

LoopNet, Inc.  
Form 10-Q  
August 06, 2010

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

(Mark One)

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

**For the quarterly period ended June 30, 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 000-52026**

**LOOPNET, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or  
organization)

**77-0463987**

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

**185 Berry Street, Suite 4000**

**San Francisco, CA 94107**

(Address of principal executive offices)

**(415) 243-4200**

(Registrant's telephone number, including area code)

**N/A**

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

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

Yes ☒ No ☐

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

Yes ☐ No ☐

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

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐  
(Do not check if a smaller  
reporting company)

Smaller reporting  
company ☐

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

Yes ☐ No ☒

As of July 31, 2010, there were 32,125,141 shares of the registrant's common stock outstanding.



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

|                                                                                                                                                                                      | <b>December<br/>31,<br/>2009</b> | <b>June 30,<br/>2010<br/>(unaudited)</b> |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|------------------------------------------|
| <b>Assets</b>                                                                                                                                                                        |                                  |                                          |
| Current assets:                                                                                                                                                                      |                                  |                                          |
| Cash and cash equivalents                                                                                                                                                            | \$ 125,571                       | \$ 97,011                                |
| Short-term investments                                                                                                                                                               | 3,440                            | 3,478                                    |
| Accounts receivable, net of allowance of \$213 and \$190, respectively                                                                                                               | 1,308                            | 1,730                                    |
| Prepaid expenses and other current assets                                                                                                                                            | 1,638                            | 3,926                                    |
| <br>Total current assets                                                                                                                                                             | <br>131,957                      | <br>106,145                              |
| Property and equipment, net                                                                                                                                                          | 2,216                            | 2,341                                    |
| Goodwill                                                                                                                                                                             | 23,368                           | 31,132                                   |
| Intangibles, net                                                                                                                                                                     | 4,487                            | 6,582                                    |
| Deferred income taxes, net, non-current                                                                                                                                              | 8,059                            | 8,842                                    |
| Deposits and other non-current assets                                                                                                                                                | 4,162                            | 6,705                                    |
| <br>Total assets                                                                                                                                                                     | <br>\$ 174,249                   | <br>\$ 161,747                           |
| <br><b>Liabilities and stockholders' equity</b>                                                                                                                                      |                                  |                                          |
| Current liabilities:                                                                                                                                                                 |                                  |                                          |
| Accounts payable                                                                                                                                                                     | \$ 546                           | \$ 504                                   |
| Accrued liabilities and other current liabilities                                                                                                                                    | 2,181                            | 4,618                                    |
| Accrued compensation and benefits                                                                                                                                                    | 2,995                            | 2,822                                    |
| Deferred revenue                                                                                                                                                                     | 9,025                            | 8,998                                    |
| <br>Total current liabilities                                                                                                                                                        | <br>14,747                       | <br>16,942                               |
| Other long-term liabilities                                                                                                                                                          |                                  | 855                                      |
| Commitments and contingencies                                                                                                                                                        |                                  |                                          |
| Series A convertible preferred stock                                                                                                                                                 | 48,207                           | 48,376                                   |
| Stockholders' equity:                                                                                                                                                                |                                  |                                          |
| Common stock, \$.001 par value, 125,000,000 shares authorized; 39,493,526 and 39,711,639 shares issued, respectively; and 34,567,565 and 32,494,647 shares outstanding, respectively | 39                               | 40                                       |
| Additional paid in capital                                                                                                                                                           | 122,388                          | 127,267                                  |
| Other comprehensive loss                                                                                                                                                             | (418)                            | (400)                                    |
| Treasury stock, at cost, 4,925,961 and 7,216,992 shares, respectively                                                                                                                | (54,556)                         | (80,711)                                 |
| Retained earnings                                                                                                                                                                    | 43,842                           | 49,378                                   |

|                                            |            |            |
|--------------------------------------------|------------|------------|
| Total stockholders' equity                 | 111,295    | 95,574     |
| Total liabilities and stockholders' equity | \$ 174,249 | \$ 161,747 |

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

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

|                                                     | Three months ended June<br>30, |                  | Six months ended June<br>30, |                  |
|-----------------------------------------------------|--------------------------------|------------------|------------------------------|------------------|
|                                                     | 2009                           | 2010             | 2009                         | 2010             |
| <b>Revenues</b>                                     | <b>\$ 19,248</b>               | <b>\$ 19,364</b> | <b>\$ 39,350</b>             | <b>\$ 38,186</b> |
| Cost of revenue (1)                                 | 2,777                          | 3,001            | 5,669                        | 5,848            |
| <b>Gross margin</b>                                 | <b>16,471</b>                  | <b>16,363</b>    | <b>33,681</b>                | <b>32,338</b>    |
| Operating expenses:                                 |                                |                  |                              |                  |
| Sales and marketing (1)                             | 4,237                          | 4,191            | 8,744                        | 8,481            |
| Technology and product development (1)              | 2,654                          | 2,948            | 5,214                        | 5,896            |
| General and administrative (1)                      | 6,135                          | 3,244            | 11,270                       | 7,615            |
| Amortization of acquired intangible assets          | 299                            | 481              | 601                          | 926              |
| Total operating expenses                            | 13,325                         | 10,864           | 25,829                       | 22,918           |
| <b>Income from operations</b>                       | <b>3,146</b>                   | <b>5,499</b>     | <b>7,852</b>                 | <b>9,420</b>     |
| Interest and other (expense) income, net            | 95                             | (264)            | 107                          | (368)            |
| <b>Income before tax</b>                            | <b>3,241</b>                   | <b>5,235</b>     | <b>7,959</b>                 | <b>9,052</b>     |
| Income tax expense                                  | 1,386                          | 1,929            | 3,316                        | 3,346            |
| <b>Net income</b>                                   | <b>1,855</b>                   | <b>3,306</b>     | <b>4,643</b>                 | <b>5,706</b>     |
| Convertible preferred stock accretion of discount   | (71)                           | (85)             | (71)                         | (170)            |
| <b>Net income applicable to common stockholders</b> | <b>\$ 1,784</b>                | <b>\$ 3,221</b>  | <b>\$ 4,572</b>              | <b>\$ 5,536</b>  |
| Net income per share                                |                                |                  |                              |                  |
| Basic                                               | \$ 0.04                        | \$ 0.08          | \$ 0.11                      | \$ 0.13          |
| Diluted                                             | \$ 0.04                        | \$ 0.07          | \$ 0.11                      | \$ 0.13          |
| Weighted average shares                             |                                |                  |                              |                  |
| Basic                                               | 41,842                         | 41,340           | 41,777                       | 41,652           |
| Diluted                                             | 42,949                         | 43,159           | 42,747                       | 43,192           |

(1) Stock-based compensation is allocated as follows:

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|                                    |        |        |        |        |
|------------------------------------|--------|--------|--------|--------|
| Cost of revenue                    | \$ 189 | \$ 154 | \$ 357 | \$ 282 |
| Sales and marketing                | 637    | 444    | 1,236  | 929    |
| Technology and product development | 560    | 684    | 1,046  | 1,367  |
| General and administrative         | 711    | 810    | 1,301  | 1,637  |

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

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

|                                                                                   | <b>Six months ended June 30,</b> |                  |
|-----------------------------------------------------------------------------------|----------------------------------|------------------|
|                                                                                   | <b>2009</b>                      | <b>2010</b>      |
| <b>Cash flows from operating activities:</b>                                      |                                  |                  |
| Net income                                                                        | \$ 4,643                         | \$ 5,706         |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                  |                  |
| Depreciation and amortization expense                                             | 1,241                            | 1,649            |
| Stock-based compensation                                                          | 3,940                            | 4,215            |
| Tax benefits from exercise of stock options                                       | (127)                            | (377)            |
| Deferred income tax                                                               | (385)                            | (783)            |
| Changes in assets and liabilities, net of effects of acquisitions:                |                                  |                  |
| Accounts receivable                                                               | (148)                            | (422)            |
| Prepaid expenses and other current assets                                         | (1,414)                          | (1,644)          |
| Accounts payable                                                                  | (51)                             | (42)             |
| Accrued expenses and other current liabilities                                    | 1,830                            | 110              |
| Accrued compensation and benefits                                                 | (422)                            | (172)            |
| Deferred revenue                                                                  | (502)                            | (27)             |
| Net cash provided by operating activities                                         | 8,605                            | 8,213            |
| <b>Cash flows from investing activities:</b>                                      |                                  |                  |
| Purchase of property and equipment                                                | (793)                            | (848)            |
| Purchase of investments                                                           | (500)                            | (2,985)          |
| Acquisitions, net of acquired cash                                                | (188)                            | (9,930)          |
| Net cash used in investing activities                                             | (1,481)                          | (13,763)         |
| <b>Cash flows from financing activities:</b>                                      |                                  |                  |
| Net proceeds from exercise of stock options                                       | 121                              | 456              |
| Net proceeds from sale of preferred stock                                         | 47,966                           |                  |
| Tax withholdings related to net share settlements of restricted stock units       | (19)                             | (168)            |
| Repurchase of common stock                                                        |                                  | (23,675)         |
| Tax benefits from exercise of stock options                                       | 127                              | 377              |
| Net cash (used in) provided by financing activities                               | 48,195                           | (23,010)         |
| Net (decrease) increase in cash and cash equivalents                              | 55,319                           | (28,560)         |
| Cash and cash equivalents at beginning of period                                  | 61,325                           | 125,571          |
| <b>Cash and cash equivalents at end of period</b>                                 | <b>\$ 116,644</b>                | <b>\$ 97,011</b> |

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



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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1 Background and Basis of Presentation**

***Basis of Presentation***

The accompanying condensed consolidated balance sheet as of June 30, 2010, the statements of income for the three and six months ended June 30, 2009 and 2010 and the statements of cash flows for the six months ended June 30, 2009 and 2010 are unaudited. These statements should be read in conjunction with the audited consolidated financial statements and related notes, together with management's discussion and analysis of financial position and results of operations, contained in the Company's annual report on Form 10-K for the year ended December 31, 2009.

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States, or GAAP. In the opinion of the Company's management, the unaudited condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements in the Company's annual report on Form 10-K for the year ended December 31, 2009 and include normal and recurring adjustments necessary for the fair presentation of the Company's financial position for the periods presented. The results for the three and six months ended June 30, 2010 are not necessarily indicative of the results to be expected for the fiscal year ending December 31, 2010. The Company has evaluated subsequent events after the balance sheet date through the financial statement issuance date for appropriate accounting and disclosure.

***Use of Estimates***

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

***Recent Accounting Pronouncements***

In June 2009, the Financial Accounting Standards Board (FASB) issued new authoritative guidance which amends the evaluation criteria for determining the primary beneficiary of a Variable Interest Entity, or VIE. This new guidance requires an ongoing assessment of whether an enterprise is the primary beneficiary of a variable interest entity. The effective date for this amendment is reporting periods beginning after November 15, 2009. The Company adopted this guidance effective January 1, 2010, and there has been no material impact on the consolidated financial statements.

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

In December 2007, the FASB issued authoritative guidance regarding principles and requirements for how an acquirer accounts for business combinations. This guidance provides greater consistency in the accounting and financial reporting of business combinations. It requires the acquiring entity in a business combination to recognize all assets acquired and liabilities assumed in the transaction, establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed, and requires the acquirer to disclose the nature and financial effect of the business combination. Effective January 1, 2009, the Company must account for future business combinations in accordance with its provisions. There has been no material impact on the Company's financial statements as a result of the acquisitions completed by the Company.

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

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

|                                                                             | <b>Three Months Ended<br/>June 30,</b> |             | <b>Six Months Ended<br/>June 30,</b> |             |
|-----------------------------------------------------------------------------|----------------------------------------|-------------|--------------------------------------|-------------|
|                                                                             | <b>2009</b>                            | <b>2010</b> | <b>2009</b>                          | <b>2010</b> |
|                                                                             | <b>(unaudited)</b>                     |             |                                      |             |
| Weighted average common shares outstanding                                  | 34,402                                 | 33,900      | 34,337                               | 34,212      |
| Convertible preferred stock                                                 | 7,440                                  | 7,440       | 7,440                                | 7,440       |
| Shares used to compute basic net income applicable to common shareholders   | 41,842                                 | 41,340      | 41,777                               | 41,652      |
| Add dilutive common equivalents:                                            |                                        |             |                                      |             |
| Stock options                                                               | 1,065                                  | 1,402       | 937                                  | 1,209       |
| Restricted stock units                                                      | 32                                     | 417         | 16                                   | 331         |
| Unvested restricted stock (1)                                               | 10                                     |             | 17                                   |             |
| Shares used to compute diluted net income applicable to common shareholders | 42,949                                 | 43,159      | 42,747                               | 43,192      |

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

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

|                        | <b>Three Months Ended<br/>June 30,</b> |             | <b>Six Months Ended<br/>June 30,</b> |             |
|------------------------|----------------------------------------|-------------|--------------------------------------|-------------|
|                        | <b>2009</b>                            | <b>2010</b> | <b>2009</b>                          | <b>2010</b> |
|                        | <b>(unaudited)</b>                     |             |                                      |             |
| Stock options          | 3,128                                  | 3,495       | 5,262                                | 3,769       |
| Restricted stock units | 101                                    | 34          |                                      | 34          |

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

|  | <b>Three Months Ended<br/>June 30,</b> |             | <b>Six Months Ended<br/>June 30,</b> |             |
|--|----------------------------------------|-------------|--------------------------------------|-------------|
|  | <b>2009</b>                            | <b>2010</b> | <b>2009</b>                          | <b>2010</b> |

(unaudited)

**Calculation of basic net income per share applicable to common shareholders:**

|                                                                           |                 |                 |                 |                 |
|---------------------------------------------------------------------------|-----------------|-----------------|-----------------|-----------------|
| Net income                                                                | \$ 1,855        | \$ 3,306        | \$ 4,643        | \$ 5,706        |
| Convertible preferred stock accretion of discount                         | (71)            | (85)            | (71)            | (170)           |
| <b>Net income applicable to common shareholders</b>                       | <b>\$ 1,784</b> | <b>\$ 3,221</b> | <b>\$ 4,572</b> | <b>\$ 5,536</b> |
| Shares used to compute basic net income applicable to common shareholders | 41,842          | 41,340          | 41,777          | 41,652          |
| <b>Basic net income per share applicable to common shareholders</b>       | <b>\$ 0.04</b>  | <b>\$ 0.08</b>  | <b>\$ 0.11</b>  | <b>\$ 0.13</b>  |

**Calculation of diluted net income per share applicable to common shareholders:**

|                                                                             |                 |                 |                 |                 |
|-----------------------------------------------------------------------------|-----------------|-----------------|-----------------|-----------------|
| Net Income                                                                  | \$ 1,855        | \$ 3,306        | \$ 4,643        | \$ 5,706        |
| Convertible preferred stock accretion of discount                           | (71)            | (85)            | (71)            | (170)           |
| <b>Net income applicable to common shareholders</b>                         | <b>\$ 1,784</b> | <b>\$ 3,221</b> | <b>\$ 4,572</b> | <b>\$ 5,536</b> |
| Shares used to compute diluted net income applicable to common shareholders | 42,949          | 43,159          | 42,747          | 43,192          |
| <b>Dilutive net income per share applicable to common shareholders</b>      | <b>\$ 0.04</b>  | <b>\$ 0.07</b>  | <b>\$ 0.11</b>  | <b>\$ 0.13</b>  |

**Table of Contents****Note 3 Acquisitions**

The Company acquired two entities during the six month period ended June 30, 2010, for total cash consideration of \$9.9 million, plus potential earn-out payments of \$1.4 million that are contingent upon achievement of certain performance targets. The acquisitions were accounted for as a business combination consistent with the authoritative guidance regarding business combinations (see Note 4). The results of operations of the two entities have been included in the Company's condensed consolidated statements of income for the period subsequent to their respective acquisition dates. The entities results of operations for the periods prior to the acquisitions were not material to our condensed consolidated statement of income and, accordingly, pro forma financial information has not been presented.

**Note 4 Goodwill and Intangible Assets, net**

The changes in the carrying amount of goodwill for the six month period ended June 30, 2010 is as follows (in thousands):

|                                         |           |
|-----------------------------------------|-----------|
| Balance as of December 31, 2009         | \$ 23,368 |
| Goodwill acquired                       | 7,639     |
| Goodwill adjustment                     | 125       |
| Balance as of June 30, 2010 (unaudited) | \$ 31,132 |

The goodwill adjustment was due to the contingent payment earned upon achievement of certain performance targets by LandAndFarm.com, Inc.

The changes in the intangible assets, net for the six month period ended June 30, 2010 consisted of the following (in thousands):

|                                         |          |
|-----------------------------------------|----------|
| Balance as of December 31, 2009         | \$ 4,487 |
| Intangible assets acquired              | 3,021    |
|                                         | 7,508    |
| Less amortization                       | (926)    |
| Balance as of June 30, 2010 (unaudited) | \$ 6,582 |

As a result of the acquisitions, the intangible assets related to customer relationships, non-competition agreements and developed technology are being amortized on a straight-line basis. Also included in the intangible assets are trade names which have an indefinite life.

**Note 5 Series A Convertible Preferred Stock**

On April 14, 2009, the Company completed a \$50 million private placement to accredited investors. The Company sold an aggregate of 50,000 shares of its newly-created Series A Convertible Preferred Stock, par value \$0.001 per share (the "Series A Preferred Stock"), which is initially convertible into an aggregate of 7,440,476 shares of the Company's common stock, par value \$0.001 per share (the "Common Stock"), at a conversion price of \$6.72 per share (as may be adjusted for stock dividends, stock splits or similar recapitalizations). Holders of Series A Preferred Stock are entitled to receive, prior to any distribution to the holders of the Common Stock, an amount per share equal to the greater of (1) the Original Issue Price, plus any declared and unpaid dividends and (2) the amount that Purchasers would receive in respect of the shares of Common Stock issuable upon conversion of the Series A Preferred Stock if all of the then outstanding Series A Preferred Stock were converted into Common Stock.

The net proceeds of \$48 million from the issuance of the Series A Preferred Stock are net of issuance costs of \$2 million. The Series A Preferred Stock reported on the Company's condensed consolidated balance sheet consists of

the net proceeds plus the amount of accretion for issuance costs. Such accretion costs are being accreted over 72 months with such accretion being recorded as a reduction in retained earnings. For the three and six month periods ended June 30, 2010, the Company recorded accretion on the issuance costs of \$85,000 and \$170,000.

**Note 6 Stock-Based Compensation**

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

In connection with this guidance, the Company reviewed and updated, among other things, its forfeiture rate, expected term and volatility assumptions. The weighted average expected lives of the options for the three and six month periods ended June 30, 2010 reflects the application of the simplified method. The simplified method defines the life as the average of the contractual term of the options and the weighted average vesting period for all option tranches. Estimated volatility for the three and six month periods ended June 30, 2010 also

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reflects the application of the authoritative guidance and, accordingly, incorporates historical volatility of similar companies whose share price is publicly available.

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

|                         | <b>Three Months Ended<br/>June 30,</b> |             | <b>Six Months Ended<br/>June 30,</b> |             |
|-------------------------|----------------------------------------|-------------|--------------------------------------|-------------|
|                         | <b>2009</b>                            | <b>2010</b> | <b>2009</b>                          | <b>2010</b> |
|                         | <b>(unaudited)</b>                     |             |                                      |             |
| Risk-free interest rate | 2.23%                                  | 2.25%       | 2.00%                                | 2.34%       |
| Expected volatility     | 50%                                    | 47%         | 49%                                  | 47%         |
| Expected life           | 4.6                                    | 4.6         | 4.6                                  | 4.6         |
|                         | years                                  | years       | years                                | years       |
| Dividend yield          | 0%                                     | 0%          | 0%                                   | 0%          |

The weighted-average fair value of options granted during the three month periods ended June 30, 2009 and 2010 was \$3.43 and \$4.67, respectively, and during the six month periods ended June 30, 2009 and 2010 was \$2.99 and \$4.27, respectively, using the Black-Scholes method.

The total stock-based compensation has been allocated as follows (in thousands):

|                                    | <b>Three Months<br/>Ended<br/>June 30,</b> |             | <b>Six Months Ended<br/>June 30,</b> |             |
|------------------------------------|--------------------------------------------|-------------|--------------------------------------|-------------|
|                                    | <b>2009</b>                                | <b>2010</b> | <b>2009</b>                          | <b>2010</b> |
|                                    | <b>(unaudited)</b>                         |             |                                      |             |
| Cost of revenue                    | \$ 189                                     | \$ 154      | \$ 357                               | \$ 282      |
| Sales and marketing                | 637                                        | 444         | 1,236                                | 929         |
| Technology and product development | 560                                        | 684         | 1,046                                | 1,367       |
| General and administrative         | 711                                        | 810         | 1,301                                | 1,637       |
| Total                              | \$ 2,097                                   | \$ 2,092    | \$ 3,940                             | \$ 4,215    |

***Stock Plan Activity***

Stock options and other equity awards are granted by the Company under its 2006 Equity Incentive Plan. The 2006 Equity Incentive Plan became effective on June 9, 2006. Prior to that date, stock options were granted under the Company's 2001 Stock Option Plan, which terminated on June 9, 2006.

A summary of the Company's stock option activity is as follows:

|                                  | <b>Options Outstanding</b>      |                                       |                                         | <b>Options Exercisable</b>      |                                       |                                         |
|----------------------------------|---------------------------------|---------------------------------------|-----------------------------------------|---------------------------------|---------------------------------------|-----------------------------------------|
|                                  | <b>Number<br/>of<br/>Shares</b> | <b>Weighted<br/>Average<br/>Price</b> |                                         | <b>Number<br/>of<br/>Shares</b> | <b>Weighted<br/>Average<br/>Price</b> |                                         |
|                                  |                                 | <b>Exercise</b>                       | <b>Contractual<br/>Life<br/>(Years)</b> |                                 | <b>Exercise</b>                       | <b>Contractual<br/>Life<br/>(Years)</b> |
| Outstanding at December 31, 2009 | 6,452,625                       | \$ 9.24                               | 5.26                                    | 3,331,025                       | \$ 9.11                               | 4.84                                    |
| Granted                          | 2,182,500                       | \$ 10.09                              |                                         |                                 |                                       |                                         |
| Exercised                        | (143,011)                       | \$ 3.19                               |                                         |                                 |                                       |                                         |
| Cancelled                        | (62,319)                        | \$ 11.51                              |                                         |                                 |                                       |                                         |



|                                          |           |         |      |           |         |      |
|------------------------------------------|-----------|---------|------|-----------|---------|------|
| Outstanding at June 30, 2010 (unaudited) | 8,429,795 | \$ 9.55 | 5.26 | 4,006,984 | \$ 9.46 | 4.54 |
|------------------------------------------|-----------|---------|------|-----------|---------|------|

Included in the options granted during the six month period ended June 30, 2010 are 990,000 shares of performance-based options awarded to its executive officers by the Board of Directors. These options are tied to incentivizing execution of the Company's long-term strategic plan. The Company is unable to assess the likelihood of achieving the strategic plan at this time and therefore the recognition of the compensation expense for these options has been deferred.

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A summary of the Company's restricted stock unit activity is as follows:

|                                          | <b>Unvested Restricted Stock Units</b> |                                                                   |                                                                            |
|------------------------------------------|----------------------------------------|-------------------------------------------------------------------|----------------------------------------------------------------------------|
|                                          | <b>Number<br/>of Shares</b>            | <b>Weighted<br/>Average<br/>Grant<br/>Date<br/>Fair<br/>Value</b> | <b>Weighted<br/>Average<br/>Remaining<br/>Contractual<br/>Life (Years)</b> |
| Balance at December 31, 2009             | 391,250                                | \$ 8.79                                                           | 1.49                                                                       |
| Granted                                  | 797,500                                | \$ 9.97                                                           |                                                                            |
| Vested                                   | (92,500)                               | \$ 8.94                                                           |                                                                            |
| Cancelled                                |                                        | \$                                                                |                                                                            |
| Outstanding at June 30, 2010 (unaudited) | 1,096,250                              | \$ 9.64                                                           | 3.84                                                                       |

Included in the restricted stock units granted during the six month period ended June 30, 2010 are 465,000 shares of performance-based restricted stock units awarded to its executive officers by the Board of Directors. These restricted stock units are tied to incentivizing execution of the Company's long-term strategic plan. The Company is unable to assess the likelihood of achieving the strategic plan at this time and therefore the recognition of the compensation expense for these options has been deferred.

**Note 7 Income Taxes**

The Company recorded a provision for income taxes of \$3.3 million for the six month period ended June 30, 2010, based upon a 37.0% effective tax rate. The effective tax rate is based upon the Company's estimated fiscal 2010 income before the provision for income taxes. To the extent the estimate of fiscal 2010 income before the provision for income taxes changes, the Company's provision for income taxes will change as well.

**Note 8 Stock Repurchases**

On January 31, 2008, the Company's Board of Directors (the Board) authorized the repurchase of up to \$50.0 million of Common Stock. The stock repurchase program was announced on February 5, 2008. The Board subsequently authorized the repurchase of up to an additional \$50.0 million of the Company's common stock. As of December 31, 2009, \$45.4 million remained available for further repurchases under the program. In February 2010, the Board approved the repurchase of up to an additional \$29.6 million in shares of Common Stock, bringing to \$75.0 million the total amount of authorized Common Stock repurchases.

The repurchased shares are recorded as treasury stock and are accounted for under the cost method. As of June 30, 2010, the Company repurchased approximately 2,291,000 shares at an average price of \$11.42 per share and therefore \$48.8 million remained available for further purchases under the program.

The stock repurchase program may be limited or terminated at any time without prior notice. Stock repurchases under this program may be made through open market and privately negotiated transactions at times and in such amounts as management deems appropriate and will be funded using the Company's working capital. The timing and actual number of shares repurchased will depend on a variety of factors including corporate and regulatory requirements, price and other market conditions. The program is intended to comply with the volume, timing and other limitations set forth in Rule 10b-18 under the Securities Exchange Act of 1934.

**Note 9 Litigation and Other Contingencies***Litigation and Other Legal Matters*

There have been no material changes from litigation as previously disclosed in Part I Item 3 of our Annual Report on Form 10-K for the year ended December 31, 2009 filed with the Securities and Exchange Commission on March 1, 2010.



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

*You should read the following discussion and analysis by our management of our financial condition and results of operations in conjunction with our consolidated financial statements and the accompanying notes included elsewhere in this Quarterly Report on Form 10-Q. This discussion and other parts of this Quarterly Report on Form 10-Q contain forward-looking statements that involve risks and uncertainties, such as statements of our plans, objectives, expectations and intentions. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in Item 1A of Part II, Risk Factors.*

#### **Overview**

We are a leading online marketplace for commercial real estate in the United States, based on the number of monthly unique visitors to our marketplace, which averaged approximately 1,539,000 per month during the second quarter of 2010 as reported by comScore Media Metrix. comScore Media Metrix defines a unique visitor as an individual who visited any content of a website, a category, a channel, or an application. Our online marketplace, available at [www.LoopNet.com](http://www.LoopNet.com), enables commercial real estate agents, working on behalf of property owners and landlords, to list properties for sale or for lease and submit detailed information on property listings including qualitative descriptions, financial and tenant information, photographs and key property characteristics in order to find a buyer or tenant. We offer two types of memberships on the LoopNet online marketplace. Basic membership is available free-of-charge, and enables members to experience some of the benefits of the LoopNet offering, with limited functionality. LoopNet premium membership is available for a monthly subscription fee and provides enhanced marketing exposure for property listings and full access to LoopNet property listings, as well as numerous other features. The minimum term of a premium membership subscription is one month.

#### **Key Operating Metrics and Trends**

We believe that the key metrics that are material to an analysis of our business are:

the number of our registered members,

the number of monthly unique visitors to our marketplace,

the number of our premium members,

the average monthly subscription price paid by our premium members,

the cancellation rate of our premium members,

the number of listings on our marketplace and

the number of property profiles viewed by visitors to LoopNet.

Our registered members have grown from approximately 3.2 million as of December 31, 2008, to over 3.9 million as of December 31, 2009, to over 4.2 million as of June 30, 2010. The number of monthly unique visitors to our marketplace averaged 1,539,000 in the second quarter of 2010. Our premium members were 77,000 as of December 31, 2008, 68,000 as of December 31, 2009 and 69,000 as of June 30, 2010. The average monthly subscription price paid by our premium members has increased from \$65.64 in the fourth quarter of 2008, to \$66.01 in the fourth quarter of 2009, and to \$66.65 in the second quarter of 2010. Since the fourth quarter of 2007, our average monthly cancellation rate for premium members has exceeded our historical rate prior to such time. The average monthly cancellation rate in the second quarter of 2010 fell within the 4.5% to 6.5% range we have seen in the last two plus years since the downturn in the economy, and was the lowest since the fourth quarter of 2007. We believe the higher cancellation rate in the last two plus years is primarily the result of a significant slow-down in transaction activity in the commercial real estate industry that began in the fourth quarter of 2007, due to deteriorating economic conditions and due to the credit crunch impacting the availability and cost of debt capital for real estate transactions. Premium membership fees have driven the majority of our growth in revenues since 2001 and were the source of

approximately 75% of our revenue in 2008 and in 2009, and 71% of our revenue in the second quarter of 2010. The number of listings on our marketplace has grown from approximately 652,000 as of December 31, 2008, to approximately 732,000 as of December 31, 2009, to approximately 766,000 as of June 30, 2010. The number of property profiles that were viewed by visitors of LoopNet increased from 35.0 million in the second quarter of 2009 to 51.5 million in the second quarter of 2010.

The commercial real estate ( CRE ) industry has experienced and continues to experience extremely challenging times, although our industry has shown signs of stabilizing in the first half of 2010. We believe that we may be able to capitalize on the CRE industry s shifting dynamics in 2010 and beyond and consider a pending refinance and foreclosure cycle that we expect could begin in earnest in late 2010 and into 2011. To this end, we are focused on initiatives to increase our long term value and expand the breadth and depth of services we provide to our customers. Accordingly, we have been increasing the rate of investment in our business to extend our leadership position and maximize our opportunities through execution of our strategy and business plan, ongoing investments in our existing business, investments in new organic initiatives, consideration of further acquisition opportunities and through capital structure changes such as stock buy-backs.

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While we continued investing in our business throughout 2008 and 2009, during the worst commercial real estate cycle in decades, we did so cautiously in light of uncertainties around the magnitude of the decline, and the timing of recovery, in the CRE industry. However, as we see early indications that activity levels in the industry may have stabilized, we expect to accelerate our investment plans to capitalize on the potential longer-term opportunities. Therefore, we intend to invest several million dollars each year over the next few years on a range of internal and external investments that we believe will complement and extend our business and, over time, create meaningful longer-term shareholder value. Some of these investments are accelerations of ongoing efforts in areas that we have highlighted previously, such as our efforts to aggregate more on-market available properties, develop organically new services aimed at increasing the scope of information we deliver to an expanded set of customers, our ongoing strategic investment in Xceligent, a provider of fully researched information services to CRE professionals and various efforts to attract more demand side activity to our marketplace.

We also intend to continue investing in our recently launched Property Research Database product, currently in Beta form, which uses a hybrid approach that combines user-generated marketplace data with a variety of other sources and development methods. We see significant opportunities in the ability to deliver easy access to timely, useful, accurate market data at prices well below traditional alternatives particularly as we enter what we believe may be the early stage of a market recovery. As we gather and respond to customer feedback to the Beta version during the next few quarters, we intend to further develop our monetization plans for the product, which is currently being provided at no additional cost to existing Premium Members. We also recently invested in, and formed a strategic partnership with, AuctionPoint, a solution provider to commercial real estate brokers in support of auction offerings of For-Sale CRE properties. We believe that AuctionPoint platform offers an innovative, broker friendly approach to commercial property auctions. We believe that by working with them, we may be able to capitalize on the rapid increase in distressed properties coming to market later in 2010 and in 2011.

RecentSales, which is an example of a multi-million-dollar revenue stream that we developed and funded internally, is another area of planned investment in 2010. As transaction volumes likely accelerate over the next few years, we intend to expand the breadth and depth of the data coverage in this service, providing more value to existing customers and introducing the service to many new subscribers. We are also continuing to work on upgrading and integrating technology platforms from some of the acquisitions we have done in the past, including REApplications and LandAndFarm, and now BizQuest and Reaction Web which we acquired in the first quarter of 2010.

These planned investments, which extend throughout the organization to include product development, data aggregation and information services, sales & marketing, and possible M&A related efforts, among others, is being made in advance of the full market recovery to better position our business for the gradual increase in activity that we believe will occur later in 2010 and 2011. This investment strategy is focused on accelerating our revenue growth and marketshare gains, as activity in the CRE market begins to recover. While this strategy may reduce our margins in the short term, we believe our investments will increase the likelihood that we will attain our goal of becoming a substantially larger company and extend our longer-term competitive and technological advantages.

### **Our Revenues and Expenses**

Our primary sources of revenues are:

LoopNet premium membership fees;

other property advertising fees, such as Cityfeet.com and LandAndFarm.com;

BizBuySell and BizQuest membership fees and paid listings;

advertising on, and lead generation from, our marketplaces;

LoopLink product license fees; and

LoopNet RecentSales membership fees.

We have been profitable and cash flow positive each quarter since the second quarter of 2003. The key factors that impact our revenues are:

the adoption of our premium membership services by the commercial real estate industry and cancellation rates;

the average monthly subscription price of our premium membership product;

the adoption of our RecentSales services and other new products and services by the commercial real estate industry; and

the adoption of our services by the operating business for sale industry.

We derive the substantial majority of our revenues from customers that pay monthly fees for a suite of services to market and search for commercial real estate and operating businesses. The fee for our LoopNet premium membership averaged \$66.65 per month during the second quarter of 2010. The minimum term of a premium membership subscription is one month. We also offer quarterly and annual memberships

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which are priced and discounted accordingly, and paid in advance for the subscription period. A customer choosing to cancel a discounted annual or quarterly membership will receive a refund based on the number of months the membership was used and charging the customer at the monthly rate rather than at the discounted quarterly or annual rates. We also license our LoopLink product to commercial real estate brokerage firms who pay a monthly, quarterly or annual fee. For our BizBuySell and BizQuest products, we charge a flat monthly fee for business brokers to market their listings or a per listing fee for owners to market their own listings. For RecentSales product, we charge a flat monthly fee to access our database of recent commercial real estate transactions or a per transaction fee for individual transactions.

Revenues from other sources include advertising and lead generation revenues from both our LoopNet and business-for-sale marketplaces, which are recognized ratably over the period in which the advertisement is displayed, provided that no significant obligations remain and collection of the resulting receivable is probable. Advertising rates are dependent on the services provided and the placement of the advertisements. To date, the duration of our advertising commitments has generally averaged two to three months.

The largest component of our expenses is personnel costs. Personnel costs consist of salaries, benefits and incentive compensation for our employees, including commissions for salespeople. These expenses are categorized in our statements of operations based on each employee's principal function.

### **Critical Accounting Policies and Estimates**

Our consolidated financial statements are prepared in accordance with GAAP. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, costs and expenses and related disclosures. On an ongoing basis, we evaluate our estimates and assumptions. Accordingly, our actual results may differ from these estimates under different assumptions or conditions.

Our significant accounting policies are described in Note 1 to the consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2009. We believe there have been no significant changes in our critical accounting policies and estimates.

### **Seasonality and Cyclicity**

The commercial real estate market is influenced by annual seasonality factors, as well as by overall economic cycles. The market is large and fragmented, and different segments of the industry are influenced differently by various factors. Broadly speaking, the commercial real estate industry has two major components: tenants leasing space from owners or landlords, and the investment market for buying and selling properties.

We have experienced seasonality in our business in the past, and expect to continue to experience it in the future. While individual geographic markets vary, commercial real estate transaction activity is fairly consistent throughout the year, with the exception of a slow-down during the end-of-year holiday period.

The commercial real estate industry has historically experienced cyclicity. The different segments of the industry, such as office, industrial, retail, multi-family, and others, are influenced differently by different factors, and have historically moved through cycles with different timing. The for lease and for sale components of the market also do not necessarily move on the same timing cycle. During the past several quarters transaction activity in the commercial real estate industry has slowed significantly, due to deteriorating economic conditions and due to the credit crunch impacting the availability and cost of debt capital for real estate transactions. We believe these conditions have negatively impacted our business.



**Table of Contents****Results of Operations**

The following table presents our historical operating results as a percentage of revenues for the periods indicated:

|                                                   | <b>Three months<br/>ended June 30,</b> |             | <b>Six months ended June<br/>30,</b> |             |
|---------------------------------------------------|----------------------------------------|-------------|--------------------------------------|-------------|
|                                                   | <b>2009</b>                            | <b>2010</b> | <b>2009</b>                          | <b>2010</b> |
|                                                   | <b>(unaudited)</b>                     |             |                                      |             |
| Revenues                                          | 100.0%                                 | 100.0%      | 100.0%                               | 100.0%      |
| Cost of revenue                                   | 14.4                                   | 15.5        | 14.4                                 | 15.3        |
| Gross margin                                      | 85.6                                   | 84.5        | 85.6                                 | 84.7        |
| Operating expenses                                |                                        |             |                                      |             |
| Sales and marketing                               | 22.0                                   | 21.6        | 22.2                                 | 22.2        |
| Technology and product development                | 13.8                                   | 15.2        | 13.3                                 | 15.4        |
| General and administrative                        | 31.9                                   | 16.8        | 28.6                                 | 19.9        |
| Amortization of acquired intangible assets        | 1.6                                    | 2.5         | 1.5                                  | 2.4         |
| Total operating expenses                          | 69.2                                   | 56.1        | 65.6                                 | 60.0        |
| Income from operations                            | 16.3                                   | 28.4        | 20.0                                 | 24.7        |
| Interest and other (expense) income, net          | 0.5                                    | (1.4)       | 0.3                                  | (1.0)       |
| Income before tax                                 | 16.8                                   | 27.0        | 20.2                                 | 23.7        |
| Income tax expense                                | 7.2                                    | 10.0        | 8.4                                  | 8.8         |
| Net income                                        | 9.6                                    | 17.1        | 11.8                                 | 14.9        |
| Convertible preferred stock accretion of discount | (0.4)                                  | (0.4)       | (0.2)                                | (0.4)       |
| Net income applicable to common stockholders      | 9.3%                                   | 16.6%       | 11.6%                                | 14.5%       |

**Comparison of Three Months Ended June 30, 2009 and 2010***Revenues*

|                            | <b>Three Months Ended June 30,</b> |             |                            | <b>Percent</b> |
|----------------------------|------------------------------------|-------------|----------------------------|----------------|
|                            | <b>2009</b>                        | <b>2010</b> | <b>Increase/(Decrease)</b> | <b>Change</b>  |
|                            | <b>(dollars in thousands)</b>      |             |                            |                |
| Revenues                   | \$ 19,248                          | \$ 19,364   | \$ 116                     | 0.6%           |
| Premium members at June 30 | 71,375                             | 69,368      | (2,007)                    | 2.8%           |

The increase in revenues was due to a combination of higher revenue from our Recent Sales product and the favorable impact of recent acquisitions, primarily the recent acquisition of BizQuest, partially offset by a lower premium membership base in the three months ended June 30, 2010 as compared to the three months ended June 30, 2009 due to the impact of the depressed market conditions in the commercial real estate industry.

We anticipate that revenues may decrease or remain flat in future periods due to the current market conditions in the commercial real estate industry.

*Cost of Revenues*

|                        | Three Months Ended June 30, |                        |          | Percent |
|------------------------|-----------------------------|------------------------|----------|---------|
|                        | 2009                        | 2010                   | Increase | Change  |
|                        |                             | (dollars in thousands) |          |         |
| Cost of revenues       | \$ 2,777                    | \$ 3,001               | \$ 224   | 8.1%    |
| Percentage of revenues | 14.4%                       | 15.5%                  |          |         |

Cost of revenues consists of the expenses associated with the operation of our website, including depreciation of network infrastructure equipment, salaries and benefits of network operations personnel, Internet connectivity and hosting costs. Cost of revenues also includes

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salaries and benefits expenses associated with our data quality, data import and customer support personnel and credit card and other transaction fees relating to processing customer transactions.

The increase in cost of revenues was due primarily to an increase in salaries and benefit costs related to data quality, data import and customer support personnel, which was required in order to support our increased property listing and user activity.

We expect cost of revenues to potentially increase in absolute dollar amounts and as a percentage of revenues, as we continue to invest in current and new products and services.

*Sales and Marketing*

|                        | <b>Three Months Ended June 30,</b> |                               |                 | <b>Percent</b> |
|------------------------|------------------------------------|-------------------------------|-----------------|----------------|
|                        | <b>2009</b>                        | <b>2010</b>                   | <b>Decrease</b> | <b>Change</b>  |
|                        |                                    | <b>(dollars in thousands)</b> |                 |                |
| Sales and marketing    | \$ 4,237                           | \$ 4,191                      | \$ 46           | 1.1%           |
| Percentage of revenues | 22.0%                              | 21.6%                         |                 |                |

Sales and marketing expenses consist of the compensation and associated costs for sales and marketing personnel, advertising expenses as well as public relations and other promotional activities.

The decrease in sales and marketing expenses was due to lower stock-based compensation, which decreased to \$444,000 in the three months ended June 30, 2010 compared to \$637,000 in the three months ended June 30, 2009, partially offset by higher sales compensation costs.

We expect sales and marketing expenses to potentially increase in both absolute dollar amounts and as a percentage of revenues, as we continue to expand our marketing and sales programs to attract and retain customers.

*Technology and Product Development*

|                                    | <b>Three Months Ended June 30,</b> |                               |                 | <b>Percent</b> |
|------------------------------------|------------------------------------|-------------------------------|-----------------|----------------|
|                                    | <b>2009</b>                        | <b>2010</b>                   | <b>Increase</b> | <b>Change</b>  |
|                                    |                                    | <b>(dollars in thousands)</b> |                 |                |
| Technology and product development | \$ 2,654                           | \$ 2,948                      | \$ 294          | 11.1%          |
| Percentage of revenues             | 13.8%                              | 15.2%                         |                 |                |

Technology and product development costs include expenses for the research and development of new products and services, as well as improvements to and maintenance of existing products and services.

The increase in technology and product development expenses was due in part to increases in salaries and related costs associated with the launch of new product enhancements and services and the maintenance of our existing services. Also contributing to the increase was higher stock-based compensation, which increased to \$684,000 in the three months ended June 30, 2010 compared to \$560,000 in the three months ended June 30, 2009.

We expect technology and product development expenses to increase in absolute dollar amounts and as a percentage of revenues, as we continue to invest in current and new products and services, such as our new Property Research Database product.

*General and Administrative*

|                            | <b>Three Months Ended June 30,</b> |                               |                 | <b>Percent</b> |
|----------------------------|------------------------------------|-------------------------------|-----------------|----------------|
|                            | <b>2009</b>                        | <b>2010</b>                   | <b>Decrease</b> | <b>Change</b>  |
|                            |                                    | <b>(dollars in thousands)</b> |                 |                |
| General and administrative | \$ 6,135                           | \$ 3,244                      | \$ 2,891        | 47.1%          |
| Percentage of revenues     | 31.9%                              | 16.8%                         |                 |                |

General and administrative expenses consist primarily of salaries and related expenses for executive, accounting, billing and human resources personnel. These costs also include insurance and professional fees, rent and related

expenses. Professional fees primarily consist of outside legal and audit fees.

The decrease in general and administrative expenses was due primarily to an insurance recovery related to past litigation costs of \$1,186,000 in the three months ended June 30, 2010 compared to litigation costs of \$2,341,000 included in the three months ended June 30, 2009.

We expect general and administrative expenses to increase in absolute dollar amounts and as a percentage of revenues, because we do not expect to receive a material amount of additional insurance recoveries in future periods.

**Table of Contents***Amortization of acquired intangible assets*

|                                            | <b>Three Months Ended June 30,</b> |                               |                 | <b>Percent</b> |
|--------------------------------------------|------------------------------------|-------------------------------|-----------------|----------------|
|                                            | <b>2009</b>                        | <b>2010</b>                   | <b>Increase</b> | <b>Change</b>  |
|                                            |                                    | <b>(dollars in thousands)</b> |                 |                |
| Amortization of acquired intangible assets | \$ 299                             | \$ 481                        | \$ 182          | 60.9%          |
| Percentage of revenues                     | 1.6%                               | 2.5%                          |                 |                |

Amortization of acquired intangible assets is a result of purchased assets or businesses. These purchased transactions result in the creation of acquired intangible assets with finite lives and lead to a corresponding increase in our amortization expense in future periods. We amortize intangible assets over the period of estimated benefit, using a straight-line method and estimated useful lives up to 8 years.

The increase in amortization of acquired intangible assets was due primarily to two new acquisitions in 2010.

We expect amortization of acquired intangible assets to potentially increase in absolute dollar amounts and as a percentage of revenues, as we from time to time expect to continue to acquire businesses.

*Interest and other (expense) income, net*

Interest and other (expense) income decreased by \$359,000 to \$264,000 of expense in the three months ended June 30, 2010, from \$95,000 of income in the three months ended June 30, 2009. The decrease was due primarily to higher losses realized from our long-term investments.

*Income Tax Expense*

We recorded a provision for income taxes of \$1.9 million for the three month period ended June 30, 2010, based upon a 37.0% effective tax rate for the full year of 2010. The effective tax rate is based upon our estimated fiscal 2010 income before the provision for income taxes. To the extent the estimate of fiscal 2010 income before the provision for income taxes changes, our provision for income taxes will change as well.

**Comparison of Six Months Ended June 30, 2009 and 2010***Revenues*

|                            | <b>Six Months Ended June 30,</b> |                               |                 | <b>Percent</b> |
|----------------------------|----------------------------------|-------------------------------|-----------------|----------------|
|                            | <b>2009</b>                      | <b>2010</b>                   | <b>Decrease</b> | <b>Change</b>  |
|                            |                                  | <b>(dollars in thousands)</b> |                 |                |
| Revenues                   | \$ 39,350                        | \$ 38,186                     | \$ 1,164        | 3.0%           |
| Premium members at June 30 | 71,375                           | 69,368                        | 2,007           | 2.8%           |

The decrease in revenues was due primarily to a lower premium membership base due to the impact of the depressed market conditions in the commercial real estate industry, partially offset by higher revenue from our Recent Sales product and the favorable impact of recent acquisitions.

*Cost of Revenues*

|                        | <b>Six Months Ended June 30,</b> |                               |                 | <b>Percent</b> |
|------------------------|----------------------------------|-------------------------------|-----------------|----------------|
|                        | <b>2009</b>                      | <b>2010</b>                   | <b>Increase</b> | <b>Change</b>  |
|                        |                                  | <b>(dollars in thousands)</b> |                 |                |
| Cost of revenues       | \$ 5,669                         | \$ 5,848                      | \$ 179          | 3.2%           |
| Percentage of revenues | 14.4%                            | 15.3%                         |                 |                |

Cost of revenues consists of the expenses associated with the operation of our website, including depreciation of network infrastructure equipment, salaries and benefits of network operations personnel, Internet connectivity and hosting costs. Cost of revenues also includes salaries and benefits expenses associated with our data quality, data import and customer support personnel and credit card and other transaction fees relating to processing customer transactions.

The increase in cost of revenues was due primarily to an increase in salaries and benefit costs related to data quality, data import and customer support personnel, which was required in order to support our increased property listing and user activity.

**Table of Contents***Sales and Marketing*

|                        | <b>Six Months Ended June 30,</b> |                               |                 | <b>Percent</b> |
|------------------------|----------------------------------|-------------------------------|-----------------|----------------|
|                        | <b>2009</b>                      | <b>2010</b>                   | <b>Decrease</b> | <b>Change</b>  |
|                        |                                  | <b>(dollars in thousands)</b> |                 |                |
| Sales and marketing    | \$ 8,744                         | \$ 8,481                      | \$ 263          | 3.0%           |
| Percentage of revenues | 22.2%                            | 22.2%                         |                 |                |

Sales and marketing expenses consist of the compensation and associated costs for sales and marketing personnel, advertising expenses as well as public relations and other promotional activities.

The decrease in sales and marketing expenses was due to lower stock-based compensation, which decreased to \$929,000 in the six months ended June 30, 2010 compared to \$1,236,000 in the six months ended June 30, 2009, partially offset by higher sales compensation costs.

*Technology and Product Development*

|                                    | <b>Six Months Ended June 30,</b> |                               |                 | <b>Percent</b> |
|------------------------------------|----------------------------------|-------------------------------|-----------------|----------------|
|                                    | <b>2009</b>                      | <b>2010</b>                   | <b>Increase</b> | <b>Change</b>  |
|                                    |                                  | <b>(dollars in thousands)</b> |                 |                |
| Technology and product development | \$ 5,214                         | \$ 5,896                      | \$ 682          | 13.1%          |
| Percentage of revenues             | 13.3%                            | 15.4%                         |                 |                |

Technology and product development costs include expenses for the research and development of new products and services, as well as improvements to and maintenance of existing products and services.

The increase in technology and product development expenses was due in part to increases in salaries and related costs associated with the launch of new product enhancements and services and the maintenance of our existing services. Also contributing to the increase was higher stock-based compensation, which increased to \$1,367,000 in the six months ended June 30, 2010 compared to \$1,046,000 in the six months ended June 30, 2009.

*General and Administrative*

|                            | <b>Six Months Ended June 30,</b> |                               |                 | <b>Percent</b> |
|----------------------------|----------------------------------|-------------------------------|-----------------|----------------|
|                            | <b>2009</b>                      | <b>2010</b>                   | <b>Decrease</b> | <b>Change</b>  |
|                            |                                  | <b>(dollars in thousands)</b> |                 |                |
| General and administrative | \$ 11,270                        | \$ 7,615                      | \$ 3,655        | 32.4%          |
| Percentage of revenues     | 28.6%                            | 19.9%                         |                 |                |

General and administrative expenses consist primarily of salaries and related expenses for executive, accounting, billing and human resources personnel. These costs also include insurance and professional fees, rent and related expenses. Professional fees primarily consist of outside legal and audit fees.

The decrease in general and administrative expenses was due primarily to an insurance recovery related to past litigation costs of \$1,186,000 included in the six months ended June 30, 2010 compared to litigation costs of \$3,524,000 included in the six months ended June 30, 2009.

*Amortization of acquired intangible assets*

|                                            | <b>Six Months Ended June 30,</b> |                               |                 | <b>Percent</b> |
|--------------------------------------------|----------------------------------|-------------------------------|-----------------|----------------|
|                                            | <b>2009</b>                      | <b>2010</b>                   | <b>Increase</b> | <b>Change</b>  |
|                                            |                                  | <b>(dollars in thousands)</b> |                 |                |
| Amortization of acquired intangible assets | \$ 601                           | \$ 926                        | \$ 325          | 54.1%          |
| Percentage of revenues                     | 1.5%                             | 2.4%                          |                 |                |

Amortization of acquired intangible assets is a result of purchased assets or businesses. These purchased transactions result in the creation of acquired intangible assets with finite lives and lead to a corresponding increase in our amortization expense in future periods. We amortize intangible assets over the period of estimated benefit, using a straight-line method and estimated useful lives up to 8 years.

The increase in amortization of acquired intangible assets was due primarily to two new acquisitions in 2010.



**Table of Contents***Interest and other (expense) income, net*

Interest and other (expense) income decreased by \$475,000 to \$368,000 of expense in the six months ended June 30, 2010, from \$107,000 of income in the six months ended June 30, 2009. The decrease was due primarily to higher losses realized from our long-term investments.

*Income Tax Expense*

We recorded a provision for income taxes of \$3.3 million for the six month period ended June 30, 2010, based upon a 37.0% effective tax rate for the full year of 2010. The effective tax rate is based upon our estimated fiscal 2010 income before the provision for income taxes. To the extent the estimate of fiscal 2010 income before the provision for income taxes changes, our provision for income taxes will change as well.

**Liquidity and Capital Resources**

The following table summarizes our cash flows:

|                                                 | <b>Six Months Ended<br/>June 30,<br/>2009                  2010<br/>(unaudited)<br/>(in thousands)</b> |          |
|-------------------------------------------------|--------------------------------------------------------------------------------------------------------|----------|
| <b>Cash flow data:</b>                          |                                                                                                        |          |
| Cash provided by operating activities           | \$ 8,605                                                                                               | \$ 8,213 |
| Cash used in investing activities               | (1,481)                                                                                                | (13,763) |
| Cash provided by (used in) financing activities | 48,195                                                                                                 | (23,010) |

As of June 30, 2010, our cash, cash equivalents and short-term investments totaled \$100.5 million, compared to \$120.0 million in cash, cash equivalents and short-term investments as of June 30, 2009. The amount includes \$48.0 million in aggregate net proceeds received on April 14, 2009 pursuant to our sale of Series A convertible preferred stock to certain accredited investors.

Cash equivalents and short-term investments consist of money market funds, and debt securities that we classify as available for sale. Our principal sources of liquidity are our cash, cash equivalents and short-term investments, as well as the cash flow that we generate from our operations. We do not currently have any commercial debt or posted letters of credit.

***Operating Activities***

Net cash provided by operating activities primarily consists of net income adjusted for certain non-cash items, including depreciation, amortization, stock-based compensation, and the effect of changes in working capital. Net cash provided by operating activities was \$8.6 million and \$8.2 million in the six months ended June 30, 2009 and 2010, respectively. The decrease in cash provided by operating activities in the six month period ended June 30, 2010 compared to the six month period ended June 30, 2009 was due to the effect of changes in working capital.

***Investing Activities***

Cash used in investing activities in the six months ended June 30, 2010 of \$13.8 million was attributable to capital expenditures of \$0.8 million for the purchase of computer equipment, office equipment and furniture, the purchase of investments of \$3.0 million, and \$9.9 million for the acquisitions of BizQuest, Reaction Web and a contingent purchase price payment related to the July 2008 acquisition of LandAndFarm.com.

Cash used in investing activities in the six months ended June 30, 2009 of \$1.5 million was attributable to a \$0.2 million contingent purchase price payment related to the July 2008 acquisition of LandAndFarm.com, the purchase of investments of \$0.5 million, and capital expenditures of \$0.8 million for the purchase of computer equipment.

***Financing Activities***

Cash used in financing activities in the six months ended June 30, 2010 of \$23.0 million was primarily attributable to the Company's stock repurchases in the amount of \$23.7 million offset by the net proceeds from the exercise of stock-based awards and the tax benefit from the exercise of stock options.

Cash provided by financing activities in the six months ended June 30, 2009 of \$48.2 million was primarily attributable to \$48.0 million in aggregate net proceeds from the sale of Series A convertible preferred stock to certain accredited investors.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

The primary objective of our investment activities is to preserve principal while at the same time maximizing yields without significantly increasing risk. To achieve this objective, we invest in short-term, high-quality, interest-bearing securities. Our investments in debt securities are subject to interest rate risk. To minimize our exposure to an adverse shift in interest rates, we invest in short-term securities and maintain an

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average maturity of one year or less. If interest rates were to instantaneously increase or decrease by 100 basis points, the change in the fair market value of our short-term investment would not be a material amount to our financial statements. There have not been any material changes during the period covered by this Quarterly Report on Form 10-Q to our primary market risk exposures, or how these exposures are managed.

### **Item 4. Controls and Procedures.**

(a) *Evaluation of disclosure controls and procedures.* Under the supervision and with the participation of our Company's management, including the Chief Executive Officer and Chief Financial Officer, the Company has evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective to provide reasonable assurance that the information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

(b) *Changes in internal control over financial reporting.* There was no change in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

There have been no material changes from legal proceedings as previously disclosed in Part I Item 3 of our Annual Report on Form 10-K for the year ended December 31, 2009 filed with the Securities and Exchange Commission on March 1, 2010.

### **Item 1A. Risk Factors.**

We have updated the risk factors previously disclosed in Part I Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2009, which was filed with the Securities and Exchange Commission on March 1, 2010.

Because of the factors set forth below and elsewhere in this report and in other documents we filed with the SEC, as well as other variables affecting our operating results and financial condition, past financial performance may not be a reliable indicator of future performance, and historical trends should not be used to anticipate results or trends in future periods.

### **Risks Related to Our Business**

***The ongoing uncertainty in the commercial real estate market and overall economy could negatively affect our revenues, expenses and operating results.***

Our business is sensitive to trends in the general economy and trends in commercial real estate markets, which are unpredictable and continue to be volatile and subject to uncertainty. Currently, the credit crisis and depressed debt markets continue to affect the investment sales market, contributing to a significant slow down in our industry, which we anticipate will continue during 2010. These negative general economic conditions could further reduce the overall amount of sale and leasing activity in the commercial real estate industry, and hence the demand for our services. Conditions such as continued tightening in credit markets, reduced industry-wide transaction volumes and negative trends in consumer confidence in global and domestic markets could also further dampen the general economy, and our business. While we believe the increase in the number of distressed sales and resulting decrease in asset prices will eventually translate to greater market activity, the current overall reduction in sales transaction volume continues to negatively impact our business. Therefore, our operating results, to the extent they reflect changes in the broader commercial real estate industry, may be subject to significant fluctuations. Factors that are affecting and could further affect the commercial real estate industry include:

periods of economic slowdown or recession globally, in the United States or locally;

inflation;

flows of capital into or out of real estate investment in the United States or various regions of the United States;

rates of unemployment;

interest rates;

the availability and cost of capital;

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wage and salary levels; or

concerns about any of the foregoing.

We believe that the commercial real estate industry is composed of many submarkets, each of which is influenced differently, and often in opposite ways, by various economic factors. We believe that commercial real estate submarkets can be differentiated based on factors such as geographic location, value of properties, whether properties are sold or leased, and other factors. Each such submarket may be affected differently by, among other things:

economic slowdown or recession;

changes in levels of rent or appreciation of asset values;

changing interest rates;

tax and accounting policies;

the availability and cost of capital;

costs of construction;

increased unemployment;

lower consumer confidence;

lower wage and salary levels;

war, terrorist attacks or natural disasters; or

the public perception that any of these conditions may occur.

For example, as of June 30, 2010, approximately 25% of our premium members were based in California and approximately 10% were based in Florida. Negative conditions in these or other significant commercial real estate submarkets could disproportionately affect our business as compared to competitors who have less or different geographic concentrations of their customers. Additionally, negative general economic conditions could further reduce the overall amount of sale and leasing activity in the commercial real estate industry, and hence the demand for our services. Events such as a war or a significant terrorist attack are also likely to affect the general economy, and could cause a slowdown in the commercial real estate industry and therefore reduce utilization of our marketplace, which could reduce our revenue from premium members. In addition, the occurrence of any of the events listed above could increase our need to make significant expenditures to continue to attract customers to our marketplace.

***Our business is largely based on a subscription model, and accordingly, any failure to increase the number of our customers or retain existing customers could cause our revenues to decline.***

Our customers include premium members of our LoopNet marketplace, LoopLink users, users of our BizBuySell, BizQuest, Cityfeet and LandAndFarm marketplaces, RecentSales subscribers, REApplications users and advertising and lead generation customers. Most of our current revenues are generated by subscription fees paid by our premium members. Our growth depends in large part on increasing the number of our free basic members and then converting them into paying premium members, as well as retaining existing premium members. Either category of members may decide not to continue to use our services in favor of alternate services or because of budgetary constraints or other reasons. Since the fourth quarter of 2007, our average monthly cancellation rate for premium members has exceeded our historical rate of three to five percent. We believe the higher cancellation rate is primarily the result of a significant slow-down in transaction activity in the commercial real estate industry that began in the fourth quarter of 2007, due to deteriorating economic conditions and due to the credit crunch impacting the availability and cost of debt

capital for real estate transactions.

If our existing members choose not to use our services, decrease their use of our services, or change from being premium members to basic members, or we are unable to attract new members, listings on our site could be reduced, search activity on our website could decline, the usefulness of our services could be diminished, and we could incur significant expenses and/or experience declining revenues.

The value of our marketplaces to our customers is dependent on increasing the number of property listings provided by and searches conducted by our members. To grow our marketplaces, we must convince prospective members to use our services. Prospective members may not be familiar with our services and may be accustomed to using traditional methods of listing, searching, marketing and advertising commercial real estate. We cannot assure you that we will be successful in continuing to acquire more members, in continuing to convert free basic members into paying premium members or that our future sales efforts in general will be effective. Further, it is difficult to estimate the total number of active commercial real estate agents, property owners, landlords, buyers and tenants in the United States during any given period. As a result, we do not know the extent to which we have penetrated this market. If we reach the point at which we have attempted to

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sell our services to a significant majority of commercial real estate transaction participants in the United States, we will need to seek additional products and markets in order to maintain our rate of growth of revenues and profitability. ***We rely on our marketing efforts to generate new registered members. If our marketing efforts are ineffective, we could fail to attract new registered members, which could reduce the attractiveness of our marketplace to current and potential customers and lead to a reduction in our revenues.***

We believe that the attractiveness of our services and products to our current and potential customers increases as we attract additional members who provide additional property listings or conduct searches on our marketplace. This is because an increase in the number of our members and the number of listings on our website increases the utility of our website and of its associated search, listing and marketing services. In order to attract new registered members, we rely on our marketing efforts, such as word-of-mouth referrals, direct marketing, online and traditional advertising, sponsoring and attending local industry association events, and attending and exhibiting at industry trade shows and conferences. There is no guarantee that our marketing efforts will be effective. Furthermore, our ability to develop and successfully market our new information products and services may also be important in attracting new registered members. If we are unable to effectively market our existing and new products and services to new customers, or convert existing basic members into premium members, and we are not able to offset any decline in our rate of conversion of basic members to premium members with higher average subscription prices, our revenues and operating results could decline as a result of current premium members failing to renew their premium memberships and potential premium members failing to become premium members.

***If we are unable to obtain or retain listings from commercial real estate brokers, agents, and property owners, our marketplace could be less attractive to current or potential customers, which could result in a reduction in our revenues.***

Our success depends substantially on the number of commercial real estate property listings submitted by brokers, agents and property owners to our online marketplace. The number of listings on our marketplace has grown from approximately 652,000 as of December 31, 2008, to approximately 732,000 as of December 31, 2009, to approximately 766,000 as of June 30, 2010. If agents marketing large numbers of property listings, such as large brokers in key real estate markets, choose not to continue their listings with us, or choose to list them with a competitor, our website would be less attractive to other real estate industry transaction participants, thus resulting in cancelled premium memberships, failure to attract and retain new members, or failure to attract advertising and lead generation revenues.

***We may be unable to compete successfully with our current or future competitors.***

The market to provide listing, searching and marketing services to the commercial real estate industry is highly competitive and fragmented, with limited barriers to entry. Our current or new competitors may adopt certain aspects of our business model, which could reduce our ability to differentiate our services. All of the services which we provide to our customers, including property and business listing, searching, and marketing services and our expansion into information and enabling technology services, are provided separately or in combination to our current or potential customers by other companies that compete with us. These companies, or new market entrants, will continue to compete with us. Listings in the commercial real estate industry are not marketed exclusively through any single channel, and accordingly our competition could aggregate a set of listings similar to ours. Increased competition could result in a reduction in our revenues or our rate of acquisition of new customers, or loss of existing customers or market share, any of which would harm our business, operating results and financial condition.

We compete with CoStar Group, Inc., a provider of information, research and marketing services to the commercial real estate market. Some of the services that CoStar offers directly compete with our product offering. For example, CoStar provides commercial real estate for sale and for lease property listings which compete directly with our online commercial real estate marketplace. CoStar also recently introduced a marketing service which competes directly with our marketing services geared toward the general public.

Several companies, such as Property Line International, Inc., have created online property listing services that compete with us. These companies aggregate property listings obtained through various sources, including from commercial real estate agents. In addition, newspapers typically include on their websites listings of commercial real estate for sale and for lease. If our current or potential customers choose to use these services rather than ours, demand

for our services could decline.

Additionally, the National Association of REALTORS<sup>®</sup>, or NAR, its local boards of REALTORS<sup>®</sup>, its various affiliates, and other third parties have in the past created, and they or others may in the future create, commercial real estate information and listing services. These services could provide commercial real estate for sale and for lease property listings which compete directly with our online commercial real estate marketplace. If they succeed in attracting a significant number of commercial real estate transaction participants, demand for our services may decrease.

Large Internet companies that have large user bases and significantly greater financial, technical and marketing resources than we do, such as eBay Inc. and craigslist, Inc., provide commercial real estate listing or advertising services in addition to a wide variety of other products or services. eBay and craigslist operate real estate listing services which include commercial real estate and operating businesses. Other large Internet companies, such as Google, Yahoo! and Microsoft, have classified listing services which could be used to market and search for commercial real estate property listings. Competition by these companies could reduce demand for our services or require us to make additional expenditures, either of which could reduce our profitability.



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### ***Our current focus on internal and external investments for long term growth may result in flat revenue growth rates and place downward pressure on our operating margin in the near future.***

As part of our initiative to increase our long term value and expand the breadth and depth of services we provide to our customers, we have been increasing the rate of investments in our business, including internal investments in product development, data aggregation and information services, sales and marketing, and external investments such as acquisitions or investments in other companies. For example, as part of our investment in information services, we recently launched the Beta version of our Property Research Database product, which is being provided to our existing Premium Members at no additional cost, and is therefore not currently generating any additional incremental revenue. We also recently made a minority investment in AuctionPoint, an online auction platform for the commercial real brokers. This investment strategy is intended to accelerate our revenue growth and market share gains in the future as activity in the commercial real estate industry shows signs of stabilizing and begins to recover. While we believe this strategy will enable us to capitalize on opportunities we see in our industry and extend our leadership position, we expect our operating margins to experience a downward pressure and our revenue growth rate to be flat in the short term as a result of our planned investments and economic environment. Furthermore, if the industry fails to stabilize or deteriorates further in 2010, such investments may not have their intended effect. If we unable to successfully execute our investment strategy or fail to adequately anticipate potential problems, we may experience further decreases in our revenues and operating margins.

### ***If we are not able to successfully identify or integrate acquisitions or manage our investments, our management's attention could be diverted, and efforts to integrate acquisitions could consume significant resources.***

We have made acquisitions of, and investments in, other companies, and we may in the future further expand our markets and services in part through additional acquisitions of, or investments in, other complementary businesses, services, databases and technologies. For example, in October, 2004, we acquired BizBuySell, an online marketplace for operating businesses for sale, in August, 2007, we acquired Cityfeet.com Inc., in April, 2008, we acquired REApplications, Inc., in July, 2008, we acquired LandAndFarm.com, in January 2010, we acquired BizQuest, and in March 2010, we acquired Reaction Web. We have also made minority investments in two private companies, Xceligent and AuctionPoint, and may make additional investments. Mergers and acquisitions and investments are inherently risky, and we cannot assure you that our acquisitions or investments will be successful. The successful execution of any acquisition and investment strategy will depend on our ability to identify, negotiate, complete and integrate such acquisitions and investments and, if necessary, obtain satisfactory debt or equity financing to fund those acquisitions or investment. Failure to manage and successfully integrate acquired businesses or make successful investments could harm our business. Acquisitions and investment involve numerous risks, including the following:

- difficulties in integrating the operations, technologies, and products of the acquired companies;

- diversion of management's attention from the normal daily operations of our business;

- inability to maintain the key business relationships and the reputations of acquired businesses;

- entry into markets in which we have limited or no prior experience and in which competitors have stronger market positions;

- dependence on unfamiliar affiliates and partners;

- insufficient revenues to offset increased expenses associated with acquisitions;

- reduction or replacement of the sales of existing services by sales of products or services from acquired lines of business;

- responsibility for the liabilities of acquired businesses;

inability to maintain our internal standards, controls, procedures and policies; and

potential loss of key employees of the acquired companies.

We may also incur costs, and divert our management's attention from our business, by pursuing potential acquisitions or other investments which are never consummated.

Although we undertake a due diligence investigation of each business that we acquire, there may be liabilities of the acquired companies that we fail to or are unable to discover during the due diligence investigation and for which we, as a successor owner, may be responsible. In connection with acquisitions, we generally seek to minimize the impact of these types of potential liabilities through indemnities and warranties from the seller, which may in some instances be supported by deferring payment of a portion of the purchase price. However, these indemnities and warranties, if obtained, may not fully cover the liabilities due to limitations in scope, amount or duration, financial limitations of the indemnitor or warrantor or other reasons.

In addition, if we finance or otherwise complete acquisitions or other investments by issuing equity or convertible debt securities, our existing stockholders may be diluted.

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***Our operating results and revenues are subject to fluctuations that may cause our stock price to decline, and our quarterly financial results may be subject to seasonality, each of which could cause our stock price to decline.***

Our revenues, expenses and operating results have fluctuated in the past and are likely to continue to do so in the future. Our revenues, expenses and operating results may fluctuate from quarter to quarter due to factors including those described below and elsewhere in this Quarterly Report on Form 10-Q:

rates of member adoption and retention;

changes in our pricing strategy and timing of changes;

changes in our marketing or other corporate strategies;

our introduction of and investments in new products and services or changes to existing products and services;

the amount and timing of our operating expenses and capital expenditures;

the amount and timing of non-cash stock-based charges;

costs related to acquisitions of businesses or technologies; and

other factors outside of our control.

Our results of operations could vary significantly from quarter to quarter due to the seasonal nature of the commercial real estate industry. The timing of widely observed holidays and vacation periods, particularly slow downs during the end-of-year holiday period, and availability of real estate agents and related service providers during these periods, could significantly affect our quarterly operating results during that period. For example, we have historically experienced a significant decline in the rate of growth of both new memberships and revenues during the fourth quarter.

These fluctuations or seasonality effects could negatively affect our results of operations during the period in question and/or future periods or cause our stock price to decline.

***If we are unable to introduce new or upgraded services, products or enabling technologies that our customers recognize as valuable, we may fail to attract new customers or retain existing customers. Our efforts to develop new and upgraded products and services and technologies could require us to incur significant costs.***

To continue to attract new members to our online marketplace, we may need to continue to introduce new products or services or develop additional enabling technologies. We may choose to develop new products and services independently or choose to license or otherwise integrate content and data from third parties. Developing and delivering these new or upgraded services or products may impose costs and require the attention of our product and technology department and management. This process is costly, and we may experience difficulties in developing and delivering these new or upgraded services or products. In addition, successfully launching and selling a new service or product will require the use of our sales and marketing resources. Efforts to enhance and improve the ease of use, responsiveness, functionality and features of our existing products and services have inherent risks, and we may not be able to manage these product developments and enhancements successfully. If we are unable to continue to develop new or upgraded services or products or develop additional enabling technologies, then our customers may choose not to use our products or services.

***If we are unable to enforce or defend our ownership and use of intellectual property, our business, competitive position and operating results could be harmed.***

The success of our business depends in large part on our intellectual property, and our intellectual property rights, including existing and future trademarks, trade secrets, and copyrights, are and will continue to be valuable and important assets of our business. Our business could be significantly harmed if we are not able to protect the content of our databases and our other intellectual property.

We have taken measures to protect our intellectual property, such as requiring our employees and consultants with access to our proprietary information to execute confidentiality agreements. We also have taken action, and in the future may take additional action, against competitors or other parties who we believe to be infringing our intellectual property. For example, on November 15, 2007 the Company filed a lawsuit against CoStar Group, Inc. and CoStar Realty Information, Inc. in the Superior Court for the State of California, County of Los Angeles, asserting claims for breach of contract and unfair business practices arising out of CoStar's alleged unlawful use of data from the Company's Web site for competitive purposes. All current litigation with CoStar was settled in December 2009, although the Company incurred significant legal costs to protect its intellectual property. We may in the future find it necessary to assert claims regarding our intellectual property. These measures may not be sufficient or effective to protect our intellectual property. These measures could also be expensive and could significantly divert our management's attention from other business concerns.

We also rely on laws, including those regarding patents, copyrights, and trade secrets, to protect our intellectual property rights. Current laws may not adequately protect our intellectual property or our databases and the data contained in them. In addition, legal standards relating

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to the validity, enforceability and scope of protection of proprietary rights in Internet-related businesses are uncertain and evolving, and we cannot assure you of the future viability or value of any of our proprietary rights.

Others may develop technologies that are similar or superior to our technology. Any significant impairment of our intellectual property rights could require us to develop alternative intellectual property, incur licensing or other expenses, or limit our product and service offerings.

### ***We could face liability for information on our website.***

We provide information on our website, including commercial real estate listings, that is submitted by our customers and third parties. We also allow third parties to advertise their products and services on our website and include links to third-party websites. We could be exposed to liability with respect to this information. Customers could assert that information concerning them on our website contains errors or omissions and third parties could seek damages for losses incurred if they rely upon incorrect information provided by our customers or advertisers. We could also be subject to claims that the persons posting information on our website do not have the right to post such information or are infringing the rights of third parties. For example, in 1999, CoStar sued us, claiming that we had directly and indirectly infringed their copyrights in photographs by permitting our members to post those photographs on our website. Although the court issued rulings that were favorable to us in that litigation, other persons might assert similar or other claims in the future. In June 2009, CoStar filed a complaint against us alleging that we have infringed their copyrights and trademarks because photographs bearing CoStar's logo that were posted by third parties allegedly appeared in our RecentSales product. All current litigation with CoStar was settled in December 2009. Among other things, we might be subject to claims that by directly or indirectly providing links to websites operated by third parties, we would be liable for wrongful actions by the third parties operating those websites. Even if these claims do not result in liability to us, we could incur significant costs in investigating and defending against these claims.

The Digital Millennium Copyright Act, or DMCA, allows copyright owners to obtain subpoenas compelling disclosure by an Internet service provider of the names of customers of that Internet service provider. We have been served with such subpoenas in the past, and may in the future be served with additional such subpoenas. Compliance with subpoenas under the DMCA may divert our resources, including the attention of our management, which could impede our ability to operate our business.

Our potential liability for information on our websites or distributed by us to others could require us to implement additional measures to reduce our exposure to such liability, which may require us to expend substantial resources and limit the attractiveness of our online marketplace to users. Our general liability insurance may not cover all potential claims to which we are exposed and may not be adequate to indemnify us for all liability that may be imposed.

### ***If we are unable to convince commercial real estate brokers and other commercial real estate professionals that our online services and products are superior to traditional methods of listing, searching, and marketing commercial real estate, they could choose not to use our marketplace, which could adversely impact our business.***

Our primary source of new customers is participants in the commercial real estate community. Many commercial real estate professionals are used to listing, searching and marketing real estate in traditional and off-line ways, such as through the distribution of print brochures, sharing of written lists, placing signs on properties, word-of-mouth, and newspaper advertisements. Commercial real estate and investment professionals may prefer to continue to use traditional methods or may be slow to adopt and accept our online products and services. If we are not able to continue to persuade commercial real estate participants of the efficacy of our online products and services, they may choose not to use our online marketplace, which could negatively impact our business.

### ***Our business depends on retaining and attracting capable management and operating personnel.***

Our success depends in large part on our ability to retain and attract high-quality management and operating personnel, including our Chief Executive Officer and Chairman of the Board of Directors, Richard J. Boyle, Jr.; our President and Chief Operating Officer, Thomas Byrne; our Chief Financial Officer and Senior Vice President, Finance and Administration, Brent Stumme; our Chief Strategy Officer and Senior Vice President, Corporate Development, Jason Greenman; and our Chief Technology Officer and Senior Vice President, Information Technology, Wayne Warthen. Our current long term business strategy was developed in large part by our senior-level officers that depends in part on their skills and knowledge to implement, and also includes a focus on new growth and investment initiatives that may require additional management expertise to successfully execute our strategy. We may not be able to offset

the impact on our business of the loss of the services of Mr. Boyle or other key officers or employees or recruit additional talent. We have no employment agreements that prevent any of our key personnel from terminating their employment at any time, and we do not maintain any key-person life insurance for any of our personnel.

Furthermore, our business requires skilled technical, management, product and technology, and sales and marketing personnel, who are in high demand and are often subject to competing offers. Competition for qualified employees is intense in our industry, and the loss of a substantial number of qualified employees, or an inability to attract, retain and motivate additional highly skilled employees required for the expansion of our activities, could harm our business. To retain and attract key personnel, we use various measures, including an equity incentive program and incentive bonuses for key executive officers and other employees. We have also entered into change of control severance agreements with our key executive officers, which provide, in part, certain severance benefits and acceleration of unvested equity awards if their employment is terminated in connection with a change of control of the Company. These measures may not be enough to attract and retain the personnel we require to execute our business plan.

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***If we fail to protect confidential information against security breaches, or if our members or potential members are reluctant to use our marketplace because of privacy concerns, we might face additional costs, and activity in our marketplace could decline.***

As part of our membership registration process, we collect, use and disclose personally identifiable information, including names, addresses, phone numbers, credit card numbers and email addresses. Our policies concerning the collection, use and disclosure of personally identifiable information are described on our websites. While we believe that our policies are appropriate and that we are in compliance with our policies, we could be subject to legal claims, government action or harm to our reputation if actual practices fail to comply or are seen as failing to comply with our policies or with local, state or federal laws concerning personally identifiable information or if our policies are inadequate to protect the personally identifiable information that we collect.

Concern among prospective customers regarding our use of the personal information collected on our websites could keep prospective customers from using our marketplace. Industry-wide incidents or incidents with respect to our websites, including misappropriation of third-party information, security breaches, or changes in industry standards, regulations or laws could deter people from using the Internet or our website to conduct transactions that involve the transmission of confidential information, which could harm our business. Under California law and the laws of a number of other states, if there is a breach of our computer systems and we know or suspect that unencrypted personal customer data has been stolen, we are required to inform any customers whose data was stolen, which could harm our reputation and business.

In addition, another California law requires businesses that maintain personal information about California residents in electronic databases to implement reasonable measures to keep that information secure. Our practice is to encrypt all personal information, but we do not know whether our current practice will continue to be deemed sufficient under the California law. Other states have enacted different and sometimes contradictory requirements for protecting personal information collected and maintained electronically. Compliance with numerous and contradictory requirements of the different states is particularly difficult for an online business such as ours which collects personal information from customers in multiple jurisdictions.

Another consequence of failure to comply is the possibility of adverse publicity and loss of consumer confidence were it known that we did not take adequate measures to assure the confidentiality of the personally identifiable information that our customers had given to us. This could result in a loss of customers and revenue that could jeopardize our success. While we intend to comply fully with all relevant laws and regulations, we cannot assure you that we will be successful in avoiding all potential liability or disruption of business in the event that we do not comply in every instance or in the event that the security of the customer data that we collect is compromised, regardless of whether our practices comply or not. If we were required to pay any significant amount of money in satisfaction of claims under these laws or if we were forced to cease our business operations for any length of time as a result of our inability to comply fully with any such laws, our business, operating results and financial condition could be adversely affected. Further, complying with the applicable notice requirements in the event of a security breach could result in significant costs.

***Our services may infringe the intellectual property rights of others and we may be subject to claims of intellectual property rights infringement.***

We may be subject to claims against us alleging infringement of the intellectual property rights of others, including our competitors. Any intellectual property claims, regardless of merit, could be expensive to litigate or settle and could significantly divert our management's attention from other business concerns. For example, on or about April 8, 2008, Real Estate Alliance Ltd. filed a lawsuit against the Company and its subsidiary, Cityfeet.com Inc., in the U.S. District Court for the Central District of California, Western Division, alleging that the Company and Cityfeet.com Inc. have infringed upon certain patents of Real Estate Alliance Ltd.

Our technologies and content may not be able to withstand third-party claims of infringement. If we were unable to successfully defend against such claims, we might have to pay damages, stop using the technology or content found to be in violation of a third party's rights, seek a license for the infringing technology or content, or develop alternative noninfringing technology or content. Licenses for the infringing technology or content may not be available on reasonable terms, if at all. In addition, developing alternative noninfringing technology or content could require

significant effort and expense. If we cannot license or develop technology or content for any infringing aspects of our business, we may be forced to limit our service offerings. Any of these results could reduce our ability to compete effectively and harm our business.

Our trademarks are important to our business. Other companies may own, obtain or claim trademarks that could prevent, limit or interfere with our use of trademarks. If we were unable to use our trademarks, we would need to devote substantial resources toward developing different brand identities.

***Unless we develop, maintain and protect our brand identity, our business may not grow and our financial results may suffer.***

In an effort to obtain additional registered members and increase use of our online marketplace by commercial real estate transaction participants, we intend to continue to pursue a strategy of enhancing our brand both through online advertising and through traditional print media. These efforts can involve significant expense and may not have a material positive impact on our brand identity. In addition, maintaining our brand will depend on our ability to provide products and services that are perceived as being high-value, which we may not be able to implement successfully. If we are unable to maintain and enhance our brand, our ability to attract and retain customers or successfully expand our operations will be harmed.



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### ***Changes in or interpretations of accounting rules and regulations, such as expensing of stock options, could result in unfavorable accounting charges or require us to change our compensation policies.***

Since 2006, we have applied the authoritative guidance on stock-based compensation accounting. The guidance requires that share-based payment transactions with employees be recognized in the financial statements based on their value and recognized as compensation expense over the vesting period. As a result of this guidance, we may choose to reduce our reliance on stock options as a compensation tool. If we reduce our use of stock options and do not adopt other forms of compensation, it may be more difficult for us to attract and retain qualified employees. If we do not reduce our reliance on stock options, our operating expenses would increase. We currently rely on stock options to retain existing employees and attract new employees. Although we believe that our accounting practices are consistent with current accounting pronouncements, changes to or interpretations of accounting methods or policies in the future may require us to adversely revise how our consolidated financial statements are prepared.

### ***If our operating results do not meet the expectations of investors or equity research analysts, our market price may decline and we may be subject to class action litigation.***

It is possible that in the future our operating results will not meet the expectations of investors or equity research analysts, causing the market price of our common stock to decline. In the past, companies that have experienced decreases in the market price of their stock have been subject to securities class action litigation. A securities class action lawsuit against us could result in substantial costs and divert our management's attention from other business concerns.

### ***If our website or our other services experience system failures, our customers may be dissatisfied and our operations could be impaired.***

Our business depends upon the satisfactory performance, reliability and availability of our website. Problems with our website could result in reduced demand for our services. Furthermore, the software underlying our services is complex and may contain undetected errors. Despite testing, we cannot be certain that errors will not be found in our software. Any errors could result in adverse publicity, impaired use of our services, loss of revenues, cost increases or legal claims by customers.

Additionally, our services substantially depend on systems provided by third parties, over whom we have little control. Interruptions in our services could result from the failure of data providers, telecommunications providers, or other third parties. We depend on these third-party providers of Internet communication services to provide continuous and uninterrupted service. We also depend on Internet service providers that provide access to our services. Any disruption in the Internet access provided by third-party providers or any failure of third-party providers to handle higher volumes of user traffic could harm our business.

### ***Our internal network infrastructure could be disrupted or penetrated, which could materially impact our ability to provide our services and our customers' confidence in our services.***

Our operations depend upon our ability to maintain and protect our computer systems, most of which are located in redundant and independent systems in Los Angeles, California and San Francisco, California. In addition, we utilize data centers in Virginia, Texas, Colorado and New York for specific services. While we believe that our systems are adequate to support our operations, our systems may be vulnerable to damage from break-ins, unauthorized access, vandalism, fire, floods, earthquakes, power loss, telecommunications failures and similar events. Although we maintain insurance against fires, floods, and general business interruptions, the amount of coverage may not be adequate in any particular case. Furthermore, any damage or disruption could materially impair or prohibit our ability to provide our services, which could significantly impact our business.

Experienced computer programmers, or hackers, may attempt to penetrate our network security from time to time. Although we maintain a firewall, and will continue to enhance and review our databases to prevent unauthorized and unlawful intrusions, a hacker who penetrates our network security could misappropriate proprietary information or cause interruptions in our services. We might be required to expend significant capital and resources to protect against, or to alleviate, problems caused by hackers. We also may not have a timely remedy against a hacker who is able to penetrate our network security. In addition to purposeful security breaches, the inadvertent transmission of computer viruses could expose us to litigation or to a material risk of loss. Any of these incidents could materially impact our ability to provide our services as well as materially impact the confidence of our customers in our services,

either of which could significantly impact our business.

***We may be subject to regulation of our advertising and customer solicitation or other newly-adopted laws and regulations.***

As part of our membership registration process, our customers agree to receive emails and other communications from us. However, we may be subject to restrictions on our ability to communicate with our customers through email and phone calls. Several jurisdictions have proposed or adopted privacy-related laws that restrict or prohibit unsolicited email or spam. These laws may impose significant monetary penalties for violations. For example, the CAN-SPAM Act of 2003, or CAN-SPAM, imposes complex and often burdensome requirements in connection with sending commercial email. Key provisions of CAN-SPAM have yet to be interpreted by the courts. Depending on how it is interpreted, CAN-SPAM may impose burdens on our email marketing practices or services we offer or may offer. Although CAN-SPAM is thought to have pre-empted state laws governing unsolicited email, the effectiveness of that preemption is likely to be tested in court challenges. If any of those challenges are successful, our business may also be subject to state laws and regulations that may further restrict our email marketing practices and the services we may offer. The scope of those regulations is unpredictable. Compliance with laws and regulations of different jurisdictions imposing different standards and requirements is very burdensome for an online business. Our business, like most online businesses, offers products and services to customers in multiple state jurisdictions. Our business efficiencies and economies

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of scale depend on generally uniform service offerings and uniform treatment of customers. Compliance requirements that vary significantly from jurisdiction to jurisdiction impose an added cost to our business and increased liability for compliance deficiencies. In addition, laws or regulations that could harm our business could be adopted, or reinterpreted so as to affect our activities, by the government of the United States, state governments, regulatory agencies or by foreign governments or agencies. This could include, for example, laws regulating the source, content or form of information or listings provided on our websites, the information or services we provide or our transmissions over the Internet. Violations or new interpretations of these laws or regulations may result in penalties or damage our reputation or could increase our costs or make our services less attractive.

An important aspect of the new Internet-focused laws is that where federal legislation is absent, states have begun to enact consumer-protective laws of their own and these vary significantly from state to state. Thus, it is difficult for any company to be sufficiently aware of the requirements of all applicable state laws, and it is further difficult or impossible for any company to fully comply with their inconsistent standards and requirements. In addition to the consequences that could result from violating one or another state's laws, the cost of attempting to comply will be considerable. Also, as our business grows to be world-wide, we will be required to comply with the laws of foreign countries, and the costs of that compliance effort will be considerable.

***Our stock price may be volatile and you may be unable to sell your shares at or above the purchase price.***

The market price of our common stock could be subject to wide fluctuations in response to, among other things, the risk factors described in this section of this Quarterly Report on Form 10-Q, and other factors beyond our control, such as fluctuations in the valuation of companies perceived by investors to be comparable to us.

Furthermore, the stock markets have experienced price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies. These broad market and industry fluctuations, as well as general economic, political and market conditions, such as recessions, interest rate changes or international currency fluctuations, may negatively affect the market price of our common stock.

In the past, many companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. We may be the target of this type of litigation in the future. Securities litigation against us could result in substantial costs and divert our management's attention from other business concerns, which could seriously harm our business.

***Our principal stockholders, executive officers and directors own a significant percentage of our stock, and as a result, the trading price for our shares may be depressed and these stockholders can take actions that may be adverse to your interests.***

Our executive officers and directors and entities affiliated with them, in the aggregate, beneficially own approximately 34% of our outstanding shares of common stock. This significant concentration of share ownership may adversely affect the trading price for our common stock because investors often perceive disadvantages in owning stock in companies with controlling stockholders. These stockholders, acting together, may have the ability to exert control over all matters requiring approval by our stockholders, including the election and removal of directors and any proposed merger, consolidation or sale of all or substantially all of our assets. In addition, these stockholders who are executive officers or directors, or who have representatives on our Board of Directors, could dictate the management of our business and affairs. This concentration of ownership could have the effect of delaying, deferring or preventing a change in control, or impeding a merger or consolidation, takeover or other business combination that could be favorable to our other stockholders.

***Our charter documents and Delaware law could prevent a takeover that stockholders consider favorable and could also reduce the market price of our stock.***

Our amended and restated certificate of incorporation and our bylaws contain provisions that could delay or prevent a change in control of our company. These provisions could also make it more difficult for stockholders to elect directors and take other corporate actions. These provisions include:

- providing for a classified board of directors with staggered, three-year terms;

- not providing for cumulative voting in the election of directors; or imposing a majority voting standard;

authorizing the board to issue, without stockholder approval, preferred stock rights senior to those of common stock;

prohibiting stockholder action by written consent;

limiting the persons who may call special meetings of stockholders; and

requiring advance notification of stockholder nominations and proposals.

In addition, the provisions of Section 203 of the Delaware General Corporation Laws govern us. While we have waived the application of Section 203 of the Delaware General Corporation Laws with respect to the investors who acquired shares of our Series A convertible preferred stock in the April 2009 private placement, these provisions may otherwise prohibit large stockholders, in particular those owning 15% or more of our outstanding voting stock, from merging or combining with us for a certain period of time.

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These and other provisions in our amended and restated certificate of incorporation, our bylaws and under Delaware law could discourage potential takeover attempts, reduce the price that investors might be willing to pay for shares of our common stock in the future and result in the market price being lower than it would be without these provisions.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.*****Issuer Purchases of Equity Securities***

Stock repurchase activity during the three months ended June 30, 2010 was as follows (dollars in thousands except per share amounts):

|              |                | Total Number<br>of Shares<br>Purchased (#) | Average<br>Price Paid<br>per<br>Share (\$) | Total Number<br>of<br>Purchased as<br>Part<br>of Publicly<br>Announced<br>Plans or<br>Programs (#) | Approximate<br>Dollar<br>Value of Shares<br>that<br>May Yet Be<br>Purchased<br>Under the Plans<br>or<br>Programs (\$) |
|--------------|----------------|--------------------------------------------|--------------------------------------------|----------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|
| Period       |                | (1)                                        |                                            |                                                                                                    | (1)                                                                                                                   |
| April 1      | April 30, 2010 | 0                                          | N/A                                        | 0                                                                                                  | \$ 72,075                                                                                                             |
| May 1        | May 31, 2010   | 528,624                                    | \$ 10.85                                   | 528,624                                                                                            | \$ 66,340                                                                                                             |
| June 1       | June 30, 2010  | 1,460,582                                  | \$ 11.98                                   | 1,460,582                                                                                          | \$ 48,845                                                                                                             |
| Total shares |                | 1,989,206                                  | \$ 11.68                                   | 1,989,206                                                                                          |                                                                                                                       |

- (1) The shares repurchased were under our stock repurchase program that was announced on February 5, 2008 with an authorized level of \$50.0 million. An additional authorized level of \$50.0 million was announced on July 30, 2008. As of December 31, 2009, \$45.4 million remained available for further

purchases under the program. In February 2010, an additional authorized level of \$29.6 million was approved, bringing to \$75.0 million the total amount of authorized common stock repurchases.

This program is subject to business and market conditions, and may be suspended or discontinued at any time.

Repurchases may also be made under a Rule 10b5-1 plan, which would permit shares to be repurchased when the Company might otherwise be precluded from doing so under securities laws.

**Item 6. Exhibits.**

Exhibits:

31.1 Rule 13a-14(a) Certification (CEO)

31.2 Rule 13a-14(a) Certification (CFO)

32.1 Section 1350 Certification (CEO)

32.2 Section 1350 Certification (CFO)

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**SIGNATURES**

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

**LOOPNET, INC.**

Date: August 6, 2010

By: /s/ Richard J. Boyle, Jr.  
Richard J. Boyle, Jr.  
Chief Executive Officer, and Chairman  
of the Board of Directors  
Principal Executive Officer

Date: August 6, 2010

By: /s/ Brent Stumme  
Brent Stumme  
Chief Financial Officer and Senior Vice  
President, Finance and Administration  
Principal Financial or Accounting  
Officer

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**EXHIBIT INDEX**

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