INSWEB CORP
Form 10-Q
May 15, 2006

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2006

Or

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

For the transition period from to

Commission file number 0-26083

INSWEB CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware	**94-3220749**
(State or other jurisdiction of incorporation or organization)	(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 ý No o

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 o Accelerated Filer o Non-Accelerated Filer ý

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

Yes o No ý

The number of outstanding shares of the Registrant s Common Stock, par value $0.001 per share, on April 28, 2006 were 4,087,094 shares.

FORM 10-Q

INSWEB CORPORATION

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PART I: **FINANCIAL INFORMATION**

ITEM 1. **FINANCIAL STATEMENTS**

INSWEB CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

(unaudited)

	March 31, 2006	December 31, 2005
Assets		
Current assets:		
Cash and cash equivalents	$ 7,322	$ 9,073
Short-term investments	711	1,233
Accounts receivable, net	2,974	2,297
Prepaid expenses and other current assets	603	545
Total current assets	11,610	13,148
Property and equipment, net	477	524
Other assets	335	346
Total assets	$ 12,422	$ 14,018
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 2,808	$ 2,655
Accrued expenses	2,952	3,094
Deferred revenue	140	128
Total current liabilities	5,900	5,877
Commitments and contingencies		
Stockholders equity:		
Common stock	7	7
Paid-in capital	203,130	203,059
Treasury stock	(6,334)	(6,334)
Accumulated other comprehensive loss		(1)
Accumulated deficit	(190,281)	(188,590)
Total stockholders equity	6,522	8,141
Total liabilities and stockholders equity	$ 12,422	$ 14,018

See accompanying notes.

INSWEB CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(unaudited)

	Three Months Ended March 31, 2006		Three Months Ended March 31, 2005	
Revenues:				
Transaction fees	$	7,565	$	5,606
Development and maintenance fees		90		88
Total revenues		7,655		5,694
Operating expenses:				
Direct marketing		4,945		3,156
Sales and marketing		2,064		1,546
Technology		1,253		1,372
General and administrative		1,176		1,132
Total operating expenses		9,438		7,206
Loss from operations		(1,783)		(1,512)
Interest income		92		92
Net loss	$	(1,691)	$	(1, 420)
Net loss per share-basic and diluted	$	(0.41)	$	(0. 30)
Weighted-average shares used in computing per share amounts-basic and diluted		4,085		4, 785

See accompanying notes.

INSWEB CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Three Months Ended March 31, 2006	Three Months Ended March 31, 2005
Cash flows from operating activities:		
Net loss	$ (1,691)	$ (1,420)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation	44	
Depreciation and amortization	67	157
Net changes in operating assets and liabilities:		
Accounts receivable	(678)	(1,221)
Prepaid expenses and other current assets	(57)	239
Other assets	11	
Accounts payable	153	665
Accrued expenses	(132)	162
Deferred revenue	12	9
Net cash used in operating activities	(2,271)	(1,409)
Cash flows from investing activities:		
Redemptions of short-term investments	524	4,246
Purchases of short-term investments	(21)	(2,576)
Net cash provided by investing activities	503	1,670
Cash flows from financing activities:		
Repayments of debt	(10)	(13)
Proceeds from issuance of common stock through stock plans	27	21
Repurchase of common stock		(1,738)
Net cash provided by (used in) financing activities	17	(1,730)
Net decrease in cash and cash equivalents	(1,751)	(1,469)
Cash and cash equivalents, beginning of period	9,073	9,334
Cash and cash equivalents, end of period	$ 7,322	$ 7,865

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 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, 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.

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.

InsWeb has incurred operating losses of $6.3 million in 2005, $9.2 million in 2004, and $7.0 million in 2003, and as of March 31, 2006, our accumulated deficit was $190.3 million. In addition, InsWeb s operating activities to date have consumed substantial amounts of cash, cash equivalents and short-term investments ($5.3 million in 2005, $8.7 million in 2004, and $4.2 million in 2003) and will continue to require capital in the near future. At March 31, 2006, InsWeb had $8.0 million in cash, cash equivalents and short-term investments. The 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. In order to remain competitive, the Company must continue to make investments essential to its ability to operate, and InsWeb intends to continue to invest in product development and maintenance, and sales and marketing. In addition, the

Company will continue to incur the costs associated with continuing to function as a publicly listed company, including the costs of compliance with the provisions of the Sarbanes-Oxley Act of 2002, among other things, even though the Company will not be required to comply with Section 404 of the Sarbanes-Oxley Act until 2007. As a result, InsWeb believes that it will continue to incur operating losses for the next six to nine months. In the event that InsWeb is unable to generate revenues sufficient to offset its costs, or if its costs of marketing and operations are greater than it anticipates, the Company may be unable to grow its business at the rate desired or may be required to delay, reduce, or cease certain of its operations, any of which could materially harm its business and financial results. In addition, if InsWeb is unable to ultimately achieve 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. If InsWeb is not successful in raising additional capital as required, it may delay, significantly reduce or cease certain of its operations, which could adversely affect its results of operations and financial position.

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, 2006 and the results of operations and cash flows for the three months ended March 31, 2006 and 2005. 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, 2006 are not necessarily indicative of the results to be expected for the year ending December 31, 2006.

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, 2005 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 would reflect the potential dilution that would occur if stock options and warrants had been exercised. For the three month periods ended March 31, 2006 and 2005, common equivalent shares from stock options and warrants were excluded from the computation of net loss per share-diluted as their effect was antidilutive.

3. Stock-Based Compensation

Stock Plans

In July 1997, InsWeb authorized the 1997 Stock Option Plan (the Option Plan) and the Senior Executive Option Plan (the Executive Plan). Under the Option Plan, the Board of Directors may issue incentive stock options to employees of InsWeb and its subsidiaries and may also issue nonqualified stock options to employees, officers, directors, independent contractors and consultants of InsWeb and its subsidiaries. Under the Executive Plan, the Board of Directors may issue nonqualified stock options to employees, officers and directors of InsWeb and its subsidiaries. In May 2003, the Option Plan was amended, with stockholder approval, to provide that each director would receive a fully-vested option to purchase 5,000 shares of common stock on July 1st (or the first business day thereafter) of each year in which the director remains in office. This option grant is in lieu of previously granted options for each Board or committee meeting attended. The Option Plan provides for an automatic annual increase in the share reserve, to be effective on the first day of each fiscal year, by a number of shares equal to 5% of the number of common shares outstanding as of the last day of the preceding fiscal year. Options granted under both plans are priced at the fair market value on the date of grant and prior to January 1, 2006 generally vested in equal monthly installments over a three year period; subsequent to January 1, 2006 options granted will generally vest over a one year period. Certain options granted to members of InsWeb s Board of Directors vest immediately. Prior to January 1, 2006, options expired ten years from the date of grant, subsequent to January 1, 2006 options expire five years from date of grant.

On October 19, 2005, the Compensation Committee of the Board of Directors of InsWeb Corporation approved the acceleration of vesting of all stock options outstanding as of October 19, 2005 held by employees. Options to purchase approximately 496,000 shares of common stock, or 33% of the total outstanding options, with varying remaining vesting schedules, were subject to the acceleration and became immediately exercisable. All other terms and conditions applicable to such options, including the exercise prices, remained unchanged.

InsWeb has an Employee Stock Purchase Plan (the Purchase Plan) under which eligible employees may authorize payroll deductions of up to 15% of their compensation to purchase shares at 85% of the lower of the fair market value of the common stock on the date of commencement of the offering or on the last day of the six-month purchase period. During the three months ended March 31, 2006, 4,500 shares were distributed to employees at the price of $2.48 per share. The weighted average fair value of these awards was $0.86 per share. At March 31, 2006, InsWeb had 369,000 shares of its common stock reserved for future issuance under the Purchase Plan.

Share-Based Compensation

On January 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123(R) (SFAS 123(R)), Share-Based Payments, requiring it to recognize expense related to the fair value of its share-based compensation awards. The Company elected to use the modified prospective transition method as permitted by SFAS 123(R) and therefore has not restated its financial results for prior periods. Under this transition method, share-based compensation expense for the three months ended March 31, 2006 includes all share-based compensation awards granted subsequent to January 1, 2006 based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R). The Company recognizes compensation expense for stock option awards issued subsequent to January 1, 2006 on a straight-line basis over the requisite service period of the award. All options issued prior to January 1, 2006 were fully vested at the date of adoption of SFAS 123(R), and therefore, no compensation expense was recognized for these options for the three months ended March 31, 2006.

The following table sets forth the total share-based compensation expense resulting from stock options included in the Company s operating expenses in its Condensed Consolidated Statements of Operations for the three months ended March 31, 2006 (in thousands):

Included in operating expenses:		
Sales and marketing	$	44
Technology		
General and administrative		
Total stock-based compensation	$	44

Prior to the adoption of SFAS 123(R), InsWeb accounted for its stock-based compensation plans under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. The following table illustrates the effect on net loss and net loss per share if InsWeb had applied the fair value recognition provisions of Financial Accounting Standards Board Statements No. 123 Accounting for Stock-Based Compensation and No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure, to stock-based employee compensation for the three months ended March 31, 2005 (in thousands, except per share amounts):

Net loss, as reported	$	(1,420)
		(129)

Deduct: Stock-based employee compensation expense determined under fair value based method for all awards		
Proforma net loss	$	(1,549)
Net loss per share:		
Basic and diluted as reported	$	(0.30)
Basic and diluted pro forma	$	(0.32)

The fair value of stock-based awards granted pursuant to the Company s stock option plans was estimated using the Black-Scholes model with the following assumptions for the three months ended March 31, 2006:

Expected term (in years)		3.00
Expected volatility		0.69
Risk-free interest rate		4.0%
Expected dividend		0%
Weighted-average fair value at grant date	$	1.49

Expected Term. The expected term represents the period that the Company s stock-based awards are expected to be outstanding and was determined based on the Company s historical experience with similar awards, giving consideration to the contractual terms of the share-based awards, vesting schedules and expectations of future employee behavior as influenced by changes to the terms of its share-based awards.

Expected Volatility. The Company uses the trading history of its common stock in determining an estimated volatility factor when using the Black-Scholes option-pricing formula to determine the fair value of options granted.

Risk-Free Interest Rate. The Company bases the risk-free interest rate used in the Black-Scholes valuation method on the implied yield currently available on U.S. Treasury zero-coupon issues with the same or substantially equivalent remaining term.

Expected Dividend. The Company has not declared dividends to date. Therefore, the Company uses a zero value for the expected dividend value factor when using the Black-Scholes option-pricing formula to determine the fair value of options granted.

Estimated Forfeitures. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from initial estimates. When estimating forfeitures, the Company considers historical voluntary and involuntary termination behavior as well as analysis of actual option forfeitures.

Activity under all of the Company s stock option plans for the three months ended March 31, 2006 was as follows:

(in thousands, except exercise price amounts)	**Shares Available for Grant**	**Shares Outstanding**		**Weighted Average Exercise Price**
Balances, December 31, 2005	888	1,471	$	6.98
Additional shares reserved	203			
Granted	(30)	30	$	4.00
Exercised		(6)	$	2.88
Canceled / forfeited	33	(33)	$	4.95
Balances, March 31, 2006	1,094	1,462	$	6.97
Vested and exercisable at March 31, 2006		1,462	$	6.97

The aggregate intrinsic value of options outstanding and exercisable at March 31, 2006 was $136,000. Aggregate intrinsic value represents the total intrinsic value (the aggregate difference between the closing stock price of the Company s common stock on March 31, 2006 and the exercise price for in-the-money options) that would have been received by the option holders if all options had been exercised on March 31, 2006. The total intrinsic value of options exercised in the three months ended March 31, 2006 was $2,000. The weighted-average remaining contractual term of options outstanding and exercisable at March 31, 2006 was 7.2 years.

As of March 31, 2006, there was no unrecognized compensation cost as all stock options outstanding were vested. The Company s current practice is to issue new shares to satisfy share option exercise.

Cash received from option exercises and purchases under the Purchase Plan for the three months ended March 31, 2006 was $27,000.

There was no tax benefit attributable to options exercised in the three months ended March 31, 2006.

4. Concentration of Risk Significant Customers

For the three months ended March 31, 2006, three customers accounted for 17%, 12% and 10% of total revenues, respectively. For the three months ended March 31, 2005, one customer accounted for 28% of revenues. At March 31, 2006 one customer accounted for 12% of accounts receivable. At December 31, 2005, 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, 2006	December 31, 2005
Accrued lease obligations (see Note 7)	$ 1,794	$ 1,874
Accrued employee compensation	505	586
Deferred rent	520	527
Other	133	107
Total	$ 2,952	$ 3,094

6. Comprehensive Loss

Total comprehensive loss was as follows (in thousands):

	Three months ended March 31, 2006	2005
Net loss	$ (1,691)	$ (1,420)

Other comprehensive income - change in unrealized gain on investments		1		2
Total comprehensive loss	$	(1,690)	$	(1,418)

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, 2006, total future obligations for these facilities amounted to $6.2 million; these obligations are offset by total contractual future sublease income of approximately $5.2 million. Substantially all future sublease income is due from a sublessee who is an early-stage 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. Based on these assumptions, the Company has recorded an accrual of $1.8 million as of March 31, 2006 for lease commitments related to these formerly occupied facilities, as compared to an accrual of $1.9 million as of December 31, 2005. These estimates and assumptions are affected by area-specific conditions such as new commercial development, market occupancy rates and future market prices.

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. Stockholders Equity

Negotiated common stock repurchases

In March 2005, the Board of Directors authorized management to repurchase 755,821 shares of InsWeb common stock, consisting of 531,947 shares held by Nationwide Mutual Insurance Company and 22