems, which may entail upgrading our technology and network infrastructure. During the transition period discussed above, we may need to rely on the third party providing data center services to us to carry out such expansion and upgrading of their systems, technology and infrastructure. Our ability or that of the third party to support our expansion and upgrade requirements may be constrained due to our or the third party s business demands. Due to the number of our customers and the products and services that we offer, we could experience periodic capacity constraints which may cause temporary unanticipated system disruptions, slower response times, lower levels of customer service, and limit our ability to develop and release new or enhanced products and services. Our business could be harmed if we are unable to accurately project the rate or timing of increases, if any, in the use of our products and application services or we or, during the transition period, the third party fails to expand and upgrade its systems and infrastructure to accommodate these increases in a timely manner.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

RISKS RELATED TO THE INDUSTRIES IN WHICH WE OPERATE

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

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

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

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

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

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

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

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

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

In connection with the sale of our mobile services business, we disposed of most of our data center assets and a third party will be providing data center services to us through a transition period expected to end in January 2009. During this transition period, as we develop our own data centers for our on-going online search business, we will rely on a third party to provide us with the data center services we previously provided to ourselves, which includes security of our networks. Failure by the third party to prevent breaches of our network security could have a material adverse affect our operations and financial results.

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

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

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

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provide our services have and may in the future enact laws and regulations governing the provision of online search services, including the collection of end user information and data as part of such services that may affect the ability to continue to provide such services in the manner currently provided.

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

The FTC has recommended to search engine providers that paid-ranking search results be delineated from non-paid results. To the extent that the FTC may in the future issue specific requirements regarding the nature of such delineation, which would require modifications to the presentation of search results, revenue from the affected search engines could be negatively impacted.

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

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

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

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

Not applicable with respect to the current reporting period.

Item 3. Defaults Upon Senior Securities

Not applicable with respect to the current reporting period.

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

At our annual meeting of stockholders held on May 12, 2008, the following proposals were adopted by the margin indicated:

1. To elect two Class III directors to serve for the ensuing class term and until their successors are duly elected.

Nominee	Shares Voted For	Votes Withheld
Jules Haimovitz	21,520,502	8,141,705
George M. Tronsrue, III	21,026,392	8,635,815

2. To ratify the appointment of Deloitte & Touche LLP as independent registered public accounting firm for InfoSpace for the fiscal year ending December 31, 2008:

	Shares Voted
For	29,271,097
Against	358,879
Abstain	32,231

Item 5. Other Information

Not applicable with respect to the current reporting period.

Item 6. Exhibits

Exhibits

31.1	Certification of Principal Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURE

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

INFOSPACE, INC.

By /s/ David B. Binder
David B. Binder
Chief Financial Officer
(Principal Financial Officer)

Dated: August 5, 2008

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INDEX TO EXHIBITS

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