

INSWEB CORP
Form 10-K
April 01, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC. 20549

FORM 10-K

(Mark One)

- ☒ Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

for the fiscal year ended December 31, 2010

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

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of Exchange on which registered

Edgar Filing: INSWEB CORP - Form 10-K

None

None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, \$0.001 par value
(Title of Class)

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ☐ NO ☒

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. YES ☐ NO ☒

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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 ☐

Non-Accelerated Filer ☐

Smaller Reporting Company ☒

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). YES ☐ NO ☒

The aggregate market value of registrant's voting and non-voting common equity held by non-affiliates of registrant, based upon the closing sale price of the common stock as of the last business day of registrant's most recently completed second fiscal quarter (June 30, 2010), as reported on the Nasdaq Capital Market, was approximately \$10,980,000. Registrant is a smaller reporting company as defined in Regulation S-K. Shares of common stock held by each officer, director and holder of 5% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

Outstanding shares of registrant's common stock, \$0.001 par value, as of March 21, 2011: 5,603,948

INSWEB CORPORATION

Annual Report on Form 10-K

Table of Contents

PART I

Item 1.	Business	2
Item 1A.	Risk Factors	11
Item 1B.	Unresolved Staff Comments	16
Item 2.	Properties	16
Item 3.	Legal Proceedings	17

PART II

Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	18
Item 6.	Selected Financial Data	18
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	19
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	29
Item 8.	Financial Statements and Supplementary Data	29
Item 9.	Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	30
Item 9A.	Controls and Procedures	30
Item 9A(T).	Controls and Procedures	30
Item 9B.	Other Information	30

PART III

Item 10.	Directors, Executive Officers and Corporate Governance	31
Item 11.	Executive Compensation	35
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	41
Item 13.	Certain Relationships and Related Transactions, and Director Independence	42
Item 14.	Principal Accountant Fees and Services	45

PART IV

Item 15.	Exhibits and Financial Statement Schedules	46
Signatures		47
Exhibit Index		48
Schedule II –	Valuation and Qualifying Accounts	49

Unless otherwise indicated or required by the context, as used in this Annual Report on Form 10-K, the terms “we,” “our” and “us” refer to InsWeb Corporation (“InsWeb”) and its subsidiaries that are consolidated in conformity with accounting principles generally accepted in the United States.

Certain information contained in this Annual Report on Form 10-K should be considered “forward-looking statements” as defined by Section 21E of the Private Securities Litigation Reform Act of 1995. All statements in this report other than historical information may be deemed forward-looking statements. These statements present (without limitation) the expectations, beliefs, plans and objectives of management and future financial performance and assumptions underlying, or judgments concerning, the matters discussed in the statements. The words “believe,” “estimate,” “anticipate,” “project” and “expect,” and similar expressions, are intended to identify forward-looking statements. Forward-looking statements involve certain risks, estimates, assumptions and uncertainties, including: our ability to generate significant revenues from our core business; our ability to achieve or maintain profitability; our ability to expand our operations; and our success in developing and maintaining cost efficient online relationships to attract consumers to our websites. A variety of factors could cause actual results or outcomes to differ materially from those expected and expressed in our forward-looking statements. Some important risk factors that could cause actual results or outcomes to differ from those expressed in the forward-looking statements are described in Item 1A “Risk Factors” of this report.

The list of factors that may affect future performance and the accuracy of forward-looking statements described in Item 1A “Risk Factors” of this report is illustrative, but by no means exhaustive. Additional risk factors may be described from time to time in our future filings with the U.S. Securities and Exchange Commission. Accordingly, all forward-looking statements should be evaluated with the understanding of their inherent uncertainty. All such risk factors are difficult to predict, contain material uncertainties that may affect actual results and may be beyond our control.

Item 1. Business.

General Overview of Business

InsWeb was originally incorporated in California in February 1995 and re-incorporated in Delaware in October 1996, and is headquartered outside Sacramento, California. InsWeb’s headquarters mailing address is 11290 Pyrites Way, Gold River CA, 95670, and the telephone number at that location is (916) 853-3300. The principal InsWeb website is www.InsWeb.com.

InsWeb operates an online insurance marketplace that electronically matches consumers and providers of automobile, property, health, term life, and small business insurance. InsWeb has combined knowledge of the insurance industry, marketing and technological expertise and close relationships with insurance companies, agents and other providers to develop an integrated online marketplace. InsWeb’s marketplace enables consumers to research insurance-related topics, search for, analyze and compare insurance products, and request quotes for coverage for automobile, property, health, term life, and small business insurance. Management believes that the InsWeb marketplace supplies insurance providers with pre-qualified consumers at attractive acquisition costs, with the scalable, cost-efficient lead generation capabilities of InsWeb’s Internet-based model. On October 1, 2010, InsWeb acquired Potrero Media Corporation (“Potrero Media”), which operates a complementary service focused on the health and term life insurance markets.

Reportable Segments

We have two reportable segments: InsWeb and Potrero Media. The guidance codified in Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASC”) Topic 280-10, “Disclosure about Segments of an Enterprise and Related Information” requires that we determine our reportable business segments based on the internal

organization used by management for making operating decisions and assessing performance. Although InsWeb and Potrero Media have similar products or services, production methods, distribution methods, and regulatory environments, we currently review the operating results of InsWeb and Potrero Media separately and make decisions about resources to be allocated to each based on their separate performance. Due to the similarity in their business models, however, all references to “InsWeb” in the description of our business will include Potrero Media, except as specifically noted otherwise. Additional information about InsWeb’s reportable segments can be found in Note 10 to the Consolidated Financial Statements.

The InsWeb Online Insurance Marketplace

InsWeb’s principal source of revenues is transaction fees from participating insurance providers, which include insurance companies, national, statewide or nationwide insurance brokers, and local independent or exclusive agents (such as State Farm agents). Quotes and other information obtained through InsWeb’s online insurance marketplace are provided to consumers free of charge. InsWeb earns a majority of its revenues from participating insurance providers, based on the delivery of qualified leads from consumers who have completed an insurance form. Lead revenues represented approximately 83% of total revenues in 2010, and post acquisition of Potrero Media, 87% of total revenues in Q4 2010. In certain instances, consumers are provided the opportunity to link directly to a third-party insurance provider’s website (“Cost per Click” or “CPC” program). In these situations, the consumer will complete the third-party company’s online application, and InsWeb will be paid a fee for that consumer link or “click-through.” Click-through revenues accounted for approximately 15% of total revenues in 2010, and post acquisition of Potrero Media, 12% of total revenues in Q4 2010.

The Lead Generation Process

Qualified leads are generated by consumers visiting either an InsWeb site or the web-site of one of our marketing partners. The lead generation process generally involves the following steps:

- data entry by the consumer;
- comparing the consumer’s profile with the geographic and demographic preferences of our participating insurance providers;
- delivery of leads to one or more participating insurance providers;
- follow-up by one or more insurance providers via email or by telephone.

Data Entry. To request an insurance quote, a consumer fills out an online form that requests information such as the consumer’s age, address, and insurance coverage requirements, a process that InsWeb estimates takes approximately 10 minutes, depending on the type of insurance sought and the complexity of the consumer’s profile. The quote request form captures information designed to address the basic underwriting and rating criteria of insurance providers as well as the consumer’s contact information. To assist consumers in evaluating and fulfilling their insurance needs, InsWeb provides consumers with a variety of interactive website features and insurance-related articles. The consumer completes only one online form for a particular type of insurance, but may receive quotes from multiple participating companies depending on which companies have qualified that consumer. This information can also be used to automatically complete portions of the quote request form for other insurance products.

For health insurance, Potrero Media also offers consumers the option of calling a customer service representative instead of using the online form. The telephonic interview collects similar information as the online process completed by a consumer, but at the completion of the interview, the customer service representative will have the opportunity to transfer the call directly to a health insurance provider. In these cases, Potrero Media is paid a fee for each transferred call.

Qualifying. InsWeb's software uses criteria set by participating insurance providers to analyze a consumer's data and determine whether it fits within the provider's targeted risk profile. Electronic qualifying eliminates the expense of screening and quoting risks that an insurance provider ultimately may not want to accept. Additionally, InsWeb's system can provide rapid feedback to an insurance provider regarding the impact that particular criteria are having on the number of leads being directed to that provider and also permits individual criteria to be easily added or removed.

Receiving Quotes. After a consumer has completed the form for a particular product, the consumer is informed about the next steps in the quote request process, which varies by type of insurance. For some products, the consumer will be presented with a web page that contains the logos of insurance providers who are interested in presenting a quote to the consumer. Insurance providers will contact the consumer and present a quote on a delayed basis, either via e-mail or telephone. In some cases, the consumer lead is delivered to an agent or other intermediary that will provide the consumer with a list of available insurance companies and insurance plans. The consumer will select one of the available options and begin the insurance purchasing process.

Delivery of Leads. InsWeb earns revenues from participating insurance providers based on the delivery of qualified leads, whether or not the consumer actually purchases a policy. In some cases, an insurance provider who receives a consumer lead from InsWeb is a participant in a network operated by one of InsWeb's competitors, and InsWeb will receive a share of the revenue that the competitor earns from the sale of the lead.

Purchase of Policy. After InsWeb generates and delivers a qualified lead, insurance providers may respond directly to the interested consumer by e-mail or telephone to close the purchase of the policy. The delivery of a qualified lead to the provider does not require further involvement by InsWeb, although InsWeb monitors insurance provider responses and works with them to ensure that they are responding to leads in a timely fashion.

Interactive Website Features and Information

To assist consumers in evaluating and fulfilling their insurance needs, InsWeb provides consumers with a variety of interactive website features and insurance-related information, including:

- tools to help consumers estimate their coverage requirements for auto and term life insurance;
- links to companies that can help consumers estimate their coverage requirements for health and term life insurance;
- research capabilities to help consumers review the financial strength of insurance companies nationwide;
- answers to frequently asked questions on insurance;
- articles on a wide variety of insurance and personal finance topics; and
- glossaries of insurance-related terms;

Insurance Products

Insurance providers participating in InsWeb's online insurance marketplace currently offer automobile, property, health, term life, and small business insurance in all 50 states, plus the District of Columbia. Automobile insurance comprises the largest segment of the consumer insurance market, and, to date, has accounted for most of the consumer traffic on InsWeb's online marketplace, and a majority of its revenues.

InsWeb has contractual relationships with third-party providers for small business, renters, condominium insurance, home warranty, RV, and motorcycle insurance. At present, the InsWeb online marketplace does not enable consumers to view multiple providers with respect to these types of insurance; instead, consumers seeking quotes for these products are linked to a single insurance company or third party for each product in the states in which it is available.

In addition, the InsWeb online marketplace offers both subscription and display advertising on its agent directory pages. These pages display listings of several insurance companies and not more than eight local agents for the consumer to contact.

Sales

Insurance Company Relationships

InsWeb believes that establishing long-term relationships with reputable insurance companies is essential to its ability to offer a desirable insurance marketplace on its website. InsWeb's focus is to maintain and expand the product offerings available on the online marketplace by selling InsWeb's services to additional companies and expanding InsWeb's relationship with participating insurance companies and agencies. At December 31, 2010, InsWeb and its subsidiaries had relationships with 77 insurance related companies for automobile, health, property and term life insurance, including many large companies with established brand names that InsWeb believes are attractive to consumers.

Insurance Agent Networks

InsWeb's two proprietary agent network offerings, AgentInsider and Producer Pipeline, allow insurance agents and brokers to purchase leads for automobile, property, term life, health and small business insurance. In addition, InsWeb has entered into agreements with several large insurance companies through which the insurance company pays some or all of the cost of the leads purchased by their agents through InsWeb's network. Generally, InsWeb is paid a fee for each consumer lead sent to an agent or broker, regardless of whether or not a policy is sold to the applicant. In a few cases, however, InsWeb's contract with the lead purchaser provides that the lead fee is paid only if the consumer takes a specific action, for example, contacting the lead purchaser.

As of December 31, 2010, there were approximately 13,000 personal lines insurance agents who were approved to actively purchase consumer leads through AgentInsider. For the year ended, December 31, 2010, agents purchasing leads directly through AgentInsider represented 32% of total transaction fees. Separately, certain insurance carriers purchase leads from InsWeb and redistribute them to their agents. At December 31, 2010, approximately 2,700 such agents were indirectly accessible to consumers, due to the redistribution process mentioned previously. As of December 31, 2010, there were approximately 2,200 agents and brokers purchasing health leads through Producer Pipeline. In 2010, 44% of InsWeb's total revenues were derived from lead purchases by agents, including sales to carriers who redistribute leads to their agents. In Q4 2010, post acquisition of Potrero Media, 41% of InsWeb's total revenues were derived from lead purchases by agents, including sales to carriers who redistribute leads to their agents.

Distribution through Competitors:

Consumer leads for which InsWeb has a limited offering continue to be distributed on a revenue share basis through InsWeb competitors, including Bankrate Insurance, as more fully explained below. Such leads accounted for 15% of InsWeb's total revenues in 2010, and 11% in Q4 2010, post acquisition of Potrero Media.

Marketing

InsWeb's marketing program consists of a two-pronged effort, with substantial resources directed both at attracting increased consumer traffic to the InsWeb website, and building and expanding relationships with participating insurance providers. InsWeb believes that increased traffic will encourage insurance providers to develop and expand their relationship with InsWeb, and that enhancing the comparative shopping opportunities available through increased insurance provider participation will drive further increases in consumer traffic.

Consumer Marketing

InsWeb's consumer acquisition strategy consists of 3 distinct approaches: Form hosting relationships, direct to consumer marketing, and working with competitors to offer their consumers access to additional providers.

1) Form Hosting Relationships: InsWeb has entered into over 20 "form-hosting" marketing agreements, where the consumer fills out the quote request form on the marketing partner's site. Once the information is collected, the partner contacts (pings) InsWeb as well as, in many cases, one or more of InsWeb's competitors, and seeks bids for that particular lead. In "real time", InsWeb's systems calculate the approximate revenue that can be obtained by selling that lead, and bids according to a pre-determined gross margin requirement. If InsWeb is the winning bidder for that lead, the lead will be distributed to providers in the usual manner. If InsWeb does not win the bid, it owes nothing to the marketing partner. InsWeb believes that the form hosting platform allows greater control over its revenue and margin because its bids can be adjusted easily to accommodate InsWeb's business needs. In 2010, leads generated by form hosting relationships accounted for 51% of InsWeb's total revenues. In Q4 2010, post acquisition of Potrero Media, leads generated by form hosting relationships accounted for 51% of InsWeb's total revenues.

2) Direct to Consumer Marketing: InsWeb's direct marketing strategy is designed to cost effectively increase consumer traffic to its websites and to drive awareness of insurance products and services available on its websites. InsWeb employs various means of marketing, which consist primarily of sponsored search (9% of total revenues in 2010, and 20% in Q4 2010, post acquisition of Potrero Media), online display advertising (10% in 2010 and 8% in Q4 2010, post acquisition of Potrero Media), e-mail campaigns (9% in 2010 and 5% in Q4 2010, post acquisition of Potrero Media), as well as partnerships with high-profile online sites, and other miscellaneous marketing efforts (5% in 2010 and 3% in Q4 2010) .

a) Search Engine Marketing: InsWeb manages a network of websites that are specifically designed for search engine marketing purposes. Search engine marketing is a form of online marketing designed to engage consumers after they type in a search term and land on a search engine results page. Organic search placements are achieved through search engine optimization (SEO), and paid search placements are purchased directly from a search engine on a keyword basis. In either instance, factors such as the content, the design of the site, and the consumer experience can influence the ranking and overall performance of the site in the search engine results. As of December 31, 2010, InsWeb's search engine marketing, including both paid search as well as organic search, was conducted primarily by Potrero Media, which oversees more than 1,500 web sites and actively manages millions of internet search terms.

b) Email campaigns: InsWeb partners with a number of companies who will send insurance offers via email to their customer database. Typically these companies have an affinity with the consumer, and email them regularly, thereby making these programs very effective. In addition, InsWeb markets to an internal database of millions of consumers who have shopped for insurance over the past several years.

c) Online Display Advertising: InsWeb's online direct-response advertising, is intended to create a presence for InsWeb on a wide range of websites. InsWeb's key advertisements are delivered through content sponsorships, banners and keywords on financial, news, real estate, classifieds, automobile, directory and general interest sites. Some advertising may be done on InsWeb's behalf by companies that specialize in advertising online, with whom InsWeb has developed strategic partnerships. InsWeb, and some of its third-party marketing providers also conduct advertising campaigns promoting InsWeb through emails and electronic newsletters. InsWeb's advertisements are targeted primarily at consumers who may be actively seeking insurance. In addition, InsWeb's websites provide consumers with a variety of free interactive tools and content to help them with their research for insurance coverage.

d) Other Sources of Traffic: InsWeb seeks out relationships with companies whose websites feature a high volume of traffic or a substantive focus that is related to the purchase of insurance coverage, such as sites related to automobiles, homes, personal finances, health or small businesses. Agreements with these online companies typically provide that InsWeb pay the online company a transaction fee (based on click-throughs or consumer leads) and in very limited cases, a fixed fee. Online companies integrate links into their websites connecting to InsWeb's marketplace. InsWeb provides functionality to further integrate with online companies and, in some cases, provides co-branding functionality whereby the online company's logo is presented on the InsWeb marketplace to those consumers directed to InsWeb's marketplace from a company's site. Finally, InsWeb receives a small amount of traffic organically, from consumers who have previously visited one of its sites, or through word of mouth.

Many of InsWeb's online advertising and marketing agreements have a 30 to 90 day term, with either party having a right to terminate the agreement on seven days notice or less.

3) Working with Competitors: For several years, InsWeb has been working with several of its competitors, chiefly Bankrate Insurance (comprising NetQuote.com and InsureMe.com) and InsuranceLeads.com in a two-way relationship that enables all parties to maximize their revenues from every lead generated. In real time, each party's system determines which among its own providers are available to buy any given lead. Once that has been determined, the systems "pings" competitors with details of the lead, without personally identifiable information, to find out if they have any other buyers for that same lead. If they do have buyers from different affiliations than the original party, the parties share in the additional revenue generated. In 2010, InsWeb's revenues from consumers acquired from competitors represented 15% of total revenues, and, post acquisition of Potrero Media, in Q4 2010, InsWeb's revenues from consumers acquired from competitors represented 11% of total revenues.

Traditional Consumer Marketing. Currently, InsWeb's consumer marketing is focused on online marketing efforts. However, in the past, InsWeb has engaged in traditional advertising, including radio, television and print advertising, and may do so again in the future.

Insurance Agent and Broker Marketing and Acquisition

InsWeb's local agent sales and marketing efforts seek to identify, through direct mail, email and telephone solicitation, referrals from other local agents and general advertising, insurance agents and brokers interested in participating in the AgentInsider or Producer Pipeline programs. In addition, sales efforts are directed toward securing carrier assistance, either through sponsored agreements, whereby insurance carriers promote and market InsWeb's agent networks to their local agents, through subsidies of a portion of the cost of leads sold to certain of the carriers' agents, or simply by inviting InsWeb sales personnel to agent gatherings.

Technology

Architecture and Interfaces

InsWeb has invested significant resources to develop and deploy its proprietary technology platforms. InsWeb believes these platforms constitute a significant competitive advantage.

InsWeb's software architecture facilitates interoperability among software components to maximize responsiveness, flexibility and reliability. This architecture enables InsWeb to efficiently develop and deploy new consumer qualification and data delivery modules to meet the needs of insurance companies or large agents and brokers. It also simplifies the process of providing InsWeb's core marketplace functionality for use on insurance company sites. In order to speed implementation for each lead purchaser, InsWeb has developed transmission software components which allow consumer data to be custom-formatted for delivery based on the requirements of the lead purchaser's computer system. InsWeb has developed custom communication software to provide multiple types of real-time telecommunication links to its lead purchasers. These components provide a variety of solutions to the lead purchaser to best meet their needs and interface with their legacy systems. InsWeb has devoted significant time and resources to maximize the efficiency of integrating lead purchasers into its online marketplace and to create a flexible, customizable Web interface.

All of InsWeb's websites are accessible to consumers via standard Web browsers and are designed without unnecessary graphics that would increase download time.

InsWeb's AgentInsider platform powers a self-service web site which give agents the ability to manage their accounts entirely online, including registration, the choice of zip codes in which the agent wishes to receive leads, the number of leads they wish to receive, and claim and receive credit for any bad leads. In addition, agents can also manage the financial end of the transaction, namely the entry and automatic processing of their credit card information. These platforms enable InsWeb to transact with thousands of agents with relatively few customer service representatives. Agents participating in the Producer Pipeline network initially register and select zip codes through an offline process, but on-going account activity is typically handled online.

InsWeb's server software is designed as a high-volume transaction-processing environment, with a focus on reliability, redundancy and around-the-clock availability. It is designed to enable the system to respond rapidly and to simultaneously underwrite and rate a consumer's profile against all participating insurance companies' criteria. The software is also designed for scalability, enabling InsWeb to expand processing capacity through the addition of more processors and servers as transaction volumes increase.

Security

InsWeb employs third-party firewall technology to protect its corporate network from intrusion and uses proprietary designs to isolate confidential data on its network so that only selected information is publicly available on its website. Consumer information is transmitted to InsWeb's site using Secure Socket Layer encryption technology, a widely used technology for transmitting encoded data via a Web browser. Potrero Media utilizes Secure Socket Layer encryption, but only throughout its network and between internal applications. InsWeb offers a number of other encryption methods for delivery of consumer information to insurance companies or local agents. InsWeb protects its system management functions using security models integrated with the operating system. Additionally, some sensitive software applications incorporate proprietary authentication schemes.

Site Operations

InsWeb's hardware servers, storage systems, Internet connections, back-up strategies and network are designed to allow its online marketplace to operate continuously. InsWeb's main Web servers are located in a leased facility located in the Sacramento, California area. Potrero Media's main Web servers are located in a managed hosting facility located in Dallas, Texas. InsWeb uses a number of internally-developed and third-party software products to monitor the performance and availability of its website and core products. InsWeb continuously monitors consumer traffic, response times and capacity to ensure a high quality of service for consumers and insurance companies.

InsWeb maintains a disaster recovery site in the Sacramento, California area to facilitate the operation of its online marketplace in case of a failure at its main facility. Potrero Media's main application servers and databases run with redundancy in a clustered environment. If a single server fails, a duplicate instance of the server will resume normal operations with no downtime.

Product Development

InsWeb devotes resources to improving the structure of its products and delivering additional tools that allow insurance providers to effectively reach consumers. InsWeb continually releases new versions of its online user interface, which may incorporate technology advances, new product features and improvements in consumer interactivity. InsWeb also invests in refining its online consumer tools and research materials, as well as developing new support products. InsWeb continues to research new methods of designing more useful insurance-related material and presenting it to the consumer in a more meaningful context.

InsWeb's technology expenses were approximately \$2.6 million in 2010 and \$3.4 million in 2009.

Privacy Policy

InsWeb believes that the privacy of personally identifiable information of Internet users is becoming increasingly important as the use of the Internet for electronic commerce continues to grow. InsWeb has adopted privacy policies for each of its consumer websites regarding the use and disclosure of consumer information that is collected online. For some websites, InsWeb is a licensee of the TRUSTe Privacy Program and adheres to these standards regarding the protection of the personally identifiable information of Internet users.

Competition

The online insurance lead generation market, like the broader electronic commerce market, is highly competitive. InsWeb competes with other companies that provide qualified consumer leads to insurance companies and agents, as well as with:

- single insurance company websites that offer quotes for their own insurance products online or by telephone;
- other lead generation services that provide consumer leads to insurance agents;
- web-based information delivery services that use generic filings with state regulators to deliver estimated price quotes from various insurance companies;
- web-assisted agency distribution services that provide an Internet-based distribution channel for traditional insurance agencies;
- online workplace marketers that sell insurance to employees over their employer's intranet; and
- providers of software technology to insurance companies and other competitors that may target electronic commerce solutions for the insurance industry.

InsWeb believes the principal bases for competition in the online insurance lead generation market include:

- brand awareness;
- variety and quality of providers, including a combination of insurance providers;

- strength of relationships and depth of technology integration with insurance companies;
- breadth and pricing of insurance product selection;
 - speed, accessibility and convenience;
 - quality and quantity of website content; and
 - relationships with other online companies.

Government Regulation

The insurance industry is subject to extensive regulation under state laws. Insurance laws and regulations cover all aspects of the insurance process, including sales techniques, underwriting for eligibility, rates, compensation, claim payments and record keeping by licensed insurance companies and insurance agents. InsWeb generates consumer leads for licensed insurance companies and agents and we, therefore, may be required to comply with a complex set of rules and regulations that typically vary from state to state. If InsWeb fails to comply with a rule or regulation, InsWeb, any insurance company doing business with InsWeb, our officers, or agents with whom we contract could be subject to various sanctions, including censure, fines, a cease-and-desist order or other penalties. This risk, as well as changes in the regulatory climate or the enforcement or interpretation of existing law, could require changes to InsWeb's business or otherwise harm InsWeb's business. Furthermore, because the application of online commerce to the insurance market continues to evolve, the impact of current or future regulations on InsWeb's business is difficult to anticipate.

In order to provide the types of services that require an insurance license, InsWeb established InsWeb Insurance Services, Inc. in 1997 and currently maintains property and casualty licenses in 50 states and the District of Columbia and a life and health license in California. Licensing laws and regulations vary depending on the jurisdiction. The applicable licensing laws and regulations are subject to amendment or interpretation by regulatory authorities. Such authorities generally are vested with broad discretion concerning the allowance, renewal and revocation of licenses and approvals. The inability to obtain or maintain the requisite agent licenses or other necessary licenses, permits, or authorizations could harm InsWeb's business.

Intellectual Property

InsWeb regards its intellectual property as critical to its success, and relies upon patent, trademark, copyright and trade secrets laws in the United States and other jurisdictions to protect its proprietary rights. The INSWEB mark has been registered in the United States, France, Germany, South Korea, Japan and the United Kingdom, and many other countries. Other U.S. and worldwide trademark applications and registrations include, but are not limited to, AgentInsider, AgentInsider.com, InsWeb.com, InsuranceRates.com, BestInsuranceMatch.com, FreeInsuranceAdvice.com, LocalInsuranceAgents.com, Where You and Your Insurance Really Click, Lower Your Insurance Costs, Not Your Expectations, Potrero Media, Producer Pipeline, and MedHealthInsurance. InsWeb has applied for various patents on its core technology and related patentable subject matter; and five patents have been issued: U.S. Patent No. 6,898,597 (Event Log); U.S. Patent No. 7,107,325 (System and method for optimizing and processing electronic pages in multiple languages); U.S. Patent No. 7,707,505 (Dynamic tabs for a graphical user interface); U.S. Patent No. 7,389,246 (Insurance rating calculation software component architecture); U.S. Patent No. 7,640,176 (Insurance Agent Contact System). InsWeb's pending trademark registrations and patent applications may not be approved or granted; or, if granted, may be successfully challenged by others or invalidated through administrative process or litigation. In addition, effective patent, copyright, trademark, and trade secret protection may be unavailable or limited in some foreign countries. InsWeb also seeks to protect its proprietary rights through physical and technological security measures, and through the use of confidentiality or license agreements with its business partners, employees, consultants, advisors and others. Despite InsWeb's efforts to protect its proprietary rights

from unauthorized use or disclosure, employees, consultants, advisors or others may not maintain the confidentiality of InsWeb's proprietary information, and this proprietary information may otherwise become known, or be independently developed, by competitors. The steps InsWeb has taken may not prevent misappropriation of its proprietary rights, particularly in foreign countries where laws or law enforcement practices may not protect its proprietary rights as fully as in the United States.

InsWeb licenses its trademarks and similar proprietary rights to third parties. While InsWeb attempts to ensure that the quality of its brand and product offering is maintained by these companies, they may nevertheless misuse the licensed intellectual property in ways that lessen the value of InsWeb's proprietary rights or the reputation of InsWeb or its services.

From time to time, InsWeb receives notice of claims of infringement of other parties' proprietary rights or claims that its own patents or other intellectual property rights are invalid. In the past, InsWeb has been subject to infringement claims in the ordinary course of its business and other claims of alleged infringement of the trademark rights of third parties by InsWeb and the companies with which it does business. Any of these claims, with or without merit, could be time consuming to defend, result in costly litigation, divert management attention and resources or require InsWeb to enter into royalty or licensing agreements. Licenses may not be available on reasonable terms, if at all, and the assertion or prosecution of any infringement claims could significantly harm InsWeb's business.

Employees

As of December 31, 2010, InsWeb had 86 full-time employees. InsWeb has never had a work stoppage, and none of its employees are currently represented under collective bargaining agreements. InsWeb considers its relations with its employees to be good. InsWeb believes that its future success will depend in part on the continued service of its senior management and key technical personnel and its ability to attract, integrate, retain and motivate highly qualified technical and managerial personnel. Competition for qualified personnel in InsWeb's industry and geographical location is intense. InsWeb may not continue to be successful in attracting and retaining a sufficient number of qualified personnel to conduct its business in the future.

We have no long-term employment agreements with any of our key personnel. However, the executive officers and certain other key members of management are eligible to participate in the InsWeb Executive Retention and Severance Plan (the "Plan") approved by the Board of Directors on June 14, 2004 and revised on December 22, 2008. Participants in the Plan are entitled to receive cash severance payments and health and medical benefits in the event their employment is terminated in connection with a change in control. Participants will also receive these benefits if InsWeb terminates their employment other than for "cause" or if the participant voluntarily terminates his employment for "good reason" following certain specified actions by InsWeb. Upon any other termination of employment, the participant will be entitled only to accrued salary through the date of termination and any other vested benefits. Benefits under the plan are reduced or eliminated if the employee obtains substitute employment.

Available Information

For further discussion concerning our business, see the information included in "Item 6 Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Item 7 Financial Statements and Supplementary Data" of this report.

You may obtain free copies of our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K and amendments to those reports, as well as other Corporate Governance Materials on our website at <http://investor.insweb.com>, or by contacting our corporate office by calling (916) 853-3300, or by sending an e-mail message to investor@insweb.com.

We electronically file our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K with the Securities and Exchange Commission (SEC) pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. Any materials we file with the SEC are accessible to the public at the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. The public may also utilize the SEC's Internet website, which contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The address of the SEC website is <http://www.sec.gov>.

Item 1A. Risk Factors.

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

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

While we achieved profitability in all quarters of 2010, we incurred operating losses of \$1.3 million in 2009 and \$2.5 million in 2008. As of December 31, 2010, our accumulated deficit was \$192.0 million. Our operating results for future periods are subject to numerous uncertainties, and we may not generate sufficient revenues to achieve or maintain profitability on a quarterly or annual basis. If we are unable to sustain profitability, we may need to seek additional financing to continue our business operations. Such financing could be on terms that are dilutive to our existing stockholders or could involve the issuance of securities that have rights and preferences that are senior to those associated with our common stock. Moreover, if such financing were not available or were available only upon terms that were unacceptable to us, we could be required to delay, reduce, or cease certain of our operations, any of which could materially harm our business and financial results.

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

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

Health insurance companies and their agents may purchase fewer health insurance leads because of uncertainty about the impact of recent health care reform legislation and new regulations

A substantial portion of the revenues of our subsidiary, Potrero Media, is derived from the sale of health insurance leads. In September 2010, certain provisions of the Patient Protection and Affordable Care Act (“Act”) became effective which required health insurance companies to include additional benefits in their plans and to remove annual limits in order to be compliant. This, combined with the medical loss ratio (“MLR”) requirement that went into effect in January 2011, had an impact on the percentage of insurance premiums that insurance companies were able to spend on administrative costs, including broker compensation. A number of insurance carriers and large agencies temporarily reduced their lead purchases while they assessed and modified their plans, systems, and procedures to comply with the new law. Potential uncertainty about the impact of other provisions of the Act that become effective in the future make it difficult for us to forecast operating results for our subsidiary.

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

In 2010, our business generated \$1.3 million in operating income, but in 2009 our business generated an operating loss of \$1.3 million. At December 31, 2010, we had cash and cash equivalents of \$6.7 million. In order to remain competitive, we must continue to make investments essential to our ability to operate, including in particular, investments in direct consumer marketing. In addition, we will continue to face the costs of being a public company. In the event that we are unable to generate revenues sufficient to offset our costs, or if our costs of marketing and operations are greater than we anticipate, we may be unable to grow our business at the rate desired or may be required to delay, reduce, or cease certain of our operations, any of which could materially harm our business and financial results.

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

An evaluation of our future prospects is very difficult. An investor in our common stock must consider the possibility that we may not be able to successfully address the uncertainties inherent in our business model. Moreover, due to recent changes in

our business model, including the increased portion of our revenues associated with health insurance following the acquisition of Potrero Media in October 2010, InsWeb believes that period-to-period comparisons of its operating results are not necessarily meaningful and should not be relied upon as an indication of future performance.

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

- We may experience consumer dissatisfaction with our online marketplace as we add or change features, or as the product options available from participating insurance companies and agents varies;
- We may experience increases in our direct marketing expenses or a reduction in the number of consumers visiting our websites due to competition with other lead generation companies and online advertisers;
- Consumer traffic to our websites may also fluctuate as a result of changes in level of advertising by entities with which we have insurance marketing relationships;
- Our revenues may be harmed if we lose one or more significant insurance company or agency relationships or if any of our participating insurance companies or agencies merge with one another;
- Our revenues may be harmed by inadequate levels of participation by local personal lines insurance agents in our agent networks;
- Our revenues may be affected by changes to the revenue sharing arrangements we have with third-party intermediaries ; and
- Use of the Internet by consumers may fluctuate due to seasonal factors or other uncontrollable factors affecting consumer behavior;

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

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

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

Automobile insurance accounted for approximately 78% of our transaction revenues in 2010 and approximately 83% of our transaction revenues in 2009. Our recent acquisition of Potrero Media will increase the percentage of revenues attributed to life and health insurance, but we anticipate that automobile insurance will continue to account for a substantial portion of our revenues for the foreseeable future. As a result, if we fail to attract a broad base of consumers to shop for automobile insurance on our site, our ability to generate revenue will be reduced and our business will be harmed. In addition, property and casualty insurance, including automobile insurance, is subject to

operating cycles. During a cycle in which loss ratios rise, insurance companies may choose to restrict the amount of business they write directly or through local agents while they await approval of rate increases from the various state insurance departments. Our business would be harmed if our participating insurance companies or local agents purchase fewer leads.

The loss of a significant customer relationship could result in a significant decrease in our revenues

A limited number of customers account for a substantial percentage of InsWeb's revenues. For the year ended December 31, 2010, two customers (eHealthInsurance Services Inc, and Humana Insurance Company) accounted for 19% and 15%, respectively, of revenues from the sale of health insurance leads, or 1% each of total revenues. Should one or more of our key insurance company partners cease to participate in our online marketplace or reduce its lead purchases, our operating results could be materially harmed. Although InsWeb continually seeks to diversify its customer base by adding insurance providers to the online marketplace, we may be unable to offset the effects of an adverse change in one of key customer relationships. Because of the broad market presence of some of our customers, we expect to continue to generate a substantial portion of our revenues from a limited number of customers for the foreseeable future.

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

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

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

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

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

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

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

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

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

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

We may not be able to maintain or grow our networks of agents and brokers

A substantial portion of consumers visiting our websites prefer to continue their insurance quote request and policy purchase through a local agent. We have devoted significant resources to attracting agents to our networks, and local agents collectively account for a significant portion of our transaction revenues. However, agents can choose to purchase consumer leads from an increasing number of online sources, and we have experienced and expect to continue to experience lapses in agent accounts and fluctuations in buying behavior. If we are unable to maintain an adequate level of agent participation in our agent networks, consumers may become dissatisfied with our website offerings, our revenues may decline, and our business may be harmed.

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

A securities class action lawsuit was filed on December 5, 2001 in the United States District Court for the Southern District of New York, (the "Court") purportedly on behalf of all persons who purchased our common stock from July 22, 1999 through December 6, 2000. The complaint named as defendants InsWeb, certain current and former

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

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

We generate consumer leads for licensed insurance companies and agents, and we, therefore, may be required to comply with a complex set of rules and regulations that often vary from state to state. If we fail to comply with a rule or regulation, we, an insurance company doing business with us, our officers, or agents with whom we contract, could be

subject to various sanctions, including censure, fines, a cease-and-desist order or other penalties. This risk, as well as changes in the regulatory climate or the enforcement or interpretation of existing law, could expose us to additional costs, including indemnification of participating insurance companies for their costs, and could require changes to our business or otherwise harm our business. Furthermore, because the application of online commerce to the consumer insurance market is relatively new, the impact of current or future regulations on InsWeb's business is difficult to anticipate.

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

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

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

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

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

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

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

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

Our future success is substantially dependent on the continued services and continuing contributions of our senior management and other key personnel, particularly Hussein A. Enan, Chairman of our Board and Chief Executive Officer, and Richard A. Natsch, President and Founder of Potrero Media. The loss of the services of any of our executive

officers or other key employees could harm our business. We have no long-term employment agreements with any of our key personnel, although Kiran Rasaretnam, Chief Financial Officer, L. Eric Loewe, Senior Vice President and General Counsel, and Steven Yasuda, Controller and Chief Accounting Officer and certain other key employees are entitled to certain severance benefits should their employment be involuntarily terminated. We maintain a \$2 million life insurance policy on Mr. Enan and a \$1 million life insurance policy on Mr. Natsch naming InsWeb as the beneficiary, but we maintain no similar insurance on any of our other key employees. InsWeb has granted stock options as incentives to executive officers, new employees and certain other key personnel. As the value of these incentives is highly dependent on an increase in the market price of our common stock, we may be unable to retain such key employees, nor retain or recruit other officers and key employees in the future.

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

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

Our stock price has fluctuated widely

The trading price of our common stock has been volatile and may be significantly affected by factors including actual or anticipated fluctuations in our operating results, limited trading volume, new products or new contracts by us or our competitors, loss of key insurance providers, conditions and trends in the electronic commerce and insurance

industries, general market conditions and other factors. These fluctuations may continue and could harm our stock price. Any negative change in the public's perception of the prospects of Internet or electronic commerce companies could also depress our stock price regardless of our results.

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

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

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

InsWeb's corporate headquarters and its principal administrative, product development, sales and marketing operations are located in a 55,000 square foot facility in the Sacramento, California area, which InsWeb occupies under a lease expiring in April 2011. On December 27, 2010, InsWeb entered into a full-service lease with MSCP Capital Center Investors, LLC for approximately 16,000 square feet of office space in a building that will house InsWeb's headquarters. The new facility is located in Rancho Cordova, California, a short distance from InsWeb's current headquarters. The term of the new lease is five years, commencing on or about May 1, 2011; however, InsWeb has two, consecutive options to extend the term for five years each at the prevailing market rent.

Potrero Media's headquarters and its principal administrative, product development, sales and marketing operations are located in a 10,000 square foot facility in San Francisco, California, which Potrero Media occupies under a lease expiring in October 2014. Potrero Media has four consecutive options to extend the term for five years each.

Item 3. Legal Proceedings.

Securities Class Action

A securities class action lawsuit was filed on December 5, 2001 in the United States District Court for the Southern District of New York, (the "Court") purportedly on behalf of all persons who purchased our common stock from July 22, 1999 through December 6, 2000. The complaint named as defendants InsWeb, certain current and former officers and directors, and three investment banking firms that served as underwriters for InsWeb's initial public offering in July 1999. The complaint, as subsequently amended, alleges violations of Sections 11 and 15 of the Securities Act of 1933 and Sections 10 and 20 of the Securities Exchange Act of 1934, on the grounds that the prospectuses incorporated in the registration statements for the offering failed to disclose, among other things, that (i) the underwriters had solicited and received excessive and undisclosed commissions from certain investors in exchange for which the underwriters allocated to those investors material portions of the shares of our stock sold in the offerings and (ii) the underwriters had entered into agreements with customers whereby the underwriters agreed to allocate shares of the stock sold in the offering to those customers in exchange for which the customers agreed to purchase additional shares of InsWeb stock in the aftermarket at pre-determined prices. No specific damages are claimed. Similar allegations have been made in lawsuits relating to more than 300 other initial public offerings conducted in 1999 and 2000, all of which have been consolidated for pretrial purposes. In October 2002, all claims against the individual defendants were dismissed without prejudice. In February 2003, the Court dismissed the claims in the InsWeb action alleging violations of the Securities Exchange Act of 1934 but allowed the plaintiffs to proceed with the remaining claims. In June 2003, the plaintiffs in all of the cases presented a settlement proposal to all of the issuer defendants. Under the proposed settlement, the plaintiffs would dismiss and release all claims against participating defendants in exchange for a contingent payment guaranty by the insurance companies collectively responsible for insuring the issuers in all the related cases, and the assignment or surrender to the plaintiffs of certain

claims the issuer defendants may have against the underwriters. InsWeb and most of the other issuer defendants have accepted the settlement proposal. While the District Court was considering final approval of the settlement, the Second Circuit Court of Appeals vacated the class certification of plaintiffs' claims against the underwriters in six cases designated as focus or test cases. On December 14, 2006, the District Court ordered a stay of all proceedings in all of the lawsuits pending the outcome of plaintiffs' petition to the Second Circuit for rehearing en banc and resolution of the class certification issue. On April 6, 2007, the Second Circuit denied plaintiffs' petition for rehearing, but clarified that the plaintiffs may seek to certify a more limited class in the District Court. Because of the significant technical barriers presented by the Court's decision, the parties withdrew the proposed settlement and the plaintiffs filed an amended complaint. Representatives of all of the parties to the IPO litigation agreed to a revised settlement; as with the earlier settlement proposal, the revised settlement proposal does not require InsWeb to contribute any cash. The revised settlement was approved by the District Court on October 5, 2009, but a number of plaintiffs appealed the approval to the Second Circuit Court of Appeal. There is no assurance that the new settlement will be upheld on appeal. If the settlement is not upheld, InsWeb intends to defend the lawsuit vigorously. The litigation and settlement process is inherently uncertain and management cannot predict the outcome, though, if unfavorable, it could have a material adverse effect on InsWeb's financial condition, results of operations and cash flows.

Section 16(b) Lawsuit

On October 12, 2007, Vanessa Simmonds, a purported stockholder of InsWeb, filed a complaint in the United States District Court for the Western District of Washington, against InsWeb and two investment banking firms that served as underwriters for the initial public offering of our common stock in July 1999. The complaint alleges that: (i) the defendants, other underwriters of the offering, and unspecified officers, directors and principal stockholders of InsWeb constituted a "group" that owned in excess of 10% of InsWeb's outstanding common stock between July 23, 1999 and July 20, 2000; (ii) the defendants were therefore subject to the "short swing" prohibitions of Section 16(b) of the Securities Exchange Act of 1934; and (iii) the defendants engaged in purchases and sales, or sales and purchases, of InsWeb's common stock within periods of less than six months in violation of the provisions of Section 16(b). The complaint seeks disgorgement of all profits allegedly received by the defendants, with interest and attorneys fees, for transactions in violation of Section 16(b). InsWeb, as the statutory beneficiary of any potential Section 16(b) recovery, is named as a nominal defendant in the complaint. A number of similar lawsuits against underwriters of other public offerings have recently been filed by the same plaintiff and law firm. On February 11, 2008, the court approved a stipulated order that InsWeb need not answer or otherwise respond to the complaint. On February 28, 2008, the plaintiff filed an amended complaint, and InsWeb was again excused from filing an answer. On March 12, 2009 the court issued an order dismissing the lawsuit with prejudice, but plaintiffs appealed this order to the Ninth Circuit Court of Appeal. On December 2, 2010, the Ninth Circuit determined that the plaintiff's demand letters sent to 30 defendant issuers were inadequate and affirmed the district court's dismissal of plaintiff's claim as to those defendants. The Ninth Court remanded another 24 cases, including InsWeb's case, with instructions that the District Court permit the underwriters and issuers to file motions challenging the adequacy of the demand letters in those cases. The Ninth Circuit made clear to the District Court that the Ninth Circuit expects the District Court to dismiss claims as to issuers, such as InsWeb, that received demand letters similar to the letters that were found to be inadequate. But the Ninth Circuit also reversed the District Court's decision that the statute of limitations had run on claims of certain issuers, including InsWeb, which may leave open the possibility that plaintiff could send new demand letters. The underwriters and plaintiff are seeking review by the United States Supreme Court. If the lawsuit is reinstated on appeal, InsWeb intends to defend the lawsuit vigorously. The litigation and settlement process is inherently uncertain and management cannot predict the outcome, though, if unfavorable, it could have a material adverse effect on InsWeb's financial condition, results of operations and cash flows.

PART II

Item 4. Removed and Reserved

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

InsWeb's common stock is quoted on the Nasdaq Capital Market under the symbol "INSW." As of December 31, 2010, there were approximately 1,300 stockholders of record. Certain shares are held by brokers and other institutions on behalf of stockholders, and we are unable to determine the total number of stockholders represented by these record holders. The following table sets forth, for the quarters indicated, the high and low sales price per share of InsWeb's common stock as reported on the Nasdaq Capital Market:

	Price Range	
	Quarter Ended	
	High	Low
2010		
December 31, 2010	\$ 8.25	\$ 5.29
September 30, 2010	\$ 6.20	\$ 4.35
June 30, 2010	\$ 5.85	\$ 4.30
March 31, 2010	\$ 5.25	\$ 3.10
2009		
December 31, 2009	\$ 3.64	\$ 2.60
September 30, 2009	\$ 3.45	\$ 2.09
June 30, 2009	\$ 3.32	\$ 1.90
March 31, 2009	\$ 3.10	\$ 1.45

InsWeb has not paid any cash dividends on its capital stock. InsWeb currently intends to retain future earnings, if any, for use in the operation and expansion of our business and, therefore, does not anticipate paying any cash dividends in the foreseeable future.

On October 1, 2010 (the "Closing Date"), InsWeb completed its acquisition (the "Potrero Media Acquisition") of 100% of the capital stock of Potrero Media pursuant to the Stock Purchase Agreement and related amendments ("Purchase Agreement") signed on August 31, 2010. In connection with the acquisition, InsWeb issued 312,578 shares of Common Stock to the selling shareholders, representing \$1.2 million of the transaction consideration. These shares are held in escrow until the first anniversary of the Closing Date.

Item 6. Selected Financial Data.

Not applicable.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation.

This Annual Report on Form 10-K 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 continued decreases in 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, competition, risks associated with system development and operation risks, uncertainty regarding the costs and revenues associated with new initiatives, 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 Item 1A. "Risk Factors" 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 electronically matches consumers and providers of automobile, property, health, term life, and small business insurance. InsWeb has combined extensive knowledge of the insurance industry, technological expertise and close relationships with 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, which include insurance companies, national, statewide or nationwide insurance brokers, and local independent or exclusive agents (such as State Farm agents). Quotes and other information obtained through InsWeb's online insurance marketplace are provided to consumers free of charge. InsWeb earns a majority of its revenues from participating insurance providers, based on the delivery of qualified leads from consumers who have completed an insurance form. Lead revenues represented approximately 83% of total revenues in 2010, and post acquisition of Potrero Media, 87% of total revenues in Q4 2010. In certain instances, consumers are provided the opportunity to link directly to a third-party insurance provider's website ("Cost per Click" or "CPC" program). In these situations, the consumer will complete the third-party company's online application, and InsWeb will be paid a fee for that consumer link or "click-through." Click-through revenues accounted for approximately 15% of total revenues in 2010, and post acquisition of Potrero Media, 12% of total revenues in Q4 2010.

A significant portion of our revenues result from sales of leads to agents within our two proprietary networks: AgentInsider and Producer Pipeline. As of December 31, 2010, approximately 13,000 local personal lines insurance agents were actively purchasing consumer leads through AgentInsider, representing 32% of total transaction fees. As of December 31, 2010, there were approximately 2,200 agents and brokers purchasing health leads through Producer Pipeline. We expect that the sales of consumer leads to insurance agents in our networks, augmented by sales of leads to agents in networks operated by third parties, will continue to represent a significant percentage of transaction fees.

InsWeb's consumer acquisition strategy is designed to cost effectively increase consumer traffic to its websites and to drive awareness of insurance products and services available on its websites. For the year ended December 31, 2010,

direct traffic, consisting of consumers who responded to an online advertisement or an e-mail campaign, represented the largest source of traffic to InsWeb websites. However, a significant and growing percentage of consumer leads generated by InsWeb resulted from form hosting relationships, in which InsWeb bids for a consumer lead generated by a third party, including several of InsWeb's direct competitors.

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 78% of our transaction revenues in 2010 and approximately 83% in 2009. We anticipate that automobile insurance will continue to account for a substantial portion of our revenues for the foreseeable future. Health insurance, following the acquisition of Potrero Media on October 1, 2010, represented 6% of the transaction revenues for 2010.

InsWeb has been dependent on a limited number of customers for a majority of its automobile insurance transaction fee revenues, although recent expansion of InsWeb's offering has reduced that dependency to some extent. For the year ended December 31, 2009, one insurance company (American Family) accounted for 10% of total revenues. At December 31, 2010, two customers (SureHits and Geico) accounted for 17% and 12% of accounts receivable, respectively. At December 31, 2009, three customers (American Family, Insurance.com, and NetQuote) accounted for 16%, 13%, and 12% of accounts receivable, respectively.

InsWeb and Potrero Media have been operating as separate entities since the Closing Date. InsWeb is continuing to evaluate the potential benefits that may arise from a reorganization and combination of the two entities. To facilitate such a reorganization, InsWeb and the selling shareholders are discussing a potential amendment to the Purchase Agreement, which may cancel the future contingent consideration in exchange for a fixed payment to be paid in 2011. At the time of the filing of this Annual Report on Form 10-K, the agreement has not been completed or approved by the board of directors. Management believes that if the amendment is consummated it could have a material impact on our consolidated financial statements.

Results of Operations

InsWeb earned \$1.3 million in 2010 and incurred operating losses of \$1.3 million in 2009 and \$2.5 million in 2008; and as of December 31, 2010, our accumulated deficit was \$192.0 million. Though we were cash flow positive from operations in 2010, InsWeb's cash flow activities' from operations have historically consumed substantial amounts of cash, cash equivalents and short-term investments (\$806,000 in 2009 and \$754,000 in 2008) and may require capital in the future. At December 31, 2010, InsWeb had \$6.7 million in cash and cash equivalents. 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, InsWeb 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, InsWeb will continue to incur the costs associated with being a publicly listed company, including the costs of compliance with the provisions of the Sarbanes-Oxley Act of 2002, among other compliance related items.

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

(in thousands)	Year ended December 31,		Percentage Change from Prior Year	
	2010	2009	2010	2009
Revenues:				
Transaction fees:				
Auto insurance	\$ 33,082	\$ 28,984	14%	(8)%

Edgar Filing: INSWEB CORP - Form 10-K

Health	2,509	79	3,076%	93 %
Property insurance	3,846	3,551	8%	4 %
Term life insurance	2,079	1,789	16%	6%
Agent directory	385	442	(13)%	(38)%
Other insurance offerings	298	157	90%	441 %
	42,199	35,002	21%	(6)%
Other	160	167	(4)%	(25)%
Total revenues	42,359	35,169	20%	(6)%
Operating expenses:				
Direct marketing	28,370	23,397	21%	(12)%
Sales and marketing	5,743	6,588	(13)%	10 %
Technology	2,629	3,418	(23)%	4 %
General and administrative	4,321	3,055	41%	(24)%
Total operating expenses	41,063	36,458	13%	(9)%
Income (loss) from operations	\$ 1,296	\$ (1,289)	201%	47%

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

	Year ended December 31,	
	2010	2009
Revenues:		
Transaction fees:		
Auto insurance	78.1%	82.4%
Health insurance	5.9%	0.2%
Property insurance	9.1%	10.1%
Term life insurance	4.9%	5.1%
Agent directory	0.9%	1.3%
Other	1.1%	0.9%
Total revenues	100.0%	100.0%
Operating expenses:		
Direct marketing	67.0%	66.6%
Sales and marketing	13.5%	18.7%
Technology	6.2%	9.7%
General and administrative	10.2%	8.7%
Total operating expenses	96.9%	(103.7)%
Income (loss) from operations	3.1%	(3.7)%

Non-GAAP Financial Information

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

NON-GAAP FINANCIAL MEASURE AND RECONCILIATION

(In thousands)

	Year ended December 31,	
	2010	2009
Net income (loss)	\$1,295	(\$1,261)
Less		
Interest income	25	28
Add		
Interest expense	26	-
Share-based compensation expense	928	820
Depreciation and amortization of property, equipment	474	188

and intangible assets		
from continuing		
operations		
Acquisition costs	744	-
Severance and other	-	384
Adjusted EBITDA from continuing		
operations	\$3,442	\$103

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

Metrics:

As described in Part I, InsWeb employs multiple consumer acquisition methods for each of its key product lines - automobile, property, term life and health insurance. In evaluating the performance of its business, InsWeb regularly reviews the direct marketing (consumer acquisition) costs and operating margin by insurance product and source of consumer traffic. The number of consumers available and the cost of acquisition can fluctuate significantly for each of InsWeb's consumer acquisition methods based on many different and complex variables. By reviewing the operating margin on a detailed basis, InsWeb's management believes that it is in a position to observe fluctuations in performance and to adjust its marketing mix in a timely manner to grow revenues while maintaining an acceptable overall operating margin.

All amounts in the following charts are in thousands, except per consumer amounts, and include results for Potrero Media for the period from October 1, 2010 to December 31, 2010. Year-over-year changes may not be meaningful for the term-life and health products as a result of the acquisition.

	Shopping	Transaction	Direct	%
Auto direct to consumers	consumers	revenues	marketing	Margin
2010	10,781	\$ 8,729	\$ 5,525	37%
2009	17,979	\$ 13,121	\$ 8,619	34%
% Change	(40.0%)	(33.5%)	(35.9%)	7.0%
	Lead	Transaction	Direct	%
Auto form hosting	submitting	revenues	marketing	Margin
2010	1,918	\$ 19,657	\$ 14,810	25%
2009	781	\$ 11,527	\$ 9,114	21%
% Change	145.6%	70.5%	62.5%	17.8%
	Lead	Transaction	Direct	%
Auto from competitors	submitting	revenues	marketing	Margin
2010	1,520	\$ 4,696	\$ 2,378	49%
2009	1,455	\$ 4,336	\$ 2,324	46%
% Change	4.5%	8.3%	2.3%	6.4%
		Transaction	Direct	%
Total auto		revenues	marketing	Margin
2010		\$ 33,082	\$ 22,713	31%
2009		\$ 28,984	\$ 20,057	31%
% Change		14.1%	13.2%	1.8%
		Transaction	Direct	%
Property direct to	Shopping	revenues	marketing	Margin
consumers	consumers		expenses	
2010	967	\$ 1,744	\$ 1,019	42%
2009	1,610	\$ 2,117	\$ 1,338	37%
% Change	(39.9%)	(17.6%)	(23.8%)	13.0%

Edgar Filing: INSWEB CORP - Form 10-K

	Lead submitting consumers	Transaction revenues	Direct marketing expenses	% Margin
Property form hosting				
2010	101 \$	1,025 \$	790	23%
2009	78 \$	616 \$	413	33%
% Change	29.5%	66.4%	91.3%	(30.4%)

	Lead submitting consumers	Transaction revenues	Direct marketing expenses	% Margin
Property from competitors				
2010	169 \$	1,077 \$	542	50%
2009	115 \$	818 \$	448	45%
% Change	47.0%	31.7%	21.0%	9.8%

		Transaction revenues	Direct marketing expenses	% Margin
Total property				
2010	\$	3,846 \$	2,351	39%
2009	\$	3,551 \$	2,199	38%
% Change		8.3%	6.9%	2.1%

	Shopping consumers	Transaction revenues	Direct marketing expenses	% Margin
Term life direct to consumers				
2010	977 \$	1,143 \$	496	57%
2009	180 \$	880 \$	293	67%
% Change	442.8%	29.7%	69.3%	(15.2%)

	Lead submitting consumers	Transaction revenues	Direct marketing expenses	% Margin
Term life form hosting				
2010	30 \$	420 \$	335	20%
2009	18 \$	529 \$	237	55%
% Change	66.7%	(20.6%)	41.4%	(63.3%)

	Lead submitting consumers	Transaction revenues	Direct marketing expenses	% Margin
Term life from competitors				
2010	54 \$	516 \$	296	43%
2009	29 \$	380 \$	207	46%
% Change	86.2%	35.8%	43.0%	(6.3%)

		Transaction revenues	Direct marketing expenses	% Margin
Total term life				
2010	\$	2,079 \$	1,127	46%
2009	\$	1,789 \$	737	59%
% Change		16.1%	52.9%	(22.2%)

	Shopping consumers	Transaction revenues	Direct marketing expenses	% Margin
Health direct to consumers				
2010	4,332 \$	2,290 \$	1,744	24%
2009	193 \$	46 \$	-	100%
% Change	2,144.6%	4,878.3%	N/A	(76.2%)

Health form hosting

Edgar Filing: INSWEB CORP - Form 10-K

	Lead submitting consumers	Transaction revenues	Direct marketing expenses	% Margin
2010	14	\$ 168	\$ 117	30%
2009	-	\$ -	\$ -	N/A
% Change	N/A	N/A	N/A	N/A

	Lead submitting consumers	Transaction revenues	Direct marketing expenses	% Margin
Health from competitors	13	\$ 51	\$ 26	49%
2010	9	\$ 33	\$ 17	48%
2009	44.4%	54.5%	52.9%	1.1%
% Change				

	Consumers	Transaction revenues	Direct marketing expenses	% Margin
Total health	N/A	\$ 2,509	\$ 1,887	25%
2010	N/A	\$ 79	\$ 17	78%
2009	N/A	3,075.9%	11,000.0%	(68.4%)
% Change				

Definitions:

Direct to consumers: Revenues, and direct marketing expenses derived from consumers who started a shopping session on a website of InsWeb or its subsidiaries.

From competitors: Revenues and direct marketing expenses derived from consumers who were acquired by InsWeb from its competitors - Bankrate and Insuranceleads.com, in the form of qualified leads.

Form hosting: Revenues and direct marketing expenses derived from consumers who InsWeb acquired directly from non-competitor 3rd parties in the form of qualified leads.

Transaction Fees.

Automobile insurance transaction fees (consisting of lead fees, commissions and click-through fees) increased 14% to \$33.1 million in 2010 from \$29.0 million in 2009. The increase in transaction fees was primarily attributable to a 71% increase in transaction revenue from form hosting traffic sources, partially offset by a 34% decrease in transaction revenue from direct to consumer sources of traffic. The increase in transaction revenue from form hosting traffic reflects InsWeb's efforts in 2010 to expand form hosting relationships. InsWeb expects the number of form hosting relationships will increase during 2011.

Health insurance transaction fees increased to \$2.5 million in 2010 from \$79,000 in 2009. Of the \$2.4 million increase in health insurance transaction fees, the entire increase was attributed to the acquisition of Potrero Media on October 1, 2010. InsWeb expects health insurance transaction fees to comprise a growing percentage of its future total revenues.

Property insurance transaction fees (consisting primarily of lead fees) increased 8% to \$3.8 million in 2010 from \$3.6 million in 2009. The increase in transaction fees was primarily attributable to a 37% increase in the revenue earned per consumer acquired through direct to consumer traffic sources in 2010 compared to 2009. The increase in revenue per consumer can be partially attributed to increased monetization of qualified property leads in 2010. The increase in revenue was offset by a 40% decrease in the number of consumers shopping for property insurance acquired through direct to consumer traffic sources in 2010 compared to 2009.

Term life insurance transaction fees (consisting primarily of lead fees) increased 16% to \$2.1 million in 2010 from \$1.8 million in 2009. The increase in transaction fees was primarily attributable to a 443% increase in the number of consumers acquired through direct to consumer traffic sources in 2010 compared to 2009, offset by a 76% decrease in revenue earned per consumer acquired through direct to consumer traffic sources in 2010 compared to 2009. The decrease in revenue per consumer can be partially attributed to more leads being sold at lower prices in 2010 compared to the number of consumers acquired through direct to consumer traffic sources in 2009. Term life insurance transaction fees for 2010 include \$286,000 from Potrero Media after the acquisition of Potrero Media on October 1, 2010.

Included in the automobile, health, property and term life transaction fees mentioned above are transaction revenues of \$6.3 million in 2010 and \$5.6 million in 2009 that InsWeb receives from competitors such as Bankrate Insurance when they complement InsWeb's offering by distributing our leads to additional providers. InsWeb expects to continue to expand these revenue sharing relationships in 2011.

Agent directory revenues (consisting of subscription revenue and advertising revenues) decreased 13% to \$385,000 in 2010 from \$442,000 in 2009. This decrease was due primarily to lower advertising revenues generated from sales of banner ads on the agent directory site.

Other.

Development and maintenance fees decreased 4% to \$160,000 in 2010, from \$167,000 in 2009.

Operating Expenses

(In thousands, except percentages)	Year ended December 31,		Percentage Change from Prior Year	
	2010	2009	2010	2009
Operating expenses:				
Direct marketing	\$ 28,370	\$ 23,397	21%	(12)%
Sales and marketing	5,743	6,588	(13)%	10%
Technology	2,629	3,418	(23)%	4%
General and administrative	4,321	3,055	41%	(24)%

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

(In thousands, except percentages and per consumer amounts)	Year ended December 31,		Percentage Change from Prior Year	
	2010	2009	2010	2009
Direct marketing costs	\$ 28,370	\$ 23,397	21%	(12)%
Direct marketing costs as a percent of transaction fees	67%	67%	—%	(6)%
Number of consumers	29,144	29,960	(3)%	47%
Direct marketing cost per consumer	\$ 0.97	\$ 0.78	24%	(40)%

Direct Marketing. Direct marketing expenses consist of advertising, promotions and fees incurred to drive consumer traffic directly to the InsWeb online marketplace, and fees paid to third parties pursuant to form hosting marketing partnerships. For the year ended December 31, 2010, the largest source of revenue was consumers acquired through form hosting marketing partnerships.

Direct marketing expenses were \$28.4 million in 2010 as compared to \$23.4 million in 2009. The 21% increase in spending in 2010 compared to 2009 is primarily due to continued increase of consumers being acquired through form hosting marketing partnerships. Direct marketing expenses also increased by \$2.2 million attributed to the acquisition of Potrero Media on October 1, 2010. Direct marketing expense as a percent of transaction revenues was 67% in both 2010 and 2009.

InsWeb expects direct marketing levels to increase in 2011, in part as a result of InsWeb's acquisition of PotreroMedia and in part, as InsWeb expects to continue to increase its consumer traffic and marketing sources in 2011.

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. Sales and marketing expenses decreased 13% to \$5.7 million in 2010 from \$6.6 million in 2009. The decrease was primarily due to a decrease in headcount related expenses in 2010 compared to 2009, due to a staff reduction in September 2009 and a decrease in consulting fees. This was partly offset by an increase in sales and marketing expenses of \$419,000 attributed to the acquisition of Potrero Media on October 1, 2010. InsWeb expects sales and marketing expenses to increase in 2011, primarily due to InsWeb's acquisition of Potrero Media.

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 support and maintenance of the InsWeb online insurance marketplace. Technology expenses decreased 23% to \$2.6 million in 2010 from \$3.4 million in 2009. The decrease was primarily due to a decrease in headcount related expenses in 2010 compared to 2009, due to a staff reduction in September 2009. This was partly offset by an increase in technology expenses of \$233,000 attributed to the acquisition of Potrero Media on October 1, 2010. InsWeb expects technology expenses to increase in 2011, primarily due to InsWeb's acquisition of Potrero Media.

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 increased 41% to \$4.3 million in 2010 from \$3.1 million in 2009. The increase was primarily due to costs directly associated with the acquisition of Potrero Media on October 1, 2010, share-based compensation expense and general and administrative expenses of \$212,000 related to the acquisition of Potrero Media's operations. InsWeb expects general and administrative expenses to decrease slightly in 2011.

Interest and Other Income, Net. Net interest income (expense) was (\$1,000) for 2010 compared to \$28,000 in 2009. Interest income was \$25,000 in 2010 compared to \$28,000 in 2009. Interest expense was \$26,000 in 2010 compared to \$0 in 2009. Due to the acquisition of Potrero Media on October 1, 2010, interest expense is recognized on imputed interest for the contingent consideration related to the transaction. InsWeb's investment portfolio consists entirely of cash, cash equivalents and short-term investments. InsWeb expects that returns received from its investment portfolio in the near future will be negligible given current economic conditions in the United States.

Income Taxes. InsWeb recognized no expense for, and did not receive a benefit from income taxes for the years ended December 31, 2010 and 2009.

Critical Accounting Policies

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

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

Business Combinations. In 2010, InsWeb adopted ASC 805, Business Combinations, which revised the accounting guidance that is required to apply for acquisitions in comparison to prior fiscal years. The underlying principles are similar to the previous guidance and require that InsWeb recognize separately from goodwill the assets acquired and the liabilities assumed at their acquisition date fair values. The goodwill recognized of \$2.7 million is attributable to the excess purchase consideration over assets acquired and liabilities assumed. While InsWeb uses their best estimates and assumptions as a part of the purchase price allocation process to accurately value assets acquired and liabilities assumed at the acquisition date, InsWeb's estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, InsWeb will record adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to InsWeb's consolidated statements of operations. Direct transaction costs associated with a business combination are expensed as incurred (prior to fiscal 2010, direct transaction costs were included as part of the purchase price);

Contingencies. As discussed in Part I, Item 3 ("Legal Proceedings") and in Part II, Note 6 of Notes to the Consolidated Financial Statements of this report, InsWeb is a defendant in: i) a class action lawsuit that alleges InsWeb violated certain federal securities laws at the time of its initial public offering; ii) a securities lawsuit alleging certain officers and directors and significant shareholders violated the short swing trading prohibition of Section 16(b) of the Securities Exchange Act. InsWeb cannot accurately predict the ultimate outcome of these matters at this time and therefore, cannot estimate the range of probable loss, if any, due to the inherent uncertainties of litigation. InsWeb believes it has meritorious defenses; however InsWeb cannot assure that it will prevail in any of these actions. An unfavorable outcome could have a material adverse effect on InsWeb's financial condition, results of operations and cash flows.

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

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

For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. At December 31, 2010 and December 31, 2009, InsWeb had unrecognized tax benefits of approximately \$0.3 million and \$0.3 million, respectively (none of which, if recognized, would favorably affect InsWeb’s effective tax rate). InsWeb does not believe there will be any material changes in its unrecognized tax positions over the next twelve months.

For tax return purposes, InsWeb had net operating loss carry forwards at December 31, 2010 of approximately \$187.8 million and \$76.8 million for federal income tax and state income tax purposes, respectively. Included in these amounts are unrealized federal and state net operating loss deductions resulting from stock option exercises of approximately \$4.8 million each. The benefit of these unrealized stock option-related deductions has not been included in the deferred tax assets table below and will be recognized as a credit to additional paid-in capital when realized. Federal and state net operating loss carry forwards begin expiring in 2011 and 2012, respectively.

The carrying value of our deferred tax assets, which was approximately \$66.4 million at December 31, 2010, is dependent upon our ability to generate sufficient future taxable income. We have established a full valuation allowance against our net deferred tax assets to reflect the uncertainty of realizing the deferred tax benefits, given historical losses. A valuation allowance is required when it is more likely than not that all or a portion of a deferred tax asset will not be realized. This assessment requires a review and consideration of all available positive and negative evidence, including our past and future performance, the market environment in which we operate, the utilization of tax attributes in the past, and the length of carryforward periods and evaluation of potential tax planning strategies. We expect to continue to maintain a full valuation allowance until an appropriate level of profitability is sustained or we are able to develop tax strategies that would enable us to conclude that it is more likely than not that a portion of our deferred tax assets would be realizable.

Liquidity and Capital Resources

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

	Year ended December 31,	
	2010	2009
Cash provided by (used in) operating activities	\$ 4,418	\$ (806)
Cash used in investing activities	(5,095)	(2,109)

Cash provided by financing activities

1,009

78

At December 31, 2010, InsWeb's principal source of liquidity was \$6.7 million in cash and cash equivalents. InsWeb adheres to an investment policy with minimal market or settlement risk with its current holdings. There are no restrictions or limitations regarding access to the \$6.7 million in cash and cash equivalents. Since inception, InsWeb has financed its operations primarily through the sale of preferred and common stock.

In 2010, net cash provided by operating activities primarily consisted of InsWeb's net income of \$1.3 million, noncash share-based compensation of \$0.9 million, noncash depreciation and amortization of \$0.5 million, a decrease in prepaid expenses and other current assets of \$0.2 million, an increase in accounts payable of \$0.4 million, and an increase in deferred revenue of \$1.5 million. This was offset by a decrease in accounts receivable of \$0.2 million and a decrease in accrued expenses of \$0.3 million. In 2009 net cash used by operating activities primarily consisted of InsWeb's net loss of \$1.3 million and an increase in accounts receivable of \$0.6 million. This was offset by noncash depreciation and amortization of \$0.2 million and noncash share-based compensation of \$0.8 million.

Net cash used in investing activities in 2010 of \$5.1 million was primarily due to \$5.3 million related to the purchase of Potrero Media, purchase and redemptions of \$1.1 million, net in short-term investments and the purchase of \$0.2 million in property and equipment. This was offset by a decrease in restricted cash of \$1.5 million. Net cash used in investing activities in 2009 of \$2.1 million was due to an increase of \$2.1 million in restricted cash for the use as collateral to obtain a commercial credit line. Pursuant to the commercial credit agreement, the collateral value of the securities account should be no less than \$2.0 million, based on investments held by InsWeb. As of December 31, 2009, restricted cash used as collateral for the credit line was \$2.1 million. The collateral value may become unrestricted, if InsWeb elects to cancel the commercial credit agreement with the issuing bank.

Net cash used in financing activities in 2010 of \$1.0 million was due to the proceeds from issuance of common stock through employee stock plans. Net cash provided by financing activities in 2009 of \$78,000 are proceeds from the issuance of common stock through employee stock plans.

InsWeb currently anticipates that its cash and cash equivalents will be sufficient to meet its anticipated cash needs to fund operations and capital expenditures for at least the next 12 months. Although InsWeb does not anticipate the need for additional financing to meet its operating needs or to expand its business internally, in February 2011, the Board of Directors authorized InsWeb to file a universal shelf registration statement on Form S-3. Once filed with and declared effective by the Securities and Exchange Commission, the shelf registration statement will cover the potential issuance of up to \$15 million of new securities. The filing of the shelf registration statement is designed to provide InsWeb with greater flexibility to take advantage of acquisition, financing and other business opportunities when and if such opportunities arise. InsWeb has no specific plans to issue securities under the shelf registration statement. Accordingly, no assurances can be given as to whether or when any offering under this registration statement will be completed or the exact number of shares that may be issued by InsWeb. 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.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 8. Financial Statements and Supplementary Data.

The Report of Independent Registered Public Accounting Firm, Consolidated Financial Statements and Notes to Consolidated Financial Statements follow below on pages F-1 to F-24.

INSWEB CORPORATION

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets as of December 31, 2010 and 2009	F-3
Consolidated Statements of Operations for the years ended December 31, 2010 and 2009	F-4
Consolidated Statements of Stockholders' Equity and Comprehensive Income (Loss) for the years ended December 31, 2010 and 2009	F-5
Consolidated Statements of Cash Flows for the years ended December 31, 2010 and 2009	F-6
Notes to Consolidated Financial Statements	F-7

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of InsWeb Corporation

We have audited the accompanying consolidated balance sheets of InsWeb Corporation ("Company") as of December 31, 2010 and 2009, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for each of the two years in the period ended December 31, 2010. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of InsWeb Corporation at December 31, 2010 and 2009, and the consolidated results of its operations and its cash flows for each of the two years in the period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ ERNST & YOUNG LLP

Sacramento, California

March 31, 2011

INSWEB CORPORATION
CONSOLIDATED BALANCE SHEETS
(Amounts in thousands, except per share amounts)

	December 31,	
	2010	2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 6,733	\$ 6,401
Short-term investments	1,137	—
Accounts receivable, net of allowances of \$6 at 2010 and \$0 at 2009	3,307	2,014
Restricted cash equivalents and restricted short-term investments	580	2,105
Prepaid expenses and other current assets	559	710
Related party receivables	319	—
Total current assets	12,635	11,230
Intangible assets	6,965	150
Goodwill	2,689	—
Related party receivable	—	311
Property and equipment, net	171	109
Other assets	32	80
Total assets	\$ 22,492	\$ 11,880
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 3,740	\$ 2,113
Accrued expenses	428	635
Accrued contingent consideration (See Note 3)	1,172	—
Deferred revenue	2,321	804
Total current liabilities	7,661	3,552
Accrued contingent consideration (See Note 3)	2,071	—
Commitments and contingencies		
Stockholders' equity:		
Convertible preferred stock, \$0.001 par value. Authorized: 5,000 shares; no shares issued or outstanding at 2010 and 2009	—	—
Common stock, \$0.001 par value. Authorized: 25,000 shares; 8,714 shares issued and 5,490 shares outstanding at 2010; and 8,043 shares issued and 4,819 shares outstanding at 2009	9	8
Paid-in capital	210,753	207,617
Treasury stock, 3,224 shares at 2010 and 2009	(6,334)	(6,334)
Accumulated deficit	(191,668)	(192,963)

Total stockholders' equity		12,760		8,328
Total liabilities and stockholders' equity	\$	22,492	\$	11,880

See accompanying notes.

INSWEB CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands, except per share amounts)

Years Ended December 31,
2010 2009

Revenues:			
Transaction fees	\$	42,199	\$ 35,002
Other		160	167
Total revenues		42,359	35,169
Operating expenses:			
Direct marketing		28,370	23,397
Sales and marketing		5,743	6,588
Technology		2,629	3,418
General and administrative		4,321	3,055
Total operating expenses		41,063	36,458
Income (loss) from operations		1,296	(1,289)
Interest income (expense), net		(1)	28
Net income (loss)	\$	1,295	\$ (1,261)
Net income (loss) per share:			
Basic	\$	0.26	\$ (0.26)
Diluted	\$	0.23	\$ (0.26)
Shares used in computing net income (loss) per share:			
Basic		4,972	4,796
Diluted		5,611	4,796

See accompanying notes.

INSWEB CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)
Years ended December 31, 2010 and 2009
(Amounts in thousands, except per share amounts)

Common Stock		Paid-in Capital	Treasury Stock		Accumulated Comprehensive Income	Other Accumulated Deficit	Total
Shares	Amount		Shares	Amount			

(Loss)

Balances, December 31, 2008	8,004	8	\$ 206,719	(3,224)	\$ (6,334)	1\$	(191,702)	\$ 8,692
Issuance of shares through employee stock purchase plan and stock option plan	39	—	78	—	—	—	—	78
Share-based compensation expense	—	—	820	—	—	—	—	820
Comprehensive loss: Change in unrealized gain (loss) on investments	—	—	—	—	—	(1)	—	(1)
Net loss	—	—	—	—	—	—	(1,261)	(1,261)
Comprehensive loss	—	—	—	—	—	—	—	(1,262)
Balances, December 31, 2009	8,043	8	207,617	(3,224)	(6,334)	—	(192,963)	8,328
Issuance of shares through employee stock purchase plan and stock option plan	359	1	1,008	—	—	—	—	1,009
Share-based compensation expense	—	—	928	—	—	—	—	928
Issuance of common stock in connection with the Potrero Media acquisition (Note 3)	312	—	1,200	—	—	—	—	1,200
Comprehensive income: Net income	—	—	—	—	—	—	1,295	1,295
Comprehensive income	—	—	—	—	—	—	—	1,295
Balances, December 31, 2010	8,714	\$ 9	\$ 210,753	(3,224)	\$ (6,334)	\$ —	(191,668)	\$ 12,760

See accompanying notes.

INSWEB CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS
(Amounts in thousands)

Years Ended December 31,

Edgar Filing: INSWEB CORP - Form 10-K

	2010	2009
Cash flows from operating activities:		
Net income (loss)	\$ 1,295	\$ (1,261)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities, net of acquisition:		
Share-based compensation	928	820
Depreciation and amortization	474	188
Interest income from related party receivables	(8)	(7)
Provision for doubtful accounts	6	(8)
Interest income on short-term investments	(2)	—
Interest expense on contingent consideration	25	—
Net changes in operating assets and liabilities:		
Accounts receivable	(166)	(556)
Prepaid expenses and other current assets	249	1
Other assets	78	54
Accounts payable	378	(25)
Accrued expenses	(316)	(379)
Deferred revenue	1,477	367
Net cash provided by (used in) operating activities	4,418	(806)
Cash flows from investing activities:		
Purchases of short-term investments	(1,898)	(1)
Redemptions of short-term investments	763	—
Change in restricted cash	1,525	(2,105)
Purchases of property, equipment and intangible assets, net of acquisition	(154)	(3)
Purchase of Potrero Media, net of cash acquired	(5,331)	—
Net cash used in investing activities	(5,095)	(2,109)
Cash flows from financing activities:		
Proceeds from issuance of common stock through stock plans	1,009	78
Net cash provided by financing activities	1,009	78
Net increase (decrease) in cash and cash equivalents	332	(2,837)
Cash and cash equivalents, beginning of year	6,401	9,238
Cash and cash equivalents, end of year	\$ 6,733	\$ 6,401

See accompanying notes.

Supplemental disclosures of cash flow information and non-cash transactions:

In connection with its acquisition of Potrero Media, InsWeb assumed liabilities and issued common stock as follows:

Fair value of net assets acquired	\$ 11,239
Cash paid for acquisition	(5,331)
Liabilities assumed and issuance of common stock	\$ 5,908

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Business of InsWeb Corporation

InsWeb operates an online insurance marketplace that electronically matches consumers and providers of automobile, property, health, term life, and small business insurance. On October 1, 2010, InsWeb acquired Potrero Media, which operates a similar service focused on the health and term life insurance markets. Potrero Media is operated as a separate, wholly-owned subsidiary of InsWeb, and is treated as a separate reportable segment in recognition of its separate corporate structure.

InsWeb's principal source of revenues is transaction fees from participating insurance providers, either directly from an insurance company or from a local insurance agent. While quotes and other information obtained through InsWeb's online insurance marketplace are provided to consumers free of charge, InsWeb earns revenues from participating insurance providers 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 and sustain profitability.

2. Summary of Significant Accounting Policies

Basis of presentation

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

InsWeb recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet. For non-recognized subsequent events that must be disclosed to keep the financial statements from being misleading, an entity will be required to disclose the nature of the event as well as an estimate of its financial effect, or a statement that such an estimate cannot be made.

Use of estimates

The preparation of financial statements in conformity with United States generally accepted accounting principles 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 results could differ from those estimates.

Cash, cash equivalents and short-term investments

InsWeb considers all highly liquid investments with original maturities of three months or less at the date of purchase to be cash equivalents. Investments with maturities greater than three months at the date of purchase but less than one year are classified as short-term investments. Cash, cash equivalents and short-term investments are stated at cost, which approximates fair value, given the relatively short duration of the underlying securities.

2. Summary of Significant Accounting Policies (continued)

Revenue recognition

InsWeb recognizes revenue when (i) persuasive evidence of an arrangement between InsWeb and the customer exists, (ii) delivery of the product to the customer has occurred or service has been provided to the customer, (iii) the price to the customer is fixed or determinable and (iv) collectability of the sales price is reasonably assured.

Transaction fee revenue from consumer leads is recognized when such lead (either as a consumer click-through or after completion of the InsWeb application) is delivered to a participating insurance company. Transaction fee revenue from closed policies is recognized in the period that the insurance company has sold an insurance policy from a qualified consumer lead.

Online marketing and direct marketing expense

InsWeb's marketing strategy is designed to increase consumer traffic to its website and to drive awareness of its insurance products and services. InsWeb 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 its site. Fees related to InsWeb's online marketing are expensed in the period the related consumer click-through occurs or in some cases, when the consumer leads are generated. Online advertising payments based on per unit transactions are expensed in the period in which the consumer traffic occurred and are included in direct marketing expense.

Costs related to advertising and promotions of products are charged to sales and marketing expense as incurred. Direct marketing expense for the years ended December 31, 2010 and 2009 were \$28,370,000 and \$23,397,000, respectively.

Property and equipment and other long-lived assets

Property and equipment are stated at cost less accumulated depreciation. Depreciation on computer and office equipment, furniture and fixtures and purchased software is calculated using the straight-line method over the estimated useful lives of the assets, generally two to five years. Amortization on leasehold improvements is calculated using the straight-line method over the estimated useful lives of the improvements or the remaining term of the lease, whichever is shorter. Expenditures for maintenance and repairs are charged to expense as incurred.

InsWeb evaluates the recoverability of its long-lived assets, including intangible assets subject to amortization in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 360, Property, Plant and Equipment. ASC 360 requires the recognition of impairment losses related to long-lived assets in the event the net carrying value of such assets exceeds fair value. InsWeb assesses the impairment of its long-lived assets annually or when events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. No such indicators of impairment were identified as of December 31, 2010 and 2009.

Concentration of risk—credit

Financial instruments that potentially subject InsWeb to concentrations of credit risk, as defined by ASC 825, “Financial Instruments,” consist principally of cash, cash equivalents, short-term investments and accounts receivable. InsWeb deposits its cash, cash equivalents and short-term investments with various domestic financial institutions. Such deposits may exceed federal deposit insurance limits.

InsWeb’s investments consist of diversified investment grade securities. InsWeb’s investment policy limits the amount of credit exposure to investments in any one issue, and InsWeb believes no significant concentration of credit risk exists with respect to these investments.

InsWeb’s customer base is dispersed across many different geographic areas, and most customers are in the insurance industry in the United States. Collection of trade receivables may be affected by changes in economic or other industry conditions and may, accordingly, impact InsWeb’s overall credit risk. InsWeb performs ongoing credit evaluations of its customers and generally does not require collateral. InsWeb reviews the need for allowances for potential credit losses based on historical losses, and records a provision when collectability is uncertain. InsWeb has not experienced significant credit losses to date. Generally, receivables are due 30 days from the invoice date and are considered past due after this date.

2. Summary of Significant Accounting Policies (continued)

Concentration of risk—significant customers

There were no significant customers for the year ended December 31, 2010. For the year ended December 31, 2009, there was one insurance company (American Family) accounted for 10% of total revenues. At December 31, 2010, two customers (SureHits and Geico) accounted for 17% and 12% of accounts receivable, respectively. At December 31, 2009, three customers (American Family, Insurance.com, and Bankrate Insurance) accounted for 16%, 13%, and 12% of accounts receivable, respectively.

Business Combinations

In 2010, InsWeb adopted ASC 805, Business Combinations, which revised the accounting guidance that is required to apply for acquisitions in comparison to prior fiscal years. The underlying principles are similar to the previous guidance and require that InsWeb recognize separately from goodwill the assets acquired and the liabilities assumed at their acquisition date fair values. The goodwill recognized of \$2.7 million is attributable to the excess purchase consideration over assets acquired and liabilities assumed. While InsWeb uses its best estimates and assumptions as a part of the purchase price allocation process to accurately value assets acquired and liabilities assumed at the acquisition date, InsWeb’s estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, InsWeb will record adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to InsWeb’s consolidated statements of operations. Direct transaction costs associated with a business combination are expensed as incurred (prior to fiscal 2010, direct transaction costs were included as part of the purchase price). InsWeb has applied ASC 805 to the acquisition of Potrero Media and continues to evaluate the impact this update will have on our consolidated financial statements.

Goodwill and Intangible Assets

Goodwill and intangible assets that are not subject to amortization are tested for impairment annually or more frequently when events or changes in circumstances indicate that the asset might be impaired in accordance with ASC 350, "Intangibles – Goodwill and Other." Goodwill is the excess of the acquisition cost of a business over the fair value of the identifiable net assets acquired. InsWeb believes no impairment exists for its goodwill at December 31, 2010.

In connection with the acquisition of Potrero Media, InsWeb acquired intangible assets including websites and technology, customer relationships and non-compete agreements. The estimated fair value of these intangibles is amortized on a straight-line basis over the estimated useful lives of 5.75 years for websites, technology and customer relationships and 3 years for non-compete agreements.

Share-Based Payments

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

InsWeb recognizes compensation costs for stock-based payment transactions to employees and Board of Directors, based on their grant-date fair value on a straight-line approach over the service period for which such awards are expected to vest. The fair value of stock options pursuant to the InsWeb's 1997 and 2008 Stock Option Plans and Employee Stock Purchase Plan ("ESPP"), respectively, is determined using the BSM option-pricing model. The determination of fair value is affected by InsWeb's stock price, as well as assumptions regarding subjective and complex variables such as expected employee exercise behavior and our expected stock price volatility over the expected term of the award. Generally, InsWeb's assumptions are based on historical information and judgment is required to determine if historical trends may be indicators of future outcomes. The key assumptions for the BSM option-pricing model calculation are:

2. Summary of Significant Accounting Policies (continued)

Expected term. The expected term represents the period that InsWeb's share-based awards are expected to be outstanding. InsWeb's expected term was determined based on historical experience of similar awards, giving consideration to the contractual terms of the share-based awards, vesting schedules and expectations of future employee behavior.

Expected volatility. InsWeb 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. InsWeb bases the risk-free interest rate used in the BSM option-pricing model on the implied yield currently available on U.S. Treasury zero-coupon issues with the same or substantially equivalent remaining term.

Expected dividend. InsWeb has not declared dividends to date. Therefore, InsWeb 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. ASC 718 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, InsWeb considers historical voluntary and involuntary termination behavior as well as analysis of actual option forfeitures.

Employee stock-based compensation expense is calculated based on awards ultimately expected to vest and is reduced for estimated forfeitures. Forfeitures are revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates and an adjustment to stock-based compensation expense will be recognized at that time.

Changes to our underlying stock price, our assumptions used in the BSM option-pricing model calculation and the InsWeb's forfeiture rate, as well as future equity granted or assumed through acquisitions could significantly impact the compensation expense we recognize.

Income taxes

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

Net income (loss) per share

Basic and diluted net income (loss) per share is computed using the weighted-average number of shares of common stock outstanding. Diluted earnings per share is a measure of the potential dilution that would occur if stock options had been exercised. Potentially dilutive securities have been excluded from the computation of diluted net loss per share as their effect would be antidilutive.

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

(In thousands, except per share amounts)	Year Ended December 31,	
	2010	2009
Numerator for basic and diluted net income (loss) per share:		
Net income (loss) available to common stockholders	\$ 1,295	\$ (1,261)
Denominator for net income (loss) per share:		
Basic—weighted average shares of common stock outstanding	4,972	4,796
Dilutive effect of employee stock options	639	—
Diluted	5,611	4,796
Net income (loss) per share:		
Basic—as reported	\$ 0.26	\$ (0.26)
Diluted—as reported	\$ 0.23	\$ (0.26)

2. Summary of Significant Accounting Policies (continued)

Excluded from the dilutive earnings per share calculation were approximately 953,000 and 2,185,000 options to purchase our common stock that were outstanding at December 31, 2010 and 2009, respectively, because their effect would have been anti-dilutive.

Recently Issued Accounting Pronouncements

In December 2010, the FASB issued Accounting Standards Update ("ASU") No. 2010-29, Business Combinations (Topic 805)—Disclosure of Supplementary Pro Forma Information for Business Combinations—a consensus of the FASB Emerging Issues Task Force ("ASU 2010-29"). ASU 2010-29 requires a public entity to disclose pro forma revenue and earnings for a business combination occurring in the current year as though the business combination occurred as of the beginning of the year or, if comparative statements are presented, pro forma amounts are required to be presented as though the business combination took place as of the beginning of the comparative year. ASU 2010-29 also expands the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. InsWeb will apply ASU 2010-29 prospectively to business combinations consummated subsequent to January 1, 2011. InsWeb is currently evaluating the impact this update will have on our consolidated financial statements.

In December 2010, the FASB issued ASU No. 2010-28, Intangibles—Goodwill and Other (Topic 350)—When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying amounts—a consensus of the FASB Emerging Issues Task Force ("ASU 2010-28"). ASU 2010-28 provides guidance on (i) the circumstances under which step 2 of the goodwill impairment test must be performed for reporting units with zero or negative carrying amounts and (ii) the qualitative factors to be taken into account when performing step 2 in determining whether it is more likely than not that an impairment exists. For public entities, the provisions of ASU 2010-28 will be effective for fiscal years and interim periods within those years beginning after December 15, 2010. InsWeb is currently evaluating the impact this update will have on our consolidated financial statements.

Segment information

InsWeb operates in two segments, InsWeb and Potrero Media. Both InsWeb and PotreroMedia market their online marketplaces in the United States. The Chief Executive Officer has been identified as the Chief Operating Decision Maker because he has final authority over resource allocation decisions and performance assessment. InsWeb's products and operations are managed and reported in two operating segments, InsWeb and Potrero Media. Both segments operate an online insurance marketplace that electronically matches consumers and providers of automobile, property, health and term life insurance.

Reclassifications

Certain amounts in our 2009 consolidated financial statements have been reclassified to conform to the presentation of our 2010 consolidated financial statements. Intangible assets have been reclassified from Other assets to Intangible assets on the consolidated balance sheets.

3. Acquisition

On October 1, 2010 (the “Closing Date”), InsWeb completed its acquisition of 100% of the capital stock of Potrero Media pursuant to the Stock Purchase Agreement and related amendments (“Purchase Agreement”) signed on August 31, 2010. Potrero Media was acquired for a fair market value of \$11.2 million paid in a combination of cash, stock and contingent earnout payments as discussed further below. InsWeb accounts for acquisitions in accordance with ASC 805 “Business Combinations.” Accordingly, the net assets acquired were recorded at their estimated fair values and Potrero Media’s operating results are included in the Company’s consolidated financial statements from the date of acquisition.

The maximum purchase price for Potrero Media, exclusive of the discounting or probability reductions associated with the contingent consideration, was \$12.5 million as of the Closing Date. The \$12.5 million maximum purchase price is comprised of \$6.0 million in cash paid at the Closing Date, \$844,000 in cash paid within 30 days of the Closing Date associated with excess working capital as of September 30, 2010, \$1.5 million in cash due at the first anniversary of the Closing Date, \$1.2 million related to issuance of 312,578 shares of common stock in Insweb to be held in escrow and

3. Acquisition (continued)

released on the first anniversary of the Closing Date, and a total of up to \$3.0 million in contingent consideration, to be paid in cash up to \$1.0 million annually for each of the first three full calendar years following the Closing Date.

Contingent Consideration

InsWeb is entitled to withhold \$1.5 million of the purchase consideration due to the selling shareholders if Potrero Media’s EBITDA (EBITDA refers to a financial measure that the Company defines as net income (loss) excluding interest, taxes, depreciation and amortization), subject to certain adjustments as specified in the Purchase Agreement, is less than approximately \$686,000 for the first nine months of calendar year 2011. The selling shareholders have the right to elect

whether the withholding, if earned, will be satisfied from the second cash payment or from the stock payment due on the first anniversary of the closing date.

As described in the Purchase Agreement, the annual contingent consideration payments are contingent upon Potrero Media meeting certain adjusted EBITDA numbers. Provided Potrero Media’s EBITDA exceeds the minimum EBITDA requirements for 2011, 2012, or 2013, Potrero Media’s stakeholders will receive contingent consideration payments for that year. The contingent consideration is calculated as five times the amount that annual EBITDA exceeds the required minimum EBITDA, up to a maximum of \$1 million.

InsWeb and Potrero Media have been operating as separate entities since the Closing Date. InsWeb is continuing to evaluate the potential benefits that may arise from a reorganization and combination of the two entities. To facilitate such a reorganization, InsWeb and the selling shareholders are discussing a potential amendment to the Purchase Agreement, which may cancel the future contingent consideration in exchange for a fixed payment to be paid in 2011. At the time of the filing of this Annual Report on Form 10-K, the agreement has not been completed or approved by the board of directors. Management believes that if the amendment is consummated it could have a material impact on our consolidated financial statements.

The fair value of the Potrero Media purchase price is comprised of the following (in thousands):

Consideration paid on the Closing Date:	
Cash payment	\$ 6,821
Consideration to be paid after the Closing Date:	
Contingent anniversary payment in 2011	1,140
Common stock to be issued one year after the Closing Date	1,200
Contingent cash payments based on EBITDA for 2011, 2012 and 2013	2,055
Other	23
	\$ 11,239

Purchase Price Allocation

InsWeb accounts for acquisitions in accordance with ASC 805 "Business Combinations." Accordingly, the net assets acquired were recorded at their estimated fair values and PotreroMedia's operating results are included in the Company's consolidated financial statements from the date of acquisition. The goodwill recognized of \$2.7 million is attributable to the excess purchase consideration over acquired tangible and intangible assets and liabilities assumed. The goodwill relates to expected synergies and the assembled workforce of Potrero Media. None of the goodwill is expected to be deductible for income tax purposes.

The acquired intangible assets included \$2.7 million of customer relationships with a weighted average useful life of 5.75 years, \$4.3 million of website technology with a weighted average useful life of 5.75 years and \$0.2 million of non-compete agreements with a weighted average useful life of 3 years.

3. Acquisition (continued)

Management determined the fair value of intangible assets based on a number of factors, including a third-party valuation, utilizing either the cost or income approach in conjunction with limited discussions with management and certain forecasts prepared by InsWeb. The income approach was utilized for the valuation of customer relationships and non-compete agreements. The cost approach was utilized for the valuation of websites and technologies. When the income approach was used, the rate utilized to discount net cash flows to their present values was approximately 30%. The discount rates were determined using a weighted-average cost of capital which incorporated the implied cost of equity and debt of InsWeb based on the forecasted cash flows after consideration of InsWeb's rate of return on debt, capital, equity, the weighted average return on invested capital, and the internal rate of return specific to this

transaction.

Estimated useful lives for the intangible assets were based on estimates of technology life cycles and InsWeb's intended future use of the intangible assets. Intangible assets are being amortized using the straight-line method, considering the pattern in which the economic benefits of the intangible assets are consumed.

The purchase price allocation relating to the Potrero Media acquisition was accounted for as follows (in thousands):

Acquired assets:

Cash and cash equivalents	\$ 1,490
Accounts receivable	1,133
Other assets	145
Intangible assets, net	7,180
Goodwill	2,689
	12,637

Assumed liabilities:

Accounts payable and other liabilities	(1,398)
Total liabilities assumed	(1,398)

Total purchase price	\$ 11,239
----------------------	-----------

InsWeb has allocated goodwill in accordance with ASC 350 "Assigning Goodwill to Reporting Units." Goodwill has been assigned to reporting units that are expected to benefit from the synergies of the combination even though other assets or liabilities of the acquired entity may not be assigned to that reporting unit. Goodwill was allocated to each reporting unit based upon expected synergies to be benefitted for each segment in 2011. Allocation of goodwill to InsWeb's reporting units is as follows:

Potrero Media	\$ 2,151
InsWeb	538
	\$ 2,689

InsWeb incurred approximately \$744,000 in acquisition-related expenses of which \$35,000 represented legal expenses, \$558,000 were related to investment banking charges and \$151,000 in accounting and valuation expenses. These costs are included in the consolidated statement of operations in general and administrative operating expenses.

3. Acquisition (continued)

Pro forma Results of Operations

The unaudited pro forma results of operations provided below for fiscal 2010 and 2009 is presented as though the acquisition had occurred at the beginning of the period presented. The pro forma information presented below does not intend to indicate what the Company's results of operations would have been if the acquisitions had in fact

occurred at the beginning of the earliest period presented nor does it intend to be a projection of the impact on future results or trends.

	Years ended December 31,	
	2010	2009
Total revenues	\$ 53,106	\$ 47,505
Operating income	1,636	(494)
Net income (loss)	1,522	(456)
Earnings per share	0.31	(0.10)
Diluted earnings per share	0.27	(0.10)

4. Share-Based Payments

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.

The Option Plan provided 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. With the expiration of the 1997 Stock Option Plan and Senior Executive Option Plan, in July 2007, InsWeb’s Board of Directors authorized and shareholders approved the 2008 Stock Option Plan in February 2008, and options to purchase 1,500,000 shares of common stock were authorized under this plan. These options have a contractual term ranging from two to five years.

Options granted under the above plans are priced at the common stock’s fair market value on the date of grant and generally vest ratably over the requisite service period. In 2009 and 2010, performance-based options have also been granted and to the extent performance conditions affect the vesting of an award, compensation cost will be recognized only if the performance condition is satisfied. Compensation cost will not be recognized, and any previously recognized compensation cost will be reversed, if the performance condition is not satisfied. Certain options granted to members of InsWeb’s Board of Directors vest immediately.

4. Share-Based Payments (continued)

Options outstanding and currently exercisable by exercise price at December 31, 2010 are as follows:

Exercise Prices (in thousands, except contractual life and exercise price amounts)	Options Outstanding		Options Currently Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life (in years)	Number Outstanding	Weighted Average Exercise Price
\$1.40-\$2.10	469	2.23	453	\$ 2.07
\$2.30-\$2.94	415	2.64	415	\$ 2.79
\$2.98-\$4.35	381	1.89	381	\$ 3.41
\$4.74-\$5.00	378	2.26	328	\$ 4.89
\$5.10-\$5.10	20	4.50	20	\$ 5.10
\$5.25-\$5.25	387	4.24	220	\$ 5.25
\$5.35-\$11.16	566	3.79	201	\$ 8.02
	2,616	2.90	2,018	\$ 3.90

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 2010 and 2009 11,290 and 22,692 shares respectively, were distributed to employees at prices ranging from \$1.97 per share to \$3.48 per share. The weighted average fair values of the 2010 and 2009 awards were \$3.33 and \$2.32 per share, respectively.

At December 31, 2010, InsWeb had 413,000 shares of its common stock reserved for future issuance under the Purchase Plan. The number of shares of common stock issuable under the 1999 Plan is increased by 50,000 shares each year until January 1, 2008 and no shares thereafter.

The following table sets forth the total share-based compensation expense resulting from stock options and the Purchase Plan included in InsWeb's operating expenses in its condensed consolidated statements of operations for the years ended December 31, 2010 and 2009 (in thousands):

	Year Ended December 31	
	2010	2009
Sales and marketing	\$ 132	\$ 205
Technology	108	89
General and administrative	688	526
Total share-based compensation expense	\$ 928	\$ 820

4. Share-Based Payments (continued)

The fair value of share-based awards granted pursuant to InsWeb's stock option plans was estimated using the BSM option-pricing model with the following weighted average assumptions for the years ended December 31, 2010 and 2009:

	Year Ended December 31	
	2010	2009
Expected term (in years)	3.05	2.55
Expected volatility	0.78	0.92
Risk-free interest rate	1.3%	1.2%
Expected dividend	—	—
Weighted-average fair value at grant date	\$ 3.02	\$ 1.21

The BSM option-pricing model is also used to determine the fair value of the shares issued for the Purchase Plan for the years ended December 31, 2010 and 2009. In connection with the Purchase Plan, for 2010 and 2009, assumptions used for expected term (in years), volatility and risk-free interest rate were approximately 0.50, 0.68 and 0.2% for the year ended December 31, 2010 and 0.50, 1.01 and 0.3% for the year ended December 31, 2009.

Activity under all of InsWeb's stock option plans is as follows:

(in thousands, except exercise price amounts)	Shares Available for Grant	Shares Outstanding	Weighted Average Exercise Price
Balances, December 31, 2009	1,040	2,185	\$ 4.15
Additional shares reserved	96	—	—
Granted	(885)	885	\$ 5.96
Exercised	—	(348)	\$ 2.81
Canceled/forfeited	106	(106)	\$ 16.95
Balances, December 31, 2010	357	2,616	\$ 4.42

During the year ended December 31, 2010, the following summarizes InsWeb's stock option plan activity:

	Shares	Weighted Average Grant Date Fair Value
Nonvested Shares		
Nonvested-January 1, 2010	47	\$ 2.08
Granted	885	\$ 5.96
Vested	(293)	\$ 4.96
Forfeited	(32)	\$ 5.10
Nonvested-December 31, 2010	607	\$ 6.18

The aggregate intrinsic values of options outstanding and exercisable at December 31, 2010 and 2009 were \$8,812,000 and \$914,000, respectively. Aggregate intrinsic value represents the total intrinsic value (the aggregate difference between the closing stock price of InsWeb's common stock of \$8.18 and \$3.25 on December 31, 2010 and 2009, respectively 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 December 31, 2010 and 2009, respectively. The total intrinsic value of options exercised for the years ended December 31, 2010 and 2009 were \$1,178,000 and \$16,000, respectively. The weighted-average remaining contractual terms of options outstanding and exercisable at December 31, 2010 and 2009

were 2.90 and 3.08 years, respectively.

As of December 31, 2010, there was \$1,609,000 in unrecognized compensation cost for all stock options outstanding that were unvested. This amount is expected to be recognized over the weighted-average period of 1.7 years. InsWeb's current practice is to issue new shares to satisfy share option exercises.

Cash received from stock option exercises and purchases under the Purchase Plan for December 31, 2010 and 2009 were \$1,008,000 and \$78,000.

5. Fair Value Measurements

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

	December 31, 2010	Level 1	Level 2	Level 3
Assets:				
Cash equivalents \$	3,850	\$ 3,850	\$ —	—
Short-term investments	1,137	1,137	—	—
Restricted short-term investments	580	580		
Total assets at fair value \$	5,567	\$		