

INSWEB CORP
Form 10-Q
May 15, 2007

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2007

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 0-26083

INSWEB CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

94-3220749

(IRS Employer
Identification Number)

11290 Pyrites Way, Suite 200 Gold River, California 95670

(Address of principal executive offices)

(916) 853-3300

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (see definition of "large accelerated filer and accelerated filer" in Rule 12b-2 of the Exchange Act).

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

Edgar Filing: INSWEB CORP - Form 10-Q

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

Yes No

The number of outstanding shares of the Registrant's Common Stock, par value \$0.001 per share, on May 4, 2007 were 4,448,747 shares.

FORM 10-Q

INSWEB CORPORATION

INDEX

PART I

FINANCIAL INFORMATION

ITEM 1:

Financial Statements (unaudited)

Condensed Consolidated Balance Sheets as of March 31, 2007 and
December 31, 2006

Condensed Consolidated Statements of Operations for the three months ended
March 31, 2007 and 2006

Condensed Consolidated Statements of Cash Flows for the three months ended
March 31, 2007 and 2006

Notes to Condensed Consolidated Financial Statements

ITEM 2:

Management's Discussion and Analysis of Financial Condition and Results of
Operations

ITEM 3:

Quantitative and Qualitative Disclosures About Market Risk

ITEM 4:

Controls and Procedures

PART II

OTHER INFORMATION

ITEM 1:

Legal Proceedings

ITEM 1A:

Risk Factors

ITEM 6:

Exhibits

Signature
Certifications

PART I: FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****INSWEB CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEETS***(in thousands)**(unaudited)*

	March 31, 2007	December 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	\$ 7,091	\$ 6,750
Accounts receivable, net	3,412	2,804
Prepaid expenses and other current assets	272	398
Total current assets	10,775	9,952
Property and equipment, net	352	389
Other assets	113	115
Total assets	\$ 11,240	\$ 10,456
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 2,434	\$ 2,248
Accrued expenses	2,571	2,672
Deferred revenue	199	245
Total current liabilities	5,204	5,165
Commitments and contingencies		
Stockholders' equity:		
Common stock	7	7
Paid-in capital	203,921	203,578
Treasury stock	(6,334)	(6,334)
Accumulated deficit	(191,558)	(191,960)
Total stockholders' equity	6,036	5,291
Total liabilities and stockholders' equity	\$ 11,240	\$ 10,456

See accompanying notes.

INSWEB CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(unaudited)

	Three Months Ended March 31,	
	2007	2006
Revenues:		
Transaction fees	\$ 8,043	\$ 7,565
Development and maintenance fees	67	90
Total revenues	8,110	7,655
Operating expenses:		
Direct marketing	4,528	4,945
Sales and marketing	1,478	2,064
Technology	876	1,253
General and administrative	902	1,176
Total operating expenses	7,784	9,438
Income (loss) from operations	326	(1,783)
Interest income	76	92
Net income (loss)	\$ 402	\$ (1,691)
Net income (loss) per share:		
Basic	\$ 0.10	\$ (0.41)
Diluted	\$ 0.09	\$ (0.41)
Weighted-average shares used in computing per share amounts		
Basic	4,119	4,085
Diluted	4,452	4,085

See accompanying notes.

INSWEB CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

*(in thousands)**(unaudited)*

	Three Months Ended	
	March 31,	
	2007	2006
Cash flows from operating activities:		
Net income (loss)	\$ 402	\$ (1,691)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Share-based compensation	314	44
Depreciation and amortization	44	67
Net changes in operating assets and liabilities:		
Accounts receivable	(608)	(678)
Prepaid expenses and other current assets	126	(57)
Other assets	2	11
Accounts payable	186	153
Accrued expenses	(102)	(132)
Deferred revenue	(45)	12
Net cash provided by (used in) operating activities	319	(2,271)
Cash flows from investing activities:		
Redemptions of short-term investments		524
Purchases of short-term investments	(7)	(21)
Net cash (used in) provided by investing activities	(7)	503
Cash flows from financing activities:		
Repayments of debt		(10)
Proceeds from issuance of common stock through stock plans	29	27
Net cash provided by financing activities	29	17
Net increase (decrease) in cash and cash equivalents	341	(1,751)
Cash and cash equivalents, beginning of period	6,750	9,073
Cash and cash equivalents, end of period	\$ 7,091	\$ 7,322

See accompanying notes.

INSWEB CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Business of InsWeb

InsWeb Corporation operates an online insurance marketplace that enables consumers to comparison shop online and to obtain insurance company-sponsored quotes for a variety of insurance products, including automobile, homeowners and term life. InsWeb's marketplace electronically matches consumers and insurance providers. InsWeb's marketplace enables consumers to research insurance-related topics, search for, analyze and compare insurance products, apply for and to receive insurance company-sponsored quotes for coverage for automobile, homeowners and term life insurance.

InsWeb's principal source of revenues is transaction fees from participating insurance providers, either directly from an insurance company or from a local insurance agent. While quotes obtained through InsWeb's online insurance marketplace are provided to consumers free of charge, InsWeb earns revenues from participating insurance companies or agents based on the delivery of qualified leads. These fees are earned, generally, from the delivery of a lead to a participating insurance provider or local agent. In certain instances, consumers are provided the opportunity to link directly to a third party insurance provider's website. In these situations, the consumer will complete the third party company's online application, and InsWeb will be paid a fee for that consumer link or click-through.

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

For the three months ended March 31, 2007, InsWeb reported income from operations of \$0.3 million and cash flows from operations of \$0.3 million. InsWeb incurred operating losses of \$5.8 million in 2006, \$6.3 million in 2005, and \$9.2 million in 2004, and as of March 31, 2007, InsWeb's accumulated deficit was \$192.0 million. Historically, InsWeb's operating activities have consumed substantial amounts of cash, cash equivalents and short-term investments (\$3.6 million in 2006, \$5.3 million in 2005, and \$8.7 million in 2004) and may still require capital in the future. At March 31, 2007, InsWeb had \$7.1 million in cash and cash equivalents. These historical losses and the related accumulated deficit are a result of the significant costs incurred in the development of InsWeb's technology platform, the establishment of relationships with insurance companies, their integration with the InsWeb site, and InsWeb's marketing and sales activities. As a result of improvements to InsWeb's revenue generating activities and reductions in its operating expenses, the Company expects to generate operating income for the year ending December 31, 2007. However, in the event that InsWeb is unable to generate revenues sufficient to offset its costs, the Company may be unable to grow its business at the rate desired, which could materially harm its business and financial results, and result in additional operating losses. In addition, if InsWeb is unable to maintain profitability, the Company may need to seek additional financing to continue its business operations. The Company cannot be certain that additional financing will be available when required, on favorable terms or at all.

2. Basis of Presentation

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

The accompanying unaudited interim financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not contain all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, the accompanying unaudited interim condensed consolidated financial statements reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly InsWeb's financial position as of March 31, 2007 and the results of operations and cash flows for the three months ended March 31, 2007 and 2006. The financial data and other information disclosed in these notes to the condensed consolidated financial statements related to these periods are unaudited. The results for the three months ended March 31, 2007 are not necessarily indicative of the results to be expected for the year ending December 31, 2007.

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in InsWeb's Annual Report on Form 10-K and other information as filed with the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations. The December 31, 2006 condensed consolidated balance sheet was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States. However, the Company believes the disclosures are adequate to make the information presented not misleading.

Basic earnings per share is computed using the weighted-average number of shares of common stock outstanding. Diluted earnings per share reflects the potential dilution that would occur if stock options had been exercised. For the three months ended March 31, 2006, common equivalent shares from stock options and warrants were excluded from the computation of net loss per share-diluted as their effect was antidilutive.

In July 2006, the FASB issued FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with Statement of Financial Accounting Standard No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return and provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. InsWeb adopted the provisions of FIN 48 as of January 1, 2007. The adoption of FIN 48 did not have a material impact on InsWeb's financial statements.

3. Share-Based Payments

The following table sets forth the total stock-based compensation expense resulting from stock options and the Purchase Plan included in the Company's operating expenses in its condensed consolidated statements of operations for the three months ended March 31, 2007 and 2006 (in thousands):

	2007	2006
Sales and marketing	\$ 55	\$ 44
Technology	32	
General and administrative	227	
Total share-based compensation expense	\$ 314	\$ 44

4. Concentration of Risk Significant Customers

For the three months ended March 31, 2007, three customers accounted for 15%, 12% and 10% of total revenues, respectively. For the three months ended March 31, 2006, three customers accounted for 17%, 12% and 10% of total revenues, respectively. At March 31, 2007, two customers accounted for 21% and 15% of accounts receivable, respectively. At December 31, 2006, three customers accounted for 24%, 11%, and 11% of accounts receivable, respectively.

5. Accrued Expenses

Accrued expenses consist of the following (in thousands):

	March 31, 2007	December 31, 2006
Accrued lease obligations (see Note 7)	\$ 1,489	\$ 1,563
Accrued employee compensation	392	495
Deferred rent	442	463
Other	248	151
Total	\$ 2,571	\$ 2,672

6. Comprehensive Income (Loss)

Total comprehensive income (loss) for the three months ended March 31, 2007 and 2006 was as follows (in thousands):

	2007	2006
Net income (loss)	\$ 402	\$ (1,691)
Other comprehensive income - change in unrealized gain on investments		1
Total comprehensive income (loss)	\$ 402	\$ (1,690)

7. Commitments and Contingencies**Leases**

InsWeb is contractually obligated to make future lease payments on certain formerly occupied facilities through September 2008. As of March 31, 2007, total future obligations for these facilities amounted to \$3.8 million; these obligations are offset by total contractual future sublease income of approximately \$3.2 million. Substantially all future sublease income is due from a sublessee who is a technology company with a limited operating history and, therefore, there are inherent risks and uncertainties associated with its future operations and its ability to discharge its obligations through the term of the sublease. In the event that the sublessee defaults on its obligations under the amended sublease, InsWeb would be responsible for making the required lease payments to the landlord through the remaining term of the lease. In connection with this lease and other lease obligations for formerly occupied facilities, InsWeb must make assumptions regarding the estimated future sublease income relative to these facilities. These estimates and assumptions are affected by area-specific conditions such as new commercial development, market occupancy rates and future market prices. Based on these assumptions, the Company has recorded an accrual of \$1.5 million as of March 31, 2007 for lease commitments related to these formerly occupied facilities, compared to \$1.6 million as of December 31, 2006.

Securities Class Action Lawsuit

A securities class action lawsuit was filed on December 5, 2001 in the United States District Court for the Southern District of New York, (the Court) purportedly on behalf of all persons who purchased our common stock from July 22, 1999 through December 6, 2000. The complaint named as defendants InsWeb, certain current and former officers and directors, and three investment banking firms that served as underwriters for InsWeb's initial public offering in July 1999. The complaint, as subsequently amended, alleges violations of Sections 11 and 15 of the Securities Act of 1933 and Sections 10 and 20 of the Securities Exchange Act of 1934, on the grounds that the prospectuses incorporated in the registration statements for the offering failed to disclose, among other things, that (i) the underwriters had solicited and received excessive and undisclosed commissions from certain investors in exchange for which the underwriters allocated to those investors material portions of the shares of our stock sold in the offerings and (ii) the underwriters had entered into agreements with customers whereby the underwriters agreed to allocated shares of the stock sold in the offering to those customers in exchange for which the customers agreed to purchase additional shares of InsWeb stock in the aftermarket at pre-determined prices. No specific damages are claimed. Similar allegations have been made in lawsuits relating to more than 300 other initial public offerings conducted in 1999 and 2000, all of which have been consolidated for pretrial purposes. In October 2002, all claims against the individual defendants were dismissed without prejudice. In February 2003, the Court dismissed the claims in the InsWeb action alleging violations of the Securities Exchange Act of 1934 but allowed the plaintiffs to proceed with the remaining claims. In June 2003, the plaintiffs in all of the cases presented a settlement proposal to all of the issuer defendants. Under the proposed settlement, the plaintiffs will dismiss and release all claims against participating defendants in exchange for a contingent payment guaranty by the insurance companies collectively responsible for insuring the issuers in all the related cases, and the assignment or surrender to the plaintiffs of certain claims the issuer defendants may have against the underwriters. InsWeb and most of the other issuer defendants have accepted the settlement proposal. On April 24, 2006, a hearing was held to consider final approval of the settlement; the Court's ruling on final approval of the settlement remains pending. If the Court does not approve the settlement, InsWeb intends to defend the lawsuit vigorously. The litigation and settlement process is inherently uncertain and we cannot predict the outcome, though, if unfavorable, it could have a material adverse effect on InsWeb's financial condition, results of operations and cash flows.

8. Subsequent Events

In April 2007, InsWeb announced the winding-down of its term life agency, as part of the Company's ongoing efforts to narrow its strategic focus on the more profitable lead generation opportunities. The Company will continue to offer term life insurance products to its consumers through its online insurance marketplace using a lead generation model. At the same time, InsWeb will continue to earn commission revenues (in diminishing amounts) throughout 2007 as term life applications taken prior to April 2007 are closed. The initial headcount reduction from the agency closure in April was 18 employees, with an additional reduction of 9 employees over the next six months, as the current in-process term life policies are completed.

Also in April 2007, the Company also announced a reorganization involving members of its senior staff. The Company expects to record charges of approximately \$0.5 million in the quarter ending June 30, 2007 relating to the winding-down of its term life agency and the reorganization of its senior staff.

Subsequent to March 31, 2007 and through May 4, 2007, the Company received cash of approximately \$1.0 million from the exercise of 322,713 employee stock options.

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

This Quarterly Report on Form 10-Q, and in particular Management's Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements with respect to InsWeb's future financial performance. The words or phrases "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," and similar expressions are generally intended to identify forward-looking statements. Such forward-looking statements are subject to various known and unknown risks and uncertainties, and InsWeb cautions you that any forward-looking information provided by, or on behalf of, InsWeb is not a guarantee of future performance. Actual results could differ materially from those anticipated in such forward-looking statements due to a number of factors, some of which are beyond InsWeb's control, including, but not limited to, uncertain economic conditions which could result in lower growth rates, decreasing revenue and reduced participation in InsWeb's marketplace, anticipated losses, the unpredictability of future revenues, reliance on key customers' property and casualty insurance carriers- who are themselves subject to volatility in their operating cycles, reliance on a third party intermediary who provides leads to local insurance agents on InsWeb's behalf, competition, risks associated with system development and operation risks, management of potential growth and risks of new business areas, business combinations, and strategic alliances. These risks and uncertainties, as well as other risks and uncertainties, which are described in greater detail in InsWeb's Annual Report on Form 10-K for the year ended December 31, 2006 and other documents filed with the Securities and Exchange Commission, could cause InsWeb's actual results to differ materially from historical results or those currently anticipated. All forward-looking statements are based on information available to InsWeb on the date hereof, and InsWeb assumes no obligation to update such statements.

Overview

InsWeb operates an online insurance marketplace that enables consumers to comparison shop online and to obtain insurance company-sponsored quotes for a variety of insurance products, including automobile, homeowners and term life. InsWeb's marketplace electronically matches consumers and insurance providers. InsWeb has combined extensive knowledge of the insurance industry, technological expertise and close relationships with a significant number of insurance companies to develop an integrated online marketplace.

InsWeb's principal source of revenues is transaction fees from participating insurance providers, either directly from an insurance company or from a local insurance agent. While quotes obtained through InsWeb's online insurance marketplace are provided to consumers free of charge, InsWeb earns revenues from participating insurance companies or agents based on the delivery of qualified leads. These fees are earned either from an insurance company based on a closed policy, from the delivery of a lead to a participating insurance provider or local agent, or from a commission earned by InsWeb's insurance agency subsidiary, InsWeb Insurance Services, Inc. In certain instances, consumers are provided the opportunity to link directly to a third party insurance provider's website. In these situations, the consumer will complete the third party company's online application, and InsWeb will be paid a fee for that consumer link or click-through.

A less significant and declining source of revenues for InsWeb are development and maintenance fees that are paid by insurance companies that participate on the InsWeb insurance marketplace. Development fees are generated from the design and development of customized interfaces between an insurance company's information system and the InsWeb site. InsWeb charges maintenance fees for maintaining and servicing the programs of the individual insurance companies and for maintaining any hardware at InsWeb's facility that is dedicated to specific insurance companies.

In 2004, InsWeb launched its agent network program which provides online auto insurance consumers access to local insurance agents. Prior to September 2005, the agent network program was conducted exclusively through an intermediary, NetQuote, Inc. To lessen InsWeb's reliance on this intermediary, and to maximize its revenue potential, InsWeb launched a proprietary agent network program (AgentInsider) to provide leads directly to local insurance agents who have registered with InsWeb. AgentInsider was launched in September 2005 and complements the offering of our intermediary. For the quarter ended March 31, 2007, NetQuote represented 15% of auto transaction fee revenues, compared to 21% for the same quarter in 2006. For the quarter ended March 31, 2007, 2,800 local personal lines insurance agents actively purchased consumer leads through the AgentInsider platform, representing 18% of auto transaction fee revenues; this compares to 2,200 local personal lines insurance agents who actively purchased consumer leads for the same quarter in 2006, representing 12% of auto transaction fee revenues. We expect that the agent network program, both through the intermediary and through our internally developed network, will continue to represent a significant percentage of auto transaction fees.

InsWeb has focused its efforts on developing insurance company coverage for automobile insurance in order to be able to offer true comparative online shopping for this important segment of the insurance market. Automobile insurance accounted for approximately 76% of our transaction revenues in 2006, compared to approximately 79% in 2005. We anticipate that automobile insurance will continue to account for a substantial portion of our revenues for the foreseeable future.

For the quarter ended March 31, 2007, InsWeb reported income from operations of \$0.3 million and cash flows from operations of \$0.3 million. InsWeb incurred operating losses of \$5.8 million in 2006, \$6.3 million in 2005, and \$9.2 million in 2004, and as of March 31, 2007, InsWeb's accumulated deficit was \$192.0 million. Historically, InsWeb's operating activities have consumed substantial amounts of cash, cash equivalents and short-term investments (\$3.6 million in 2006, \$5.3 million in 2005, and \$8.7 million in 2004) and may still require capital in the future. At March 31, 2007, InsWeb had \$7.1 million in cash and cash equivalents. These historical losses and the related accumulated deficit are a result of the significant costs incurred in the development of InsWeb's technology platform, the establishment of relationships with insurance companies, their integration with the InsWeb site, and InsWeb's marketing and sales activities. As a result of improvements to InsWeb's revenue generating activities and reductions in its operating expenses, the Company expects to generate operating income for the year ending December 31, 2007. However, in the event that InsWeb is unable to generate revenues sufficient to offset its costs, the Company may be unable to grow its business at the rate desired, which could materially harm its business and financial results, and result in additional operating losses. In addition, if InsWeb is unable to maintain profitability, the Company may need to seek additional financing to continue its business operations. The Company cannot be certain that additional financing will be available when required, on favorable terms or at all.

Results of Operations

The following table sets forth statement of operations data with the respective percentage change from the prior year quarter:

	Quarter ended March 31,		Percentage change from	
	2007	2006	prior period	
Revenues:				
Transaction fees:				
Auto insurance	\$ 6,411	\$ 5,998	7	%
Term life insurance	1,215	1,321	(8))%
Other insurance offerings	417	246	69	%
	8,043	7,565	6	%
Development and maintenance fees	67	90	(26))%
Total revenues	8,110	7,655	6	%
Operating expenses:				
Direct marketing	4,528	4,945	(8))%
Sales and marketing	1,478	2,064	(28))%
Technology	876	1,253	(30))%
General and administrative	902	1,176	(23))%
Total operating expenses	7,784	9,438	(18))%
Income (loss) from operations	\$ 326	\$ (1,783)	n/m	

The following table sets forth statement of operations data as a percentage of total revenues:

	Quarter ended March 31,			
	2007		2006	
Revenues:				
Transaction fees:				
Auto insurance	79.1	%	78.3	%
Term life insurance	15.0	%	17.3	%
Other insurance	5.1	%	3.2	%
Development and maintenance fees	0.8	%	1.2	%
Total revenues	100.0	%	100.0	%
Operating expenses:				
Direct marketing	55.8	%	64.6	%
Sales and marketing	18.2	%	27.0	%
Technology	10.8	%	16.4	%
General and administrative	11.2	%	15.3	%
Total operating expenses	96.0	%	123.3	%
Income (loss) from operations	4.0	%	(23.3))%

Revenues

Auto insurance marketplace metrics were as follows:

(In thousands, except percentages and per consumer amounts)	Quarter ended March 31,		Percentage change from	
	2007	2006	prior period	
Auto insurance transaction revenues	\$ 6,411	\$ 5,998	7	%
Number of consumers	1,318	1,424	(7))%
Auto insurance transaction fees per consumer	\$ 4.86	\$ 4.21	15	%

Term life marketplace metrics were as follows:

(In thousands, except percentages and per consumer amounts)	Quarter ended March 31,		Percentage change from	
	2007	2006	prior period	
Term life insurance transaction revenues	\$ 1,215	\$ 1,321	(8))%
Number of consumers	60	87	(31))%
Term life insurance transaction fees per consumer	\$ 20.25	\$ 15.18	33	%
Number of closed term life policies	1,288	1,436	(10))%
Term life insurance transaction fees per closed term life policy	\$ 943	\$ 914	3	%

Definitions:

Number of consumers Represents a consumer who has started an InsWeb application.

Transaction fees per consumer Represents transaction revenue earned per consumer who has started an application.

Transaction Fees. Automobile insurance transaction fees (consisting of lead fees, commissions and Sponsored Web Link fees) increased to \$6.4 million in the quarter ended March 31, 2007 from \$6.0 million in the comparable period in 2006. The 7% increase in transaction fees was attributable to a 15% increase in the revenue earned per consumer, offset by a 7% decrease in the number of consumers shopping for automobile insurance on the InsWeb platform. Revenue per auto consumer increased to \$4.86 in the quarter ended March 31, 2007 from \$4.21 in the comparable period in 2006 as a result of the expansion of the AgentInsider program and improvements to our Sponsored Web Links program. Management expects revenue per auto consumer to increase throughout 2007 as AgentInsider continues to expand with the addition of local insurance agents.

Term life insurance transaction fees (consisting primarily of agency commissions and a limited amount of lead fees) decreased 8% to \$1.2 million in the quarter ended March 31, 2007 from \$1.3 million in the comparable period in 2006. The decrease in revenues was attributable to the 10% decrease in the number of closed term life policies.

In April 2007, InsWeb announced the winding-down of its term life agency, as part of the Company's ongoing efforts to narrow its strategic focus on the more profitable lead generation opportunities. The Company will continue to offer term life insurance products to its consumers through its online insurance marketplace using a lead generation model. At the same time, InsWeb will continue to earn commission revenues (in diminishing amounts) throughout 2007 as term life applications taken prior to April 2007 are closed. The initial headcount reduction from the agency closure in April was 18 employees, with an additional reduction of 9 employees over the next six months, as the current in-process term life policies are completed.

Edgar Filing: INSWEB CORP - Form 10-Q

Other insurance transaction fees (consisting primarily of homeowners insurance lead fees) increased 69% to \$0.4 million in the quarter ended March 31, 2007 from \$0.2 million in the comparable period in 2006. The increase in revenues was attributable to the launch of our local agent network program, AgentInsider, and related marketing efforts to drive homeowners insurance consumers to the InsWeb marketplace. Management expects revenue from the homeowners insurance marketplace to increase throughout 2007 as AgentInsider expands with the addition of local insurance agents.

13

Operating Expenses

(In thousands, except percentages)	Quarter ended March 31,		Percentage change from prior period
	2007	2006	
Operating expenses:			
Direct marketing	\$ 4,528	\$ 4,945	(8)%
Sales and marketing	1,478	2,064	(28)%
Technology	876	1,253	(30)%
General and administrative	902	1,176	(23)%

Direct marketing (consumer acquisition) metrics and costs were as follows:

(In thousands, except percentages and per consumer amounts)	Quarter ended March 31,		Percentage change from prior period
	2007	2006	
Direct marketing costs	\$ 4,528	\$ 4,945	(8)%
Direct marketing costs as a percent of transaction fees	56%	65%	(14)%
Number of consumers	1,455	1,556	(6)%
Direct marketing cost per consumer	\$ 3.11	\$ 3.18	(2)%
Transaction fee revenues per consumer	\$ 5.53	\$ 4.86	14%

Direct Marketing. Direct marketing expenses consist of advertising, promotions and fees paid to online companies to drive consumer traffic to the InsWeb online marketplace. InsWeb's marketing strategy is designed to increase consumer traffic to its website and to drive awareness of its insurance products and services. The Company employs various means of advertising, which consist primarily of online advertising, sponsored search, portal advertising, e-mail campaigns and strategic partnerships with high-profile online companies that can drive significant traffic to the InsWeb site. Fees related to the Company's online marketing are expensed in the period the related consumer click-through occurs or, in some cases, when the consumer leads are generated. Direct marketing expenses decreased 8% to \$4.5 million in the quarter ended March 31, 2007 from \$4.9 million in the comparable period in 2006. This decrease in spending, and the resulting 6% decrease in consumer traffic compared to 2006 levels, is attributable to InsWeb's focus on direct marketing opportunities that are capable of providing positive margins. Direct marketing expense as a percent of transaction revenues was 56% in the quarter ended March 31, 2007, compared to 65% in the comparable period in 2006. Management expects direct marketing expense as a percent of transaction revenues to continue to decrease due to the on-going improvements to the revenue model, in particular AgentInsider. Further, management expects direct marketing costs per consumer acquired will remain near current levels; and while the amount of consumer traffic driven to the InsWeb marketplace is expected to fluctuate during the year due to seasonality and the competitive environment for online consumers, we expect that overall consumer traffic for the year ending December 31, 2007 will be comparable to 2006 levels.

Sales and Marketing. Sales and marketing expenses consist primarily of payroll and related expenses, including employee benefits, facility costs, telecommunications and systems costs, for InsWeb's sales and marketing personnel and the personnel and related costs for InsWeb's insurance agency operations, which includes selling agents, underwriters, supervisors and customer service groups. Sales and marketing expenses decreased to \$1.5 million in the quarter ended March 31, 2007 from \$2.1 million in the comparable period in 2006, a 28% decrease. This decrease was primarily due to the reduction in headcount completed in September 2006. Sales and marketing expenses for the remainder of 2007 are expected to decrease as a result of the headcount reduction associated with the closure of the term life agency.

Technology. Technology expenses consist primarily of payroll and related expenses, including employee benefits, facility and systems costs, for product and site development personnel involved with the planning, design and implementation of carrier integration to the InsWeb online insurance marketplace. Technology expenses decreased to \$0.9 million in the quarter ended March 31, 2007 from \$1.3 million in the comparable period in 2006, a 30% decrease. This decrease was primarily due to the reduction in headcount completed in September 2006. Technology expenses for the remainder of 2007 are expected to remain at levels comparable to the quarter ended March 31, 2007.

General and Administrative. General and administrative expenses consist primarily of payroll and related expenses, including employee benefits, facility costs, telecommunications and systems costs, for InsWeb's general management, administrative and accounting personnel, as well as other general corporate expenses. General and administrative expenses decreased to \$0.9 million in the quarter ended March 31, 2007 from \$1.2 million in the comparable period in 2006, a 23% decrease. The decreases were due to reductions in headcount and other operating cost savings. General and administrative expenses for the remainder of 2007 are expected to remain at levels comparable to the quarter ended March 31, 2007.

Interest and Other Income, Net

Interest and other income was \$76,000 in the quarter ended March 31, 2007, compared to \$92,000 in the comparable period in 2006. Interest income represents income earned on InsWeb's investment securities.

Critical Accounting Policies

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

Accrual for Lease Obligations. InsWeb is contractually obligated to make future lease payments on certain formerly occupied facilities through September 2008. As of March 31, 2007, total future obligations for these facilities amounted to \$3.8 million; these obligations are offset by total contractual future sublease income of approximately \$3.2 million. Substantially all future sublease income is due from a sublessee that is a technology company with a limited operating history and, therefore, there are inherent risks and uncertainties associated with its future operations and its ability to discharge its obligations through the term of the sublease. In the event that the sublessee defaults on its contractual obligations under the amended sublease, InsWeb would be responsible for making the required lease payments to the landlord through the remaining term of the lease. In connection with this lease and other lease obligations for formerly occupied facilities, InsWeb must make assumptions regarding the potential future sublease income relative to these facilities. These estimates and assumptions are affected by area-specific conditions such as new commercial development, market occupancy rates and future market prices. Based on these assumptions, the Company maintains an accrual for formerly occupied facilities. The remaining accrual for lease obligations for formerly occupied facilities was \$1.5 million at March 31, 2007, compared to \$1.6 million at December 31, 2006. If these estimates or their related assumptions change in the future, InsWeb may be required to record a charge to increase its existing accrual.

Contingencies. As discussed in Note 7 of Notes to Condensed Consolidated Financial Statements in Part I of this report, a class action lawsuit has been filed that alleges InsWeb violated certain federal securities laws at the time of its initial public offering. Although some claims against InsWeb in this class action have been dismissed and a settlement of these proceedings has been proposed and conditionally accepted, InsWeb cannot accurately predict the ultimate outcome of this matter at this time and therefore, cannot estimate the range of probable loss, if any, due to the inherent uncertainties of litigation. InsWeb believes it has meritorious defenses; however InsWeb cannot assure that it will prevail in this action. An unfavorable outcome could have a material adverse effect on InsWeb's financial condition, results of operations and cash flows.

Stock-Based Compensation. InsWeb accounts for stock-based compensation in accordance with Statement of Financial Accounting Standards (SFAS) No. 123(R), *Share-Based Payment*. Under the provisions of SFAS No. 123(R), stock-based compensation cost is generally estimated at the grant date based on the award's fair value as calculated by the Black-Scholes-Merton (BSM) option-pricing model and is recognized as expense over the requisite service period. The BSM model requires various highly judgmental assumptions including expected option life, volatility, and forfeiture rates. If any of the assumptions used in the BSM model change significantly, stock-based compensation expense may differ materially in the future from that recorded in the current period. See additional discussion in Note 3 of the Notes to Consolidated Financial Statements.

Income Taxes. InsWeb accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109 (SFAS 109), *Accounting for Income Taxes* and FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109*. The deferred tax assets and/or liabilities are determined by multiplying the differences between the financial reporting and tax reporting bases for assets and liabilities by the enacted tax rates expected to be in effect when such differences are recovered or settled. InsWeb adopted the provisions of FIN 48 as of January 1, 2007. The adoption of FIN 48 did not have a material impact on InsWeb's financial statements.

The carrying value of our deferred tax assets, which was approximately \$76 million at December 31, 2006, is dependent upon our ability to generate sufficient future taxable income. We have established a full valuation allowance against our net deferred tax assets for continuing operations to reflect the uncertainty of realizing the deferred tax benefits, given historical losses. A valuation allowance is required when it is more likely than not that all or a portion of a deferred tax asset will not be realized. A review of all available positive and negative evidence needs to be considered, including our past and future performance, the market environment in which we operate, the utilization of tax attributes in the past, and the length of carryforward periods and evaluation of potential tax planning strategies. We expect to continue to maintain a full valuation allowance until an appropriate level of profitability is sustained or we are able to develop tax strategies that would enable us to conclude that it is more likely than not that a portion of our deferred tax assets would be realizable. In addition, InsWeb's ability to utilize its net operating loss carry forwards to offset future taxable income may be subject to restrictions attributable to equity transactions that result in changes in ownership as defined in the Tax Reform Act of 1986. These restrictions may significantly limit, on an annual basis, InsWeb's future use of its net operating loss carry forwards. The amount, if any, of such limitations has not yet been determined.

Liquidity and Capital Resources

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

	Quarter ended March 31,	
	2007	2006
Cash (used in) provided by operating activities	\$ 319	\$ (2,271)
Cash (used in) provided by investing activities	(7)	503
Cash provided by financing activities	29	17

At March 31, 2007, InsWeb's principal source of liquidity was \$7.1 million in cash and cash equivalents. Since inception, InsWeb has financed its operations primarily through the sale of preferred and common stock. Subsequent to March 31, 2007 and through May 4, 2007, the Company received cash of approximately \$1.0 million from the exercise of 322,713 employee stock options.

For the quarter ended March 31, 2007, net cash provided by operating activities primarily consisted of InsWeb's net income, increased by non-cash share-based compensation of \$0.3 million and depreciation of property and equipment of \$44,000. An increase in accounts receivable and reductions in accrued expenses decreased the cash provided by operations, while a reduction in prepaid expenses and an increase in accounts payable increased the cash provided by operations. The significant increase in accounts receivable was a result of the revenue growth during the quarter. The increase in accounts payable was a result of the significant increase in direct marketing activities during the quarter, increasing consumer traffic to the InsWeb marketplace and a corresponding increase in direct marketing costs. For the quarter ended March 31, 2006, net cash used in operating activities was \$2.3 million. The primary components of the quarterly use of cash was the net loss of \$1.7 million and an increase in accounts receivable of \$0.7 million, partially offset by an increase in accounts payable of \$0.2 million.

For the quarter ended March 31, 2007, net cash used in investing activities was \$7,000, consisting of the purchases of short-term investments. For the quarter ended March 31, 2006, net cash provided by investing activities was \$0.5 million, which primarily consisted of redemptions of short-term investments offset by the purchases of short-term investments. Investing activities will generally fluctuate in conjunction with operating activity needs.

For the quarter ended March 31, 2007, net cash provided by financing activities was \$29,000 and was attributable to the exercise of employee stock options. For the quarter ended March 31, 2006, net cash provided by financing activities was \$17,000 and was primarily attributable to the exercise of employee stock options.

InsWeb leases its current office facilities under non-cancelable operating leases, which expire at various dates through April 2011, including a 10-year lease agreement through 2011 for office space in the Sacramento area which houses its corporate headquarters and agency operations. InsWeb has options to extend the lease at the end of the lease term, and has the right of first refusal on other office space in the complex. In addition, InsWeb has entered into various sublease arrangements associated with previously exited facilities that have terms extending through September 2008.

Aggregate contractual cash obligations, net of contractual sublease income, as of March 31, 2007 is summarized as follows (in thousands):

Periods ending December 31,	Gross lease commitments	Sublease income	Net lease commitment
Nine months ending December 31, 2007	\$ 2,617	\$ (1,579)	\$ 1,038
Year ending December 31, 2008	2,936	(1,615)	1,321
Year ending December 31, 2009	1,078		1,078
Year ending December 31, 2010	1,078		1,078
Year ending December 31, 2011	359		359
	\$ 8,068	\$ (3,194)	\$ 4,874

Edgar Filing: INSWEB CORP - Form 10-Q

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

18

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK.

There have been no material changes to the Company's disclosures related to certain market risks as reported under Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in our Annual Report on Form 10-K for the year ended December 31, 2006, as filed with the U.S. Securities and Exchange Commission.

ITEM 4T. CONTROLS AND PROCEDURES

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

(b) There has been no change in our internal control over financial reporting during the three months ended March 31, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II: OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Part I, Item 1, Financial Statements - Note 7 Commitments and Contingencies.

ITEM 1A. RISK FACTORS.

Our future business, operating results and financial condition are subject to various risks and uncertainties, including those disclosed in Part I, Item 1A, Risk Factors, of our Annual Report on Form 10-K for the year ended December 31, 2006, as filed with the U.S. Securities and Exchange Commission. There have been no material changes to the risk factors as disclosed

ITEM 6. EXHIBITS

Exhibit

Number Description of Document

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

SIGNATURE

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

Dated: May 14, 2007

INSWEB CORPORATION
(Registrant)

/s/ STEVEN J. YASUDA
Steven J. Yasuda
Chief Accounting Officer