INFOSPACE INC
Form 10-Q
August 09, 2007
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2007

or

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

Commission File Number: 0-25131

INFOSPACE, INC.

(Exact name of registrant as specified in its charter)

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

601 108th Avenue NE, Suite 1200	
Bellevue, Washington	**98004**
(Address of principal executive offices)	**(Zip Code)**

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

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

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

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes x No

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

Class	Outstanding at August 3, 2007
Common Stock, Par Value $.0001	33,170,315

Table of Contents

INFOSPACE, INC.

FORM 10-Q

TABLE OF CONTENTS

PART I FINANCIAL INFORMATION

Item 1.	Financial Statements	
	Unaudited Condensed Consolidated Balance Sheets as of June 30, 2007 and December 31, 2006	3
	Unaudited Condensed Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2007 and 2006	4
	Unaudited Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2007 and 2006	5
	Notes to Unaudited Condensed Consolidated Financial Statements	6
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	12
	Overview	12
	Results of Operations for the Three and Six Months Ended June 30, 2007 and 2006	16
	Liquidity and Capital Resources	20
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	22
Item 4.	Controls and Procedures	22
	PART II OTHER INFORMATION	
Item 1.	Legal Proceedings	22
Item 1A.	Risk Factors	23
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	34
Item 3.	Defaults Upon Senior Securities	34
Item 4.	Submission of Matters to a Vote of Security Holders	34
Item 5.	Other Information	34
Item 6.	Exhibits	37
Signature		38

Table of Contents

Item 1. Financial Statements

INFOSPACE, INC.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(amounts in thousands, except share data)

	June 30, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 110,342	$ 163,505
Short-term investments, available-for-sale	87,458	238,444
Accounts receivable, net of allowance of $1,263 and $1,240	60,820	78,742
Other receivables	2,836	3,402
Prepaid expenses and other current assets	11,763	14,753
Total current assets	273,219	498,846
Property and equipment, net	39,993	33,212
Goodwill	104,424	104,424
Other intangible assets, net	16,095	19,565
Deferred tax assets, net	100,771	101,571
Other long-term assets	9,206	8,221
Total assets	$ 543,708	$ 765,839
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 13,515	$ 13,031
Accrued expenses and other current liabilities	43,382	61,156
Short-term deferred revenue	9,271	6,708
Total current liabilities	66,168	80,895
Long-term liabilities:		
Other liabilities and long-term deferred revenue	626	877
Deferred tax liabilities	5,502	5,502
Total long-term liabilities	6,128	6,379
Total liabilities	72,296	87,274
Commitments and contingencies (Note 5)		
Stockholders equity:		
Common stock, par value $.001 authorized, 900,000,000 shares; issued and outstanding, 33,124,379 and 31,392,862 shares	3	3
Additional paid-in capital	1,534,423	1,712,897
Accumulated deficit	(1,064,283)	(1,035,613)
Accumulated other comprehensive income	1,269	1,278
Total stockholders equity	471,412	678,565
Total liabilities and stockholders equity	$ 543,708	$ 765,839

See accompanying notes to unaudited Condensed Consolidated Financial Statements.

Table of Contents

INFOSPACE, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(amounts in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Revenues	$ 70,530	$ 95,846	$ 157,173	$ 186,120
Operating expenses:				
Content and distribution	28,904	46,121	70,521	87,733
Systems and network operations	7,484	7,880	14,209	14,988
Product development	15,882	12,467	30,624	21,775
Sales and marketing	11,153	12,567	20,102	22,130
General and administrative	35,099	12,547	48,793	26,633
Depreciation	4,809	3,457	9,400	6,774
Amortization of intangible assets	1,668	3,611	3,470	7,319
Restructuring and other, net	(1,669)		(2,502)	
Total operating expenses	103,330	98,650	194,617	187,352
Operating loss	(32,800)	(2,804)	(37,444)	(1,232)
Other income, net	4,384	4,723	9,575	8,595
Income (loss) before income taxes	(28,416)	1,919	(27,869)	7,363
Income tax benefit (provision)	286	(900)	(801)	(3,339)
Net income (loss)	$ (28,130)	$ 1,019	$ (28,670)	$ 4,024
Earnings (loss) per share Basic	$ (0.86)	$ 0.03	$ (0.89)	$ 0.13
Earnings (loss) per share Diluted	$ (0.86)	$ 0.03	$ (0.89)	$ 0.12
Weighted average shares outstanding used in computing basic net income (loss) per share	32,626	31,239	32,047	31,162
Weighted average shares outstanding used in computing diluted net income (loss) per share	32,626	32,931	32,047	32,925
Other comprehensive income (loss):				
Net income (loss)	$ (28,130)	$ 1,019	$ (28,670)	$ 4,024
Foreign currency translation adjustment	(5)	153	19	227
Net unrealized gain (loss) on investments	(12)	(86)	(28)	173
Comprehensive income (loss)	$ (28,147)	$ 1,086	$ (28,679)	$ 4,424

See accompanying notes to unaudited Condensed Consolidated Financial Statements.

Table of Contents

INFOSPACE, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(amounts in thousands)

	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Operating activities:		
Net income (loss)	$ (28,670)	$ 4,024
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	12,870	14,093
Stock-based compensation	16,097	8,744
Deferred income taxes	800	2,765
Gain on sale of assets	(3,313)	
Restructuring	811	
Other	384	78
Cash provided (used) by changes in operating assets and liabilities:		
Accounts receivable	17,713	7,039
Other receivables	2,189	408
Prepaid expenses and other current assets	3,042	2,242
Other long-term assets	1,015	(2,315)
Accounts payable	(1,959)	(1,701)
Accrued expenses and other current and long-term liabilities	(19,075)	2,524
Deferred revenue	2,306	119
Net cash provided by operating activities	4,210	38,020
Investing activities:		
Purchases of property and equipment	(13,847)	(10,082)
Proceeds from the sale of assets	2,223	33
Loan to equity investee	(2,000)	
Proceeds from sales and maturities of investments	225,480	231,263
Purchases of investments	(74,523)	(233,053)
Net cash provided (used) by investing activities	137,333	(11,839)
Financing activities:		
Dividend paid	(208,203)	
Proceeds from stock option and warrant exercises	12,756	2,564
Proceeds from issuance of stock through employee stock purchase plan	741	943
Net cash provided (used) by financing activities	(194,706)	3,507
Net increase (decrease) in cash and cash equivalents	(53,163)	29,688
Cash and cash equivalents:		
Beginning of period	163,505	153,013
End of period	$ 110,342	$ 182,701

See accompanying notes to unaudited Condensed Consolidated Financial Statements.

Table of Contents

INFOSPACE, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. The Company and Basis of Presentation

InfoSpace, Inc. (the Company or InfoSpace) develops tools and technologies that assist consumers with finding content and information on the Internet or mobile phone. The Company offers online search and directory services that enable Internet users to locate information, merchants, individuals, and products online. The Company offers search and directory services through its Web sites as well as through the Web properties of distribution partners. The Company also delivers data technology solutions, consulting, and management services for the mobile operator market, including portal, storefront, search, and messaging solutions. In addition, through June 30, 2007, the Company provided mobile media content products, including ringtones, graphics, and games to subscribers of its mobile customers.

The accompanying unaudited Condensed Consolidated Financial Statements include all adjustments, consisting of normal recurring adjustments that, in the opinion of management, are necessary to present fairly the financial information set forth herein. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) have been condensed or omitted pursuant to the rules and regulations of the U.S. Securities and Exchange Commission. Results of operations for the three and six months ended June 30, 2007 are not necessarily indicative of future financial results. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts may differ, perhaps materially, from these financial estimates.

Investors should read these interim financial statements and related notes in conjunction with the audited financial statements and related notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2006.

2. Income Taxes

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. (FIN) 48, *Accounting for Uncertainty in Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

The Company adopted FIN 48 on January 1, 2007. As a result of the adoption, the Company did not recognize a change in the liability for unrecognized tax benefits. Had the Company recognized a change in the liability for unrecognized tax benefits it would have recorded an adjustment to the January 1, 2007 balance in accumulated deficit. The balance of unrecognized tax benefits at January 1, 2007 was $18.8 million, which, if recognized, would affect the effective tax rate.

The amount of unrecognized tax benefits may change during the next twelve months; however, any change is not expected to have a material impact on the results of operations or the financial position of the Company.

The Company and one or more of its subsidiaries files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2002, although net operating loss carryforwards and tax credit carryforwards from any year are subject to examination and adjustment for at least three years following the year in which they are fully utilized. As of June 30, 2007, no significant adjustments have been proposed relative to the Company s tax positions.

The Company has recognized immaterial interest and penalties related to unrecognized tax benefits in interest expense and operating expenses, respectively, as of January 1, 2007 and in the three and six months ended June 30, 2007.

Table of Contents

3. Stock-Based Compensation

The Company has included the following amounts for stock-based compensation cost, including the cost related to the Employee Stock Purchase Plan (ESPP), in the accompanying unaudited Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2007 and 2006 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Systems and network operations	$ 746	$ 464	$ 1,300	$ 654
Product development	2,023	714	3,648	1,129
Sales and marketing	2,412	1,509	4,504	2,551
General and administrative	3,631	1,948	6,645	4,410
Total	$ 8,812	$ 4,635	$ 16,097	$ 8,744

To estimate the compensation cost that was recognized under Statement of Financial Accounting Standards (SFAS) No. 123(R), *Share-Based Payment*, for the three and six months ended June 30, 2007 and 2006, the Company used the fair value at date of grant for Restricted Stock Units (RSUs) and the Black-Scholes option-pricing model with the following weighted-average assumptions for its stock option and ESPP incentive plans:

	Employee Stock Option Plans				Employee Stock Purchase Plan	
	Three Months Ended June 30,		Six Months Ended June 30,		Three and Six Months Ended June 30,	
	2007	2006	2007	2006	2007	2006
Risk-free interest rate	4.90%	4.78%	4.87%	4.70%	5.12%	4.13%
Expected dividend yield	0%	0%	0%	0%	0%	0%
Volatility	48%	61%	50%	63%	41%	35%
Expected life	2.2 years	2.6 years	2.5 years	2.7 years	6 months	6 months

4. Net Income (Loss) Per Share

Basic net income (loss) per share is computed using the weighted average number of common shares outstanding during the period. Diluted net income per share is computed using the weighted average number of common and potentially dilutive shares outstanding during the period. Potentially dilutive shares consist of the incremental common shares issuable upon the exercise of outstanding stock options and warrants using the treasury stock method. Potentially dilutive shares are excluded from the computation of earnings per share if their effect is antidilutive. The Company had a net loss for the three and six months ended June 30, 2007, therefore no dilutive stock options or warrants are included in the computation of diluted loss per share for the three and six months ended June 30, 2007.

The treasury stock method calculates the dilutive effect for stock options and warrants whose exercise price is less than the average stock price during the period presented. The number of weighted average shares outstanding and dilutive stock options and warrants for the three and six months ended June 30, 2007 and 2006 are shown below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Weighted average common shares outstanding, basic	32,626,290	31,238,796	32,046,696	31,161,521
Dilutive stock options and warrants		1,692,302		1,763,189
Weighted average common shares outstanding, diluted	32,626,290	32,931,098	32,046,696	32,924,710

For the three and six months ended June 30, 2007, stock option, RSU, and warrant equivalents of 1,562,699 and 1,849,138, respectively, were excluded from the calculation because they were antidilutive due to the net losses in those periods. Additionally, stock options to purchase 4,791,412 and 5,367,313 shares in the three and six months ended June 30, 2007, respectively, were outstanding but not included in the computation of dilutive shares because the exercise price of the stock options was greater than the average share price of the common shares during the period. Stock options to purchase 5,208,390 and 4,720,885 shares in the three and six months ended June 30, 2006, respectively, were outstanding but not included in the computation of dilutive shares because the exercise price of the stock options was greater than the average share price of the common shares during the period. In addition, excluded from the calculation of potentially dilutive shares for the three and six months ended June 30, 2007 was a Company grant of 1.2 million RSUs to its employees in July 2007.

Table of Contents

5. Commitments and Contingencies

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

	Remainder of 2007	2008	2009	2010	2011	2012	Thereafter	Total
Operating lease commitments, net of sublease income	$ 2,962	$ 3,305	$ 4,476	$ 4,263	$ 4,175	$ 3,894	$ 657	$ 23,732
Guaranteed minimum revenue share payments	6,826	5,615						12,441
Total	$ 9,788	$ 8,920	$ 4,476	$ 4,263	$ 4,175	$ 3,894	$ 657	$ 36,173

As of June 30, 2007, the Company has pledged $4.2 million as collateral for standby letters of credit and bank guaranties for certain of its property leases, which is primarily included in Other long-term assets. For certain of the Company s revenue share agreements with its Online distribution partners, the Company is required to make non-cancelable guaranteed minimum revenue share payments to those partners over the term of the respective agreements.

Litigation

On January 11, 2007, EMI Entertainment World, Inc. (EMI) and its associated music publishers filed a lawsuit against the Company and several alleged subsidiaries or predecessors-in-interest in the United States District Court for the Southern District of New York. The plaintiffs initially charged that the Company breached two ringtone license agreements by underpaying royalties, fraudulently reported the amount of royalties owed, and infringed the plaintiffs copyrights by making unlicensed use of the plaintiffs works. The plaintiffs claimed in excess of $10 million in damages for the alleged breaches of contract, unspecified compensatory and punitive damages for the alleged fraud, and in excess of $100 million in statutory damages for alleged copyright infringement. After a hearing on a proposed motion to dismiss, EMI filed an amended complaint striking the fraud claim and the correlated requests for compensatory and punitive damages, and reducing the copyright infringement statutory damages claim from in excess of $100 million to many millions of dollars. The lawsuit is at its initial stages and the Company is conducting its factual investigation. Based on its knowledge to date, the Company believes that the plaintiffs claims are without merit and that it has meritorious defenses to them and intends to vigorously defend the suit, however, litigation is inherently uncertain and the Company may not prevail in this matter.

Other

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

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

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

6. Restructuring and other, net

Restructuring charges were $378,000 for the three months ended June 30, 2007 and $811,000 for the six months ended June 30, 2007. There were no restructuring charges for the three and six months ended June 30, 2006.

In September 2006, the Company announced that one of its carrier partners intended to develop direct licensing relationships with the major record labels beginning in 2007. The Company anticipated that such direct relationships between the carrier and content providers would have a material negative impact on its revenues and operating results. As a result, the Company committed to a plan to make operational changes to its business to align operational focus and costs with expected future revenues. The plan included a reduction in the Company s workforce and consolidation of facilities. The Company also suspended investment in mobile media content initiatives and, accordingly, as of June 30, 2007 has substantially reduced its mobile media content product offerings. As a result of implementing the plan, the Company has recorded an aggregate charge of $63.1 million in Restructuring between September of 2006 and June of 2007.

Table of Contents

In future periods, adjustments and additions are expected to be made to the amounts recorded.

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

	Three Months Ended June 30, 2007	Six Months Ended June 30, 2007
Employee separation costs	$ 472	$ 361
Stock-based compensation expense (benefit)	86	(68)
Losses on contractual commitments	61	473
Impairment of long-lived assets	52	52
Estimated future lease losses	(370)	(84)
Other	77	77
	$ 378	$ 811

At June 30, 2007, the accrued liability associated with the restructuring related charges was $2.8 million and consisted of the following (in thousands):

	Employee separation	Contractual commitments	Facility abandonment	Total
Liability at December 31, 2006	$ 5,934	$ 2,838	$ 1,450	$ 10,222
Restructuring accrual	87	47	618	752
Adjustments	(83)		(447)	(530)
Payments in three months ended March 31, 2007	(4,510)	(1,394)	(1,421)	(7,325)
Liability at March 31, 2007	1,428	1,491	200	3,119
Restructuring accrual	1,060		193	1,253
Adjustments	(587)	(360)	49	(898)
Payments in three months ended June 30, 2007	(438)	(20)	(195)	(653)
Liability at June 30, 2007	$ 1,463	$ 1,111	$ 247	$ 2,821

The Company expects to incur additional restructuring charges in 2007 of less than $1 million related to initiatives identified to date that have not yet been recognized in the accompanying unaudited Condensed Consolidated Statements of Operations.

Other, net consists of costs and/or charges that are not directly associated with other revenues or operating expense classifications. Other, net of $2.1 million and $3.3 million for the three and six months ended June 30, 2007, respectively, consisted of the gain on sale of assets related to mobile media operations. There were no Other, net charges in the three and six months ended June 30, 2006.

7. Dividend

On May 2, 2007, the Company s Board of Directors declared a special cash distribution by means of a dividend on the Company s common stock of $6.30 per share. The dividend was paid on May 28, 2007 with respect to all shares of common stock outstanding at the close of business on May 18, 2007. On May 18, 2007, there were 33.1 million shares outstanding and, based on those shares, the total amount of the cash distribution was $208.2 million.

Additionally, on May 2, 2007, the Company s Board of Directors approved a plan to compensate employees and directors that hold in-the-money options to purchase shares of common stock and RSUs for the reduction in value of these awards due to the special cash distribution. The compensation was a combination of cash and issuance of additional RSUs and the amount was based on, among other factors, the average trading price of the Company s stock before and after the ex-dividend date and the in-the-money amount for options to purchase shares of common stock. During the three and six months ended June 30, 2007, a cash payment of $22.3 million was made and recognized as expense for vested in-the-money options and 663,940 RSUs with a fair value of $15.1 million were granted for unvested in-the-money options and RSUs that will be expensed over the vesting period of such RSUs. The vesting schedules for RSUs granted under this plan are the same as the existing awards for which they are granted.

Table of Contents

8. Segment Disclosures

SFAS No. 131*, Disclosures about Segments of an Enterprise and Related Information*, establishes standards for the way that companies report information about operating segments in annual financial statements. It also establishes standards for related disclosures about products and services, geographic areas, and major customers.

In January 2007, the Company realigned its operations and began to measure its results of reportable segments based on operating income or loss before Depreciation, Amortization of intangible assets, Stock-based compensation expense, Restructuring, and Other charges, net. The Company refers to this measure as segment income (loss). Certain indirect expenses are allocated to the reportable business units based on internal measurements. The Company does not allocate certain indirect general and administrative expenses, income taxes, gains (losses) on investments or interest and other income to the reportable business units.

For each segment, the historical financial results for 2006 are presented in a manner consistent with the Company s new measures for reportable segments information. The revised financial information for the new segment reporting is not indicative of how the Company operated or managed its business in the past and is different than the segment results previously presented.

Information on reportable segments currently presented to the Company s chief operating decision maker and a reconciliation to consolidated net income (loss) for the three and six months ended June 30, 2007 and 2006 are presented below (in thousands). The Company does not account for, and does not report to management, its assets or capital expenditures by segment.

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Online				
Revenue	$ 39,742	$ 50,373	$ 84,782	$ 96,503
Content and distribution expenses	13,837	18,122	30,154	34,397
Operating expenses	10,112	9,419	20,823	19,213
Segment income	15,793	22,832	33,805	42,893
Mobile				
Revenue	30,788	45,473	72,391	89,617
Content and distribution expenses	15,067	27,999	40,367	53,336
Operating expenses	19,330	25,140	39,030	44,407
Segment loss	(3,609)	(7,666)	(7,006)	(8,126)
Total				
Total revenues	70,530	95,846	157,173	186,120
Total content and distribution expenses	28,904	46,121	70,521	87,733
Total segment operating expenses	29,442	34,559	59,853	63,620
Total segment income	12,184	15,166	26,799	34,767
Corporate				
Operating expenses	31,364	6,267	37,778	13,162
Depreciation	4,809	3,457	9,400	6,774
Amortization of intangible assets	1,668	3,611	3,470	7,319
Stock-based compensation	8,812	4,635	16,097	8,744
Restructuring and other, net	(1,669)		(2,502)	
Other income, net	(4,384)	(4,723)	(9,575)	(8,595)
Income tax provision (benefit)	(286)	900	801	3,339
Total consolidated net income (loss)	$ (28,130)	$ 1,019	$ (28,670)	$ 4,024

9. Recent Accounting Pronouncements

The Company adopted FIN 48 on January 1, 2007. Additionally, in May 2007, the FASB published FASB Staff Position (FSP) FIN 48-1, *Definition of Settlement in FIN 48*. FSP FIN 48-1 is an amendment to FIN 48 and clarifies how an enterprise should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. As of the adoption date of FIN 48, the Company s accounting is consistent with the guidance in FSP FIN 48-1.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities including an amendment to SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities.* SFAS No. 159 permits entities to measure certain financial assets and financial liabilities at fair value. SFAS No. 159 requires

Table of Contents

prospective application and is effective for fiscal years beginning after November 15, 2007; however, early adoption is allowed with certain conditions. The Company is currently evaluating the provisions of SFAS No. 159 to determine what effect its adoption on January 1, 2008 will have on the Company s financial position, cash flows, and results of operations.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosure of fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements and accordingly, does not require any new fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently evaluating the provisions of SFAS No. 157 to determine what effect its adoption on January 1, 2008 will have on the Company s financial position, cash flows, and results of operations.

Table of Contents

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

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

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

statements regarding potential liability from contractual relationships.

Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause our results, levels of activity, performance, achievements and prospects, and those of the wireless and Internet industries generally, to be materially different from those expressed or implied by such forward-looking statements. These risks, uncertainties and other factors include, among others, those discussed below and in Item 1A. of Part II, Risk Factors , and in our reports filed with the Securities and Exchange Commission, including our annual report on Form 10-K for the year ended December 31, 2006.

Overview

InfoSpace, Inc. (InfoSpace , our or we) develops tools and technologies that assist consumers with finding content and information on the Internet or mobile phone. We offer online search and directory services that enable Internet users to locate information, merchants, individuals, and products online. We offer search and directory services through our Web sites, Dogpile.com, Switchboard.com, InfoSpace.com, Webcrawler.com, MetaCrawler.com, and Zoo.com, as well as through the Web properties of distribution partners. Partner versions of our search and directory services are generally private-labeled and delivered with each distribution partner s unique requirements.

We also deliver data technology solutions, consulting, and management services for the mobile operator market, including portal, storefront, search, and messaging solutions. In addition, through June 30, 2007, we provided mobile media content products, including ringtones, graphics, and games to subscribers of our mobile customers. Through our products, content and service offerings, our mobile operator partners are able to aggregate, configure and customize the services they offer under their own brand and deliver them to their subscribers. In September 2006, as a result of being informed by one of our carrier partners that it intended to develop direct relationships for mobile ringtone content with the major record labels beginning in 2007, we committed to a plan to make operational changes to our business to align operational focus and costs with expected future revenues. The restructuring plan, which was substantially completed as of June 30, 2007, included a reduction in our workforce, consolidation of our facilities, a suspension of our investment in mobile media content initiatives, and a substantial reduction of our mobile media content product offerings.

We were founded in 1996 and are incorporated in the state of Delaware. Our principal corporate office is located in Bellevue, Washington. We also have offices in Westborough, Massachusetts; Woking, United Kingdom; and Papendrecht, The Netherlands. Our common stock is listed on the Nasdaq Global Select Market under the symbol INSP.

In early 2007, as a result of our operational changes described above, we realigned our operations into two business units, Online and Mobile. As part of that realignment, we changed our segment reporting to better reflect the performance of our company. Given this change in our organizational structure, for each segment the historical financial results for quarters in 2006 are presented in a manner consistent with our new reporting segments. See Note 8 to our unaudited Condensed

Consolidated Financial Statements for further information regarding our segments. The revised financial information for the new segment reporting was prepared for comparative purposes and may not be indicative of how we operated or managed our business in the past, and is different than the segment results previously presented.

Company Internet Site and Availability of SEC Filings

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

Overview of Second Quarter 2007 Operating Results

The following is an overview of our operating results for the three months ended June 30, 2007. A more detailed discussion, comparing our operating results for the three and six months ended June 30, 2007 and 2006, is included under the heading Historical Results of Operations in this Management s Discussion and Analysis of Financial Condition and Results of Operations.

Revenues for the three months ended June 30, 2007 decreased to $70.5 million from $95.8 million in the three months ended June 30, 2006. Total revenue decreased as a result of lower sales of our media products due to our restructuring, and there were also declines in our Online revenues from our search distribution partners. Revenues from our Online business decreased to $39.7 million in the second quarter of 2007 from $50.4 million in the second quarter of 2006. This decrease was primarily due to a decrease in revenue from search results delivered through certain distribution partners. During the second quarter of 2007, approximately 55% of our search revenues came from our search distribution partners as compared to more than 60% of search revenues during the second quarter of 2006. Revenues from our Mobile business decreased to $30.8 million in the second quarter of 2007 from $45.5 million in the second quarter of 2006, primarily attributable to the decrease in sales of our media download products, such as ringtones, graphics and games, which was partially offset by an increase of $4.3 million in our Mobile portal, storefront, search, and messaging solutions.

Content and distribution costs for the three months ended June 30, 2007 decreased to $28.9 million from $46.1 million in the three months ended June 30, 2006. Online content and distribution costs for the three months ended June 30, 2007 decreased to $13.8 million from $18.1 million in the three months ended June 30, 2006. Online content and distribution expense as a percent of Online revenues decreased from 36.0% for the second quarter of 2006 to 34.8% for the second quarter of 2007, primarily attributable to a decrease in revenue from search results delivered through our distribution partners. Mobile content and distribution costs for the three months ended June 30, 2007 decreased to $15.1 million from $28.0 million in the three months ended June 30, 2006. Mobile content and distribution expense as a percent of Mobile revenues decreased from 61.6% for the second quarter of 2006 to 48.9% for the second quarter of 2007, primarily attributable to the decline in media downloads.

Other operating expenses for the three months ended June 30, 2007 were $76.1 million, an increase of $23.6 million from $52.5 million in the three months ended June 30, 2006. Other operating expenses include expenses related to Systems and network operations, Product development, Sales and marketing, General and administrative, and Depreciation and Amortization of intangible assets, and exclude Restructuring and other, net. The increase from the three months ended June 30, 2006 was primarily attributable to an increase in personnel-related expenses associated with payments made to employees and directors related to the cash distribution to shareholders, an increase in stock-based compensation expense relating to stock-based incentives provided to our employees, and an increase in depreciation expense related to the operation of our new data center, which were partially offset by decreases in amortization of intangible assets and other operating expenses as a result of our restructuring described above.

Additionally, Other income, net for the three months ended June 30, 2007 was $4.4 million, as compared to $4.7 million in the three months ended June 30, 2006. The decrease was primarily attributable to a decrease in interest income on a lower average balance of investments due to the dividend paid during the quarter. Additionally, we recorded an income tax provision of $286,000 in the second quarter of 2007 as compared to a benefit of $900,000 in the second quarter of 2006.

Net loss for the three months ended June 30, 2007 was $28.1 million compared to net income of $1.0 million in the three months ended June 30, 2006. The decrease was primarily attributable to the items noted above.

- 13 -

Table of Contents

Critical Accounting Policies and Estimates

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

The SEC has defined a company s most critical accounting policies as the ones that are the most important to the portrayal of the company s financial condition and results of operations, and which require the company to make its most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. On an ongoing basis, we evaluate the estimates used, including those related to impairment of goodwill and other intangible assets, useful lives of other intangible assets and property and equipment, contingencies, stock-based compensation and certain other operating expenses, the fair value of assets and liabilities acquired in our business combinations, and whether to provide a valuation allowance for some or all of our deferred tax assets. We base our estimates on historical experience, current conditions and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources as well as identifying and assessing our accounting treatment with respect to commitments and contingencies. Actual results may differ significantly from these estimates under different assumptions, judgments or conditions. We believe the following critical accounting policies involve the more significant judgments and estimates used in the preparation of our consolidated financial statements. We also have other key accounting policies, which involve the use of estimates, judgments and assumptions that are significant to understanding our results. For additional information see Item 8 of Part II Financial Statements and Supplementary Data Note 1: Summary of Significant Accounting Policies of our Annual Report on Form 10-K for the year ended December 31, 2006.

Revenue Recognition

Our revenues are derived from products and services delivered to our customers across our two segments, Online and Mobile. In general, we recognize revenues in the period in which the services are performed, products are delivered or the transaction occurs. In certain arrangements, we record deferred revenue for amounts received from customers in advance of the performance of services or upon execution of an agreement and recognize revenues ratably over the term of the agreement or expected customer life. Online revenue is recorded on a gross basis in accordance with Emerging Issues Task Force Issue 99-19, *Reporting Revenue Gross as a Principal versus Net as an Agent*. We are the primary obligor in the revenue generating relationships with our search engine and directory listing customers, we separately negotiate each revenue or unit pricing contract independent of any revenue sharing arrangements and assume the credit risk for amounts invoiced to such customers. We, through our meta-search technology, determine the paid search results, content and information directed to our owned and operated Web sites and our distribution partners Web properties. We earn revenue from our search engine and directory listing customers by providing paid search results generated from our distribution partners Web properties based on separately negotiated and agreed upon terms with each distribution partner. We recognize amounts due to our distribution partners in the period they are earned and classify such costs as Content and distribution expense in the Consolidated Statement of Operations. For mobile operator customers to whom we license content, we record revenue on a gross basis and the corresponding licensing expense as operating expense. In the event the mobile operator customer directly licenses the content, we record as revenue the service fees we earn.

Income Taxes

We account for income taxes under the asset and liability method, under which deferred tax assets, including net operating loss carryforwards, and liabilities are determined based on temporary differences between the book and tax basis of assets and liabilities. We periodically evaluate the likelihood of the realization of deferred tax assets, and reduce the carrying amount of the deferred tax assets by a valuation allowance to the extent we believe a portion will not be realized. We consider many factors when assessing the likelihood of future realization of our deferred tax assets, including our recent cumulative earnings experience by taxing jurisdiction, expectations of future taxable income, the carryforward periods available to us for tax reporting purposes, and other relevant factors. The range of possible judgments relating to the valuation of our deferred tax assets is wide.

At December 31, 2006, based on the weight of available evidence, we determined that it was more likely than not that a portion of our deferred tax asset would be realized and, at December 31, 2006, our deferred tax asset, net of the valuation allowance, was $104.0 million. This amount was based on total deferred assets of $441.4 million, primarily comprised of $381.2 million of accumulated net operating loss carryforwards, net of a $337.4 million valuation allowance. Significant judgment is required in making this assessment, including the evaluation of the impact of our recent operating losses, and it is very difficult to predict when, if ever, our assessment may conclude that the remaining portion of our deferred tax assets is realizable.

- 14 -

Restructuring

In 2006, we committed to a plan to make operational changes to our business, which included a reduction in our workforce and, as part of the workforce reduction, consolidation of our facilities. Charges associated with this restructuring plan are accounted for in accordance with Statement of Financial Accounting Standards (SFAS) No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. In determining the restructuring charges that we recorded in 2006 we relied on certain assumptions, including planned employee separation dates and estimated income for facilities that we plan to sublease. Changing business conditions may affect the assumptions related to the timing and extent of restructuring activities. We will review the status of these activities on a quarterly basis and, if appropriate, record changes based on updated estimates.

Accounting for Goodwill and Certain Other Intangible Assets

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

Goodwill is tested for impairment at the reporting unit level (operating segment or one level below an operating segment). Application of the goodwill impairment test requires judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units, and determining the fair value of each reporting unit. Significant judgments required to estimate the fair value of reporting units include estimating future cash flows, determining appropriate discount rates and other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value for each reporting unit.

Other intangible assets are tested for impairment by comparing their carrying amounts to their fair values. We measure the fair value of such assets by estimating the future undiscounted cash flows attributable to them, and recognize an impairment if their carrying amounts exceed the estimated fair values. Such evaluations rely on various assumptions, including the timing of future events and market conditions.

As of June 30, 2007, we have $104.4 million of goodwill and $16.1 million of other intangible assets on our balance sheet.

Allowances for Sales and Doubtful Accounts

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

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

Stock-Based Compensation

SFAS No. 123(R), *Share-Based Payment*, requires companies to record stock compensation expense for equity-based awards granted, including stock options and restricted stock unit grants, for which expense will be recognized over the service period of the equity-based award based on the fair value of the award at the date of grant.

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

Contingencies

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

Table of Contents

In accordance with the provisions of FASB Interpretation No. (FIN) 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, we assess our indemnifications to determine whether a liability for the fair value of any obligation is required to be recorded. We provide indemnifications of varying scope and terms to customers, vendors, partners, or other parties in the ordinary course of business. As of June 30, 2007, our assessment determined that no liability is required to be recorded.

See Note 5 to our unaudited Condensed Consolidated Financial Statements for further information regarding contingencies.

Historical Results of Operations

For the six months ended June 30, 2007, our net loss was $28.7 million. While we achieved profitability for each of the years ended December 31, 2004 and 2005, prior to 2004 and for the year ended December 31, 2006, we incurred annual losses since our inception and, as of June 30, 2007, have an accumulated deficit of $1.1 billion.

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

Results of Operations for the Three and Six Months Ended June 30, 2007 and 2006

Revenues. We derive revenues from deploying our products and services to customers via the Internet and mobile phones. Under many of our agreements, we earn revenues from a combination of our products and services delivered to customers. Revenues for the three and six months ended June 30, 2007 and 2006 are presented below (amounts in thousands):

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Change from 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006	Change from 2006
Revenues						
Online	$ 39,742	$ 50,373	$ (10,631)	$ 84,782	$ 96,503	$ (11,721)
Mobile	30,788	45,473	(14,685)	72,391	89,617	(17,226)
Total	$ 70,530	$ 95,846	$ (25,316)	$ 157,173	$ 186,120	$ (28,947)

The decrease in revenue for Online products and services for the three and six months ended June 30, 2007 as compared to the three and six months ended June 30, 2006, is primarily due to a decrease in revenue from search results delivered through certain of our distribution partners. Partially offsetting this decline is the growth in our online search services, in particular, better monetization for paid searches.

The decrease in revenue for our Mobile products and services for the three and six months ended June 30, 2007 as compared to the three and six months ended June 30, 2006, is primarily due to a decrease in revenues from the sales of our media products, such as ringtones, graphics and games. We expect that there will be a continued decline in our Mobile revenue in 2007 as result of our substantial reduction in our mobile media content product offerings. We are continuing to focus primarily on our Mobile portal, storefront, search, and messaging solutions services, which generated $13.3 million in revenues in the second quarter of 2007 as compared to $9.0 million in the second quarter of 2006.

Seasonality

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

Table of Contents

Content and Distribution Expenses. Content and distribution expenses consist principally of costs related to revenue sharing arrangements with our Online distribution partners, as well as online content and data licenses and costs related to royalty and license fees related to our Mobile products for items such as ringtones, graphics and games, and other content or data licenses. Content and distribution expenses in total dollars (in thousands) and as a percent of total revenues for the three and six months ended June 30, 2007 and 2006 are presented below:

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Change from 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006	Change from 2006
Content and Distribution Expenses						
Online	$ 13,837	$ 18,122	$ (4,285)	$ 30,154	$ 34,397	$ (4,243)
Mobile	15,067	27,999	(12,932)	40,367	53,336	(12,969)
Total	$ 28,904	$ 46,121	$ (17,217)	$ 70,521	$ 87,733	$ (17,212)

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Change from 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006	Change from 2006
Content and Distribution Expenses						
As a percent of Online Revenue	34.8%	36.0%	(1.2%)	35.6%	35.6%	0.0%
As a percent of Mobile Revenue	48.9%	61.6%	(12.7%)	55.8%	59.5%	(3.7%)
As a percent of Total Revenues	41.0%	48.1%	(7.1%)	44.9%	47.1%	(2.2%)

The decrease in content and distribution expenses as a percent of revenues for the three and six months ended June 30, 2007 as compared to the three and six months ended June 30, 2006, is primarily due to a decrease in revenues from the sales of our media products, such as ringtones, graphics and games, for which we pay related content and licensing fees, and a decrease in revenue from search results delivered through our distribution partners. We anticipate that our content costs will increase in absolute dollars if revenues increase through growth from existing arrangements with our Online distribution partners or we add new Online distribution partners. If Online revenue generated from our distribution partners increases at a greater rate than revenues generated from our own Web sites, content and distribution costs as a percent of revenue will increase. We expect Mobile content and distribution costs to decline as we have substantially discontinued sales of mobile media content products as of June 30, 2007.

Systems and Network Operations Expenses. Systems and network operations expenses consists of expenses associated with the delivery, maintenance and support of our products, services and infrastructure, including personnel expenses, which include salaries, stock-based compensation expense, benefits and other employee related costs, and temporary help and contractors to augment our staffing, communication costs and equipment repair and maintenance. Systems and network operations expenses in total dollars (in thousands) and as a percent of total revenues for the three and six months ended June 30, 2007 and 2006 are presented below:

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Change from 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006	Change from 2006
Systems and Network Operations Expenses	$ 7,484	$ 7,880	$ (396)	$ 14,209	$ 14,988	$ (779)
Percent of Total Revenues	10.6%	8.2%	2.4%	9.0%	8.1%	0.9%

Systems and network operations expenses decreased by $396,000 to $7.5 million for the three months ended June 30, 2007 as compared to $7.9 million for the three months ended June 30, 2006. The absolute dollar decrease for the three months ended June 30, 2007 as compared to the three months ended June 30, 2006 was primarily attributable to a decrease of $699,000 in personnel expenses, including employee salaries and benefits, contractors, and temporary help, as a result of the restructuring implemented in September 2006 as described above, net of an increase in stock-based compensation expense. This decrease was partially offset by payments of $507,000 made to employees related to the cash distribution to shareholders.

Systems and network operations expenses decreased by $779,000 to $14.2 million for the six months ended June 30, 2007 as compared to $15.0 million for the six months ended June 30, 2006. The absolute dollar decrease for the six months ended June 30, 2007 as compared to the six months ended June 30, 2006 was primarily attributable to a decrease of $2.0 million in personnel expenses, including employee salaries and benefits, contractors, and temporary help, as a result of the restructuring implemented in September 2006 as described above, which was partially offset by payments of $507,000 made to employees related to the cash distribution to shareholders and increases in stock-based compensation expense of $647,000.

Table of Contents

Product Development Expenses. Product development expenses consist principally of personnel expenses, which include salaries, stock-based compensation expense, benefits and other employee related costs, and temporary help and contractors to augment our staffing, research, development, support and ongoing enhancements of our products and services. Product development expenses in total dollars (in thousands) and as a percent of total revenues for the three and six months ended June 30, 2007 and 2006 are presented below:

	Three Months Ended June 30,		Change from	Six Months Ended June 30,		Change from
	2007	2006	2006	2007	2006	2006
Product Development Expenses	$ 15,882	$ 12,467	$ 3,415	$ 30,624	$ 21,775	$ 8,849
Percent of Total Revenues	22.5%	13.0%	9.5%	19.5%	11.7%	7.8%

Product development expenses increased by $3.4 million to $15.9 million for the three months ended June 30, 2007 as compared to $12.5 million for the three months ended June 30, 2006. The absolute dollar increase for the three months ended June 30, 2007 as compared to the three months ended June 30, 2006 was primarily attributable to payments of $1.6 million made to employees related to the cash distribution to shareholders and an increase of $1.3 million in stock-based compensation expense and an increase of $492,000 in professional service fees, as we continue to invest in the development and enhancement of our products and services.

Product development expenses increased by $8.8 million to $30.6 million for the six months ended June 30, 2007 as compared to $21.8 million for the six months ended June 30, 2006. The absolute dollar increase for the six months ended June 30, 2007 as compared to the six months ended June 30, 2006 was primarily attributable to an increase of $3.6 million in personnel-related expenses, primarily consisting of contractors to augment our staffing, employee salaries and benefits and professional service fees, as we continued to invest in the development and enhancement of our products and services. Additional increases were due to an increase in stock-based compensation expense of $2.5 million, payments of $1.6 million made to employees related to the cash distribution to shareholders, and $1.4 million in professional service fees, related to our continued investment in the development and enhancement of our products and services.

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

Sales and Marketing Expenses. Sales and marketing expenses consist principally of personnel costs, which include salaries, stock-based compensation expense, benefits and other employee related costs, and temporary help and contractors to augment our staffing, advertising, market research and promotion expenses. Sales and marketing expenses in total dollars (in thousands) and as a percent of total revenues for the three and six months ended June 30, 2007 and 2006 are presented below:

	Three Months Ended June 30,		Change from	Six Months Ended June 30,		Change from
	2007	2006	2006	2007	2006	2006
Sales and Marketing Expenses	$ 11,153	$ 12,567	$ (1,414)	$ 20,102	$ 22,130	$ (2,028)
Percent of Total Revenues	15.8%	13.1%	2.7%	12.8%	11.9%	0.9%

Sales and marketing expenses decreased by $1.4 million to $11.2 million for the three months ended June 30, 2007 as compared to $12.6 million for the three months ended June 30, 2006. The absolute dollar decrease for the three months ended June 30, 2007 as compared to the three months ended June 30, 2006 was primarily attributable to a decrease in personnel related expenses, temporary help and contractors totaling $2.7 million, as a result of the restructuring implemented in September 2006 as described above, and a decrease of $1.7 million in marketing and promotional expense. These decreases were partially offset by payments of $2.4 million made to employees related to the cash distribution to shareholders and an increase in stock-based compensation expense of $903,000.

Sales and marketing expenses decreased by $2.0 million to $20.1 million for the six months ended June 30, 2007 as compared to $22.1 million for the six months ended June 30, 2006. The absolute dollar decrease for the six months ended June 30, 2007 as compared to the six months ended June 30, 2006 was primarily attributable to a decrease in personnel-related expenses, including contractors, and employee salaries and benefits of $3.3 million, as a result of the restructuring implemented in September 2006 as described above, decreases in marketing and promotional expenses totaling $2.2 million, and decreases in other employee related expenses of $663,000. These decreases were partially offset by payments of $2.4 million made to employees related to the cash distribution to shareholders and an increase in stock-based compensation expense of $2.0 million.

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

General and Administrative Expenses. General and administrative expenses consist primarily of personnel expenses, which include salaries, stock-based compensation expense, benefits and other employee related costs, professional service fees, which include legal fees, audit fees, SEC compliance costs, and costs related to compliance with the Sarbanes-Oxley Act of 2002; occupancy and general office expenses, and general business development and management expenses. General and administrative expenses in total dollars (in thousands) and as a percent of total revenues for the three and six months ended June 30, 2007 and 2006 are presented below:

	Three Months Ended June 30,		Change from	Six Months Ended June 30,		Change from
	2007	2006	2006	2007	2006	2006
General and Administrative Expenses	$ 35,099	$ 12,547	$ 22,552	$ 48,793	$ 26,633	$ 22,160
Percent of Total Revenues	49.8%	13.1%	36.7%	31.0%	14.3%	16.7%

General and administrative expenses increased by $22.6 million to $35.1 million for the three months ended June 30, 2007 as compared to $12.5 million for the three months ended June 30, 2006. The absolute dollar increase for the three months ended June 30, 2007 as compared to the three months ended June 30, 2006 was primarily attributable to payments made to employees and directors related to the cash distribution to shareholders of $17.8 million. The increases were additionally due to increases in professional services fees of $2.5 million, increases in stock-based compensation expense of $1.7 million, and increases in facilities expense of $608,000. These increases were partially offset by decreases in personnel related expenses and contractors totaling $632,000.

General and administrative expenses increased by $22.2 million to $48.8 million for the six months ended June 30, 2007 as compared to $26.6 million for the six months ended June 30, 2006. The absolute dollar increase for the six months ended June 30, 2007 as compared to the six months ended June 30, 2006 was primarily attributable to payments made to employees and directors related to the cash distribution to shareholders of $17.8 million. The increases were additionally due to increases in professional services fees of $1.8 million, increases in stock-based compensation expense of $2.2 million, and increases in facilities expense of $1.2 million. These increases were partially offset by decreases in personnel related expenses and contractors totaling $897,000.

Depreciation. Depreciation of property and equipment includes depreciation of network servers and data center equipment, computers, software, office equipment and fixtures, and leasehold improvements. Depreciation of property and equipment totaled $4.8 million and $9.4 million for the three and six months ended June 30, 2007, respectively, compared to $3.5 million and $6.8 million for the three and six months ended June 30, 2006, respectively. Depreciation expense increased primarily as a result of property and equipment recently placed in service in our data center and an increase in internally developed software.

Amortization of Intangible Assets. Amortization of definite-lived intangible assets includes amortization of core technology, customer and content relationships, customer lists and other intangible assets. Amortization of other intangible assets totaled $1.7 million and $3.5 million during the three and six months ended June 30, 2007, respectively, compared to $3.6 million and $7.3 million during the three and six months ended June 30, 2006, respectively. The decrease from the three and six months ended June 30, 2006 to the three and six months ended June 30, 2007 is primarily attributable to the impairment of definite-lived intangible assets as part of the restructuring plan announced in 2006. The expected future amortization of intangible assets at June 30, 2007 is $419,000 for the remainder of 2007 and $93,000 in 2008.

Restructuring and Other, Net. During the three and six months ended June 30, 2007, we recorded a total restructuring charge of $378,000 and $811,000, respectively, as part of the restructuring plan announced in 2006. There were no restructuring charges in the three and six months ended June 30, 2006. In future periods, adjustments and additions may be made to the amounts recorded as of June 30, 2007. We expect to record less than $1 million in additional pre-tax restructuring charges in the future, primarily consisting of stock-based compensation expense and estimated future lease losses.

Other, net for the three and six months ended June 30, 2007 was $2.1 million and $3.3 million, respectively, consisting of the gain on sale of assets related to mobile media operations.

Other Income, Net. Other income, net, primarily consists of interest income. The decrease in interest income for the three months ended June 30, 2007, as compared to the three months ended June 30, 2006, was primarily attributable to a decrease in investments. The increase in interest income for the six months ended June 30, 2007, as compared to the six months ended June 30, 2006, was primarily attributable to an increase in interest rates. We expect interest income to decline due to the reduced balance in investments.

Provision for Income Taxes. We recorded an income tax benefit of $286,000 for the three months ended June 30, 2007 and a provision for income taxes of $801,000 for the six months ended June 30, 2007. We recorded a provision for income taxes of $900,000 and $3.3 million for the three and six months ended June 30, 2006, respectively. For 2007, the provision (benefit) for income taxes included state and international taxes. For 2006, the provision for income taxes included U.S. federal alternative minimum, state, and international taxes. We expect to record a tax provision for state and international taxes for the remainder of 2007.

Table of Contents

Liquidity and Capital Resources

As of June 30, 2007, we had cash and marketable investments of $197.8 million, consisting of cash and cash equivalents of $110.3 million and short-term investments available-for-sale of $87.5 million. We invest our excess cash in high quality marketable investments. These investments include securities issued by U.S. government agencies, certificates of deposit, money market funds, and taxable municipal bonds.

Commitments and Pledged Funds

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

	Remainder of 2007	2008	2009	2010	2011	2012	Thereafter	Total
Operating lease commitments, net of sublease income	$ 2,962	$ 3,305	$ 4,476	$ 4,263	$ 4,175	$ 3,894	$ 657	$ 23,732
Guaranteed minimum revenue share payments	6,826	5,615						12,441
Total	$ 9,788	$ 8,920	$ 4,476	$ 4,263	$ 4,175	$ 3,894	$ 657	$ 36,173

For certain of our revenue share agreements with our Online distribution partners, we are required to make non-cancelable guaranteed minimum revenue share payments to those partners over the term of the respective agreements.

We have pledged a portion of our cash and cash equivalents as collateral for standby letters of credit and bank guaranties for certain of our property leases. At June 30, 2007, the total amount of collateral pledged under these agreements was $4.2 million.

Cash Flows

Net cash provided by operating activities consists of net income offset by certain adjustments not affecting current period cash flows, and the effect of changes in our operating assets and liabilities. Our net cash flows are comprised of the following for the six months ended June 30, 2007 and 2006 (in thousands):

	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Net cash provided by operating activities	$ 4,210	$ 38,020
Net cash provided (used) by investing activities	137,333	(11,839)
Net cash provided (used) by financing activities	(194,706)	3,507
Net increase (decrease) in cash and cash equivalents	$ (53,163)	$ 29,688

Net cash provided by operating activities was $4.2 million for the six months ended June 30, 2007, consisting of our net loss of $28.7 million, increase in our operating assets and liabilities of $26.3 million, consisting of a decrease in accounts receivable, other receivables, prepaid expenses, other current assets, and other long-term assets and an increase in deferred revenue. Also increasing our operating cash were adjustments not affecting cash flows provided by operating activities of $31.0 million, consisting of depreciation, amortization, stock-based compensation expense, deferred income taxes, restructuring and other, net. Partially offsetting the increase are changes in our operating assets and liabilities of $21.0 million primarily consisting of decreases in accrued expenses and other current and long-term liabilities and accounts payable and adjustments not affecting cash flows provided by operating activities of $3.3 million related to the gain on sale of assets.

Net cash provided by operating activities was $38.0 million for the six months ended June 30, 2006, consisting of our net income of $4.0 million, increase in our operating assets and liabilities of $12.3 million, consisting of a decrease in accounts receivable, other receivables, prepaid expenses, and other current assets and an increase in accrued expenses and other current and long-term liabilities and deferred revenue. Also increasing our operating cash were adjustments not affecting cash flows provided by operating activities of $25.7 million, consisting of depreciation, amortization, stock-based compensation expense, deferred income taxes, and other, net. Partially offsetting the increase are changes in our operating assets and liabilities of $4.0 million primarily consisting of an increase in other long-term assets and a decrease in accounts payable.

Net cash provided by investing activities totaled $137.3 million for the six months ended June 30, 2007, primarily consisting of the net increase in short-term investments of $151.0 million and proceeds from sale of assets of $2.2 million, partially offset by $13.8 million used to purchase property and equipment and a $2.0 million loan to an equity investee.

Net cash used by investing activities totaled $11.8 million for the six months ended June 30, 2006, primarily consisting of $10.1 million used to purchase property and equipment, and the net increase in short-term and long-term investments of $1.8 million.

Table of Contents

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

Net cash provided by financing activities totaled $3.5 million in the six months ended June 30, 2006 and consisted of cash proceeds from the exercise of stock options and from sales of shares through our employee stock purchase plan.

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

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

Cash Dividend

On May 2, 2007, our Board of Directors declared a special cash distribution by means of a dividend on the Company s common stock of $6.30 per share. The dividend was paid on May 28, 2007 with respect to all shares of our common stock outstanding at the close of business on May 18, 2007. On May 18, 2007, there were 33.1 million shares outstanding and, based on those shares, the total amount of the cash distribution was $208.2 million.

Additionally, on May 2, 2007, our Board of Directors approved a plan to compensate employees and directors that hold in-the-money options to purchase shares of common stock and restricted stock units (RSUs) for the reduction in value of these awards due to the special cash distribution. The compensation was a combination of cash and issuance of RSUs and the amount was based on, among other factors, the average trading price of our stock before and after the ex-dividend date and the in-the-money amount for options to purchase shares of common stock. A cash payment of $22.3 million was made for vested in-the-money options and 663,940 RSUs with a fair value of $15.1 million were granted for unvested in-the-money options and RSUs. The vesting schedule for RSUs granted under this plan was the same as the existing awards for which they are granted.

Stock Repurchase Program

On June 8, 2007, our Board of Directors authorized the repurchase of up to $100 million of our outstanding common stock over the succeeding twelve months. On May 30, 2006, our Board of Directors authorized a stock repurchase plan whereby we were authorized to purchase up to $100 million of our common stock which expired on May 29, 2007.

We did not purchase any shares under any of these plans during the three and six months ended June 30, 2007 and 2006.

Recent Accounting Pronouncements

We adopted FIN 48 on January 1, 2007. Additionally, in May 2007, the FASB published FASB Staff Position (FSP) FIN 48-1, *Definition of Settlement in FIN 48*. FSP FIN 48-1 is an amendment to FIN 48 and clarifies how an enterprise should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. As of the adoption date of FIN 48, our accounting is consistent with the guidance in FSP FIN 48-1.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities including an amendment to SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities.* SFAS No. 159 permits entities to measure certain financial assets and financial liabilities at fair value. SFAS No. 159 requires prospective application and is effective for fiscal years beginning after November 15, 2007; however, early adoption is allowed with certain conditions. We are currently evaluating the provisions of SFAS No. 159 to determine what effect its adoption on January 1, 2008 will have on our financial position, cash flows, and results of operations.

Table of Contents

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosure of fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements and accordingly, does not require any new fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. We are currently evaluating the provisions of SFAS No. 157 to determine what effect its adoption on January 1, 2008 will have on our financial position, cash flows, and results of operations.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our market risks at June 30, 2007 have not changed significantly from those discussed in Item 7A of our Form 10-K for the year ended December 31, 2006 on file with the Securities and Exchange Commission. See also Management s Discussion and Analysis of Financial Condition and Results of Operations section of Item 2 of Part I of this Form 10-Q for additional discussions of our market risks.

Item 4. Controls and Procedures

(a) *Evaluation of disclosure controls and procedures*. Our management evaluated, with the participation of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. That evaluation is designed to assess whether disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosures, and that such information is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that as of June 30, 2007, our disclosure controls and procedures were not effective due to a material weakness related to the operation of our internal control over financial reporting with respect to the accounting and disclosure for income taxes described below.

Based on our management s evaluation of the effectiveness of our disclosure controls and procedures, our Chief Executive Officer and our Chief Financial Officer concluded that as of December 31, 2006, our disclosure controls and procedures were not effective due to a material weakness related to the operation of our internal control over financial reporting with respect to the accounting and disclosure for income taxes. During the six months ended June 30, 2007, we have taken steps to improve our internal controls over our income tax accounting process. Those steps include the hiring of a Senior Director of Tax and implementing a more rigorous review process. Management will continue its evaluation of internal control for our income tax accounting process and believe it is taking the necessary steps to remediate any ineffective control contributing to the material weakness in conjunction with our preparation of our financial statements for inclusion in our Annual Report on Form 10-K for the year ending December 31, 2007. Additional review, evaluation and oversight were undertaken on the part of management in order to ensure our consolidated financial statements were prepared in accordance with generally accepted accounting principles and, as a result, management has concluded that the Condensed Consolidated Financial Statements in this Form 10-Q fairly present, in all material respects, our financial positions, results of operations and cash flows for the period presented.

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

PART II OTHER INFORMATION

Item 1. Legal Proceedings

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

Table of Contents

Item 1A. Risk Factors

RISKS RELATED TO OUR BUSINESS

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

We rely on our relationships with distribution partners, including mobile operators, internet service providers, Web portals and software application providers, for distribution of our products and services. We generated approximately 44% and 50% of our total revenues through relationships with our top five distribution partners for the second and first quarters of 2007, respectively. We cannot assure you that these relationships will continue or result in benefits to us that outweigh the cost of the relationships. One of our challenges is providing our distribution partners with relevant products and services at competitive prices in rapidly evolving markets. Distribution partners may create their own products and services or also seek to license products and services from others that compete with or replace the products and services that we provide. Also, many of our search distribution partners are developing companies with limited operating histories and evolving business models that may prove unsuccessful even if our products and services are relevant and our prices competitive. If we are not able to maintain our relationships with our distribution partners, our financial results would be materially adversely affected. In September 2006, we announced that one of our major mobile customers plans to develop direct licensing relationships with the major record labels beginning in 2007. The direct relationships developed by this mobile customer and our substantial reduction of our mobile media content product offerings will have a material negative impact on our revenues.

Our agreements with most of our online search and directory distribution partners come up for renewal in 2007 and 2008. Such agreements may be terminated or may not be renewed or replaced on favorable terms, which could adversely impact our financial results. In particular, competition is increasing for consumer traffic in the search and directory markets. We anticipate that the cost of our content for our revenue sharing arrangements with our search distribution partners will increase as revenues grow and may increase on a relative basis compared to revenues to the extent that there are changes to existing arrangements or we enter into new arrangements on less favorable terms.

If advertisers perceive that they are not receiving quality traffic to their sites through their paid-per-click advertisements, they may reduce or eliminate their advertising through the Internet, which could have a negative material impact on our financial results.

Most of our revenues from our search and directory business are based on the number of paid clicks on commercial search results served on our own Web sites or our distribution partners Web properties. Generally, each time a user clicks on a commercial search result, the content provider that provided the commercial search result receives a fee from the advertiser who paid for such commercial click and the content provider pays us a portion of that fee. If the click originated from one of our distribution partners Web properties, we share a portion of the fee we receive with such partner. If an advertiser receives what it perceives to be a large percentage of clicks for which it needs to pay, but that do not result in the intended objectives of such advertiser, the advertiser may reduce or eliminate its advertisements through the content provider that provided the commercial search result to us. This leads to a loss of revenue to our content providers and consequently to fewer fees paid to us. The content provider may also suspend or terminate our ability to provide its content through such distribution partners. The payment of fewer fees paid to us or the inability to provide content through such distribution partners could have a material negative effect on our financial results.

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

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

Additionally, agreements with our search content providers may be amended from time to time by both parties or may be subject to different interpretation by either party, which may require the rights we grant to our search distribution partners to

be modified to comply with such amendments or interpretations. The agreements with our search distribution partners generally provide that we may modify the rights we grant to them to avoid being in conflict with the agreements with our search content providers. Also, our search content providers have approval processes with respect to the redistribution of their content by our distribution partners. Some of our distribution partners that redistribute such content have not complied with such approval processes, and we no longer provide the applicable content to such partners or such partners no longer redistribute the content. If our search content providers impose additional restrictions, some of our distribution partners may be required to change the manner in which they redistribute the content or cease redistributing the content. If such distribution partners are unable to meet the restrictions, we may need to terminate our agreement with such distribution partners or no longer provide the applicable content to such partners.

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

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

We derive a substantial portion of our revenues from a small number of customers. We expect that concentration will continue in the foreseeable future. Our top five customers represented approximately 84% and 82% of our revenues in the second and first quarters of 2007, respectively. Google, AT&T (formerly, Cingular Wireless) and Yahoo! each accounted for more than 10% of our revenues in the three- month period ended June 30, 2007. Our principal agreements with these customers expire in 2011, 2008 and 2008, respectively. Also, some of these customers are competitors of each other, and the way we do business with one of them may not be acceptable to one or some of their competitors with whom we also do business, which may result in such competitors not renewing their agreements with us on favorable terms.

If any of our top customers significantly reduces or eliminates the content or services it receives from us under our existing contracts, or we are unable to renew the contracts on favorable terms, or any of these customers are unwilling to pay us amounts that they owe us, or dispute amounts they owe us or have paid to us, our financial results would materially suffer. In September 2006, we announced that one of our mobile customers plans to develop direct licensing relationships with the major record labels beginning in 2007. We expect that the loss of the mobile content portion of our mobile business will have a material negative impact on our revenues.

If our content providers or distribution partners disagree with our estimate of our royalty liability, it could expose us to significant liability and adversely impact our financial results.

Under our agreements with content providers, we calculate our royalty liability based on inputs from various sources of data and have been and are continuously subject to audits by our content providers and distribution partners. If our content providers disagree with the royalty amounts we have calculated that are due to them and we are unable to resolve those disagreements amicably, it may subject us to potential litigation and substantial costs even if it is found that the amounts we determined were due to them were accurate. If a content provider or distribution partner prevails in showing that the royalty amount due to it was not what was intended under our agreement with them and our estimate of the royalty liability was significantly different, it could subject us to significant liability to the affected content provider or distribution partner and have an adverse effect on our financial results. As we announced in January 2007, one of our content providers, EMI Entertainment World, Inc. (EMI), recently instituted litigation against us due to a disagreement, among other things, over the amount of royalties due to them from the content they provide. Although we believe that EMI s claims are without merit and that we have meritorious defenses to them and intend to vigorously defend the suit, there can be no assurance that we will prevail or that other content providers will not also disagree with the royalty amount due to them and initiate their own litigation, which could have a material adverse effect on our financial results.

Our agreements with some of our major customers and distribution partners contain minimum performance commitments, minimum service level requirements or minimum revenue guarantees that we must meet in order to avoid reduction in payments from such customers or payment of revenue shortfalls to such distribution partners.

Under our agreements with some of our major customers and distribution partners, we are required to generate a minimum amount of revenue. If we do not reach these minimums, we may receive reduced revenues from our customers or we may be required to compensate our customer or distribution partner for the difference between the minimum and the shortfall. If such shortfall is substantial, it could have a material adverse effect on our financial results.

Furthermore, we have entered into service level agreements with most of our mobile operator customers and certain other customers. These agreements generally call for specific system up times and 24/7 support and include penalties for non-performance. We may be unable to fulfill these commitments, which could subject us to substantial penalties under those agreements, harm our reputation and result in the loss of customers and distribution partners, which would have an adverse effect on our financial results.

Table of Contents

Our strategic direction is evolving, including through our restructuring, which could negatively affect our future results.

Since inception, our business model has evolved and is likely to continue to evolve as we refine our product offerings and market focus. Since 2003, we have focused on our search, directory, and mobile products and services. We continue to evaluate opportunities in a rapidly evolving market. In September 2006, we announced that one of our mobile customers planned to develop direct licensing relationships with the major record labels beginning in 2007. In light of that announcement, we have suspended investments in developing or obtaining more mobile content and our own direct-to-consumer mobile distribution channel and we have substantially reduced, through various initiatives, our mobile media content product offerings. However, we plan to continue building on our foundations in mobile technology and services and online discovery, including leveraging our search and directory technology and applications for mobile devices to allow carriers and other business partners to provide mobile media product offerings to their customers. These changes to our business may not prove successful in the short or long term due to a variety of factors, including competition, consumer adoption and demand for products and services, and other factors described in this section, and may have a material negative impact on our financial results.

In addition, we have in the past and may in the future find it advisable to streamline operations and reduce expenses, including, without limitation, such measures as reductions in the workforce, discretionary spending, and/or capital expenditures as well as other steps to reduce expenses. We have eliminated approximately 290 positions as part of our restructuring. As part of the restructuring and our effort to align costs with expected future revenues, we have recorded aggregate restructuring charges of $63.1 million through June 30, 2007. We expect to record less than $1 million additional restructuring charges through the remainder of 2007. Effecting any restructuring or streamlining likely places significant strains on management, our employees, and our operational, financial, and other resources. In addition, such actions could impair our development, marketing, sales and customer support efforts or alter our product development plans. We may also incur liability from early termination or assignment of contracts, potential failure to meet required support levels of our platforms due to loss of employees who maintain such platforms, potential litigation and other effects from such restructuring and streamlining. Our suspension of investment in developing or obtaining new content and our substantial reduction in our mobile media content product offerings may also negatively impact our relationships with our mobile operator distribution partners who may decide to obtain content or services from other sources offering a more complete mobile content and services package. Such effects from restructuring and streamlining could have a negative impact on our financial results.

We have identified a material weakness in our internal controls as of June 30, 2007 that, if not properly remediated, could result in material misstatements in our financial statements in future periods.

Based on an evaluation of our disclosure controls and procedures as of June 30, 2007, our management has concluded that such disclosure controls and procedures were not effective as of such date due to the existence of a deficiency in the operation of our internal accounting controls, which constituted a material weakness in our internal control over financial reporting. As defined in Public Company Accounting Oversight Board Auditing Standard No. 2, a material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The identified deficiency pertained to controls which were not adequately designed to ensure proper accounting and disclosure of deferred income taxes. Because of this material weakness, there is risk that a material misstatement of our annual or quarterly financial statements will not be prevented or detected. We are currently in the process of designing and implementing control procedures to remediate the material weakness. We cannot assure, however, that such remediation efforts will correct the material weakness such that our internal control over financial reporting will be effective. In the event that we do not adequately remedy this material weakness, or if we fail to maintain effective internal controls in future periods, our operating results, financial position and stock price could be adversely affected.

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

We have incurred net losses on an annual basis from our inception through December 31, 2006, except for 2004 and 2005, and, we incurred a net loss in the second and first quarters of 2007. As of June 30, 2007, we had an accumulated deficit of $1.1 billion. We may incur net losses in the future including from our operations, the impairment of goodwill or other intangible assets, losses from acquisitions, restructuring charges or expense related to stock-based compensation and other equity awards. There can be no assurance that we will be able to regain profitability on a quarterly or annual basis or, if regained, to sustain it.

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

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

the loss, termination or reduction in scope of key distribution or content relationships, such as by search distribution partners licensing content directly from content providers;

Table of Contents

- increased costs related to investments for new initiatives, including new products and services and new distribution channels;
- cash distributions to our shareholders;
- additional restructuring charges we may need to incur in the future;
- litigation expense, including settlement claims;
- variable demand for our products and services, including seasonal fluctuations, rapidly evolving technologies and markets and consumer preferences;
- the impact on revenues or profitability of changes in pricing for our products and services;
- the results from shifts in the mix of products and services we provide;
- the effects of acquisitions by us, our customers or our distribution partners;
- increases in the costs or availability of content for or distribution of our products;
- the requirement to expense the fair value of our employee stock options and other equity awards;
- the adoption of new laws, rules or regulations, or new court rulings, regarding intellectual property that may adversely affect our ability to continue to acquire content and distribute our products and services, or the ability of our content providers or distribution partners to continue to provide us with their content or distribute our products and services or increase our potential liability;
- impairment in the value of long-lived assets or the value of acquired assets, including goodwill, core technology and acquired contracts and relationships;
- the effect of changes in accounting principles or in our accounting treatment of revenues or expenses;
- the adoption of new regulations or accounting standards; and
- the foreign currency effects from transactions denominated in currencies other than the U.S. dollar.

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

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

The trading price of our common stock has been highly volatile. Since we began trading on December 15, 1998, our stock price has ranged from $3.70 to $1,385.00 (as adjusted for stock splits). On August 3, 2007, the closing price of our common stock was $20.07. Our stock price could decline or be subject to wide fluctuations in response to factors such as the other risks discussed in this section and the following, among others:

- actual or anticipated variations in quarterly and annual results of operations;
- announcements of significant acquisitions, dispositions, charges, changes in or loss of material contracts or other business developments by us, our customers, distribution partners or competitors;
- conditions or trends in the search, directory or mobile products and services markets;
- announcements of technological innovations, new products or services, or new customer or partner relationships by us or our competitors;
- changes in financial estimates or recommendations by securities analysts;
- disclosures of any additional material weaknesses in internal control over financial reporting;
- the adoption of new regulations or accounting standards; and
- announcements or publicity relating to litigation and similar matters.

In addition, the stock market in general, and the Nasdaq Global Select Market and the market for Internet and technology company securities in particular, have experienced extreme price and volume fluctuations. These broad market and industry factors and general economic conditions may materially and adversely affect our stock price. Our stock has been subject to such price and volume fluctuations in the recent past. Often, class action litigation has been instituted against companies after

Table of Contents

periods of volatility in the overall market and the price of such companies stock. If such litigation were to be instituted against us, even if we were to prevail, it could result in substantial cost and diversion of management s attention and resources.

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

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

- retain and expand our existing mobile customer arrangements, or maintain or expand amount of products and services provided to them under such arrangements, or expand our customer base in markets in which we operate;
- attract and retain distribution partners for our search and directory services;
- attract and retain content partners;
- attract and retain users to our owned and operated sites;
- manage our growth, control expenditures and align costs with revenues; and
- respond quickly and appropriately to competitive developments, including:
  - rapid technological change;
  - alternatives to access the Internet or mobile devices;
  - changes in customer requirements;
  - new products introduced into our markets by our competitors; and
  - regulatory changes affecting the industries we operate in or the markets we serve both in the United States and foreign countries.

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

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

Poor quality traffic may be a result of invalid click activity. Such invalid click activity occurs, for example, when a person or automated click generation program clicks on a commercial search result to generate fees for the Web property displaying the commercial search result rather than to view the Web page underlying the commercial search result or when a competitor of the advertiser clicks on the advertiser s search result to increase the advertising expense of the advertiser. Some of this invalid click activity is sometimes referred to as click fraud. When such invalid click activity is detected, content providers may refund the fee paid by the advertiser for such invalid clicks. When such invalid click activity is detected as coming from one of our distribution partners Web properties or our own Web sites, our content providers may refund the fees paid by the advertisers for such invalid clicks, which in turn reduces the amount of fees the content provider pays us. If we or our content providers are unable to effectively detect and stop invalid click activity, advertisers may see a reduced return on their advertising investment with the content provider because such invalid clicks do not generate quality traffic to such advertisers, which could lead such advertisers to reduce or terminate their investment in such ads. This could also lead to a loss of advertisers and revenue to our content providers and consequently to fewer fees paid to us. Additionally, if we are unable to detect and stop invalid click activity that may originate from our own Web sites or the Web properties of our distribution partners, our content providers may impose restrictions on our ability to provide their commercial search results on our own Web sites or to our current and future distribution partners, which could have a material negative impact on our financial results.

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

Table of Contents

We depend on third parties for content and certain functionalities within our products and services, and the loss of access to or increased cost of this content or functionalities could cause us to reduce our product and service offerings to customers and could negatively impact our financial results.

We currently create only a relatively small portion of our content. In most cases, we acquire rights to content from numerous third-party content providers, and our future success is highly dependent upon our ability to maintain relationships with these content providers and enter into new relationships with other content providers. We typically license content under arrangements that require us to pay usage or fixed monthly fees for the use of the content or require us to pay under a revenue-sharing arrangement. In the future, some of our content providers may not give us access to important content or may increase the fees or percentages that they charge us for their content, which could have a material negative effect on our operating results. Additionally, our content license fees may increase to the extent that our revenues related to such products and services increase and may increase as a percent of revenues as a result of price competition and demand for our products and services and the mix of our product sales.

We also license software from third parties that provides us with that ability to provide certain functionalities to our customers as part of our mix of products and services. The arrangements for these licenses usually require us to pay a license fee and, in some cases, a fee based on revenue earned. If we fail to enter into or maintain satisfactory arrangements with content providers, particularly with our major content providers, or providers of software we utilize in our products and services, our ability to provide a variety of products and services to our customers could be severely limited, which would have a material negative effect on our operating results. Also, even if we maintain agreements with our major content providers or providers of software we utilize in our products and services, such providers may directly contract with our distribution partners as well, reducing the demand by our distribution partners for content or functionalities coming through us.

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

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

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

adverse outcome of litigation matters assumed in or arising out of the acquisitions.

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

If we are unable to retain our key employees, we may not be able to successfully manage our business.

Our business and operations are substantially dependent on the performance of our executive officers and key employees, all of whom, except our chief executive officer, are employed on an at-will basis. If we lose the services of one or more of our

Table of Contents

executive officers or key employees and are unable to recruit and retain a suitable successor(s), we may not be able to successfully manage our business or achieve our business objectives. Additionally, our reduction of approximately 290 positions related to our restructuring could place significant strain on many of the remaining employees, including key employees, as well as create uncertainty about their and our future prospects. We recently instituted a restricted stock unit program aimed at retaining employees who were not scheduled for termination. However, there can be no assurance that this or any other retention program we initiate will be successful at retaining employees, including key employees.

Unless we are able to hire, retain and motivate highly qualified employees, we will be unable to execute our business strategy.

Our future success depends on our ability to identify, attract, hire, retain and motivate highly skilled technical, managerial, sales and marketing, and corporate development personnel. Our services and the industries to which we provide our services are relatively new. Qualified personnel with experience relevant to our business are scarce and competition to recruit them is intense. If we fail to successfully hire and retain a sufficient number of highly qualified employees, we may have difficulties in supporting our customers or expanding our business. Realignments of resources, reductions in workforce, including our reduction in workforce of approximately 290 positions related to our recent restructuring, or other operational decisions have created and could continue to create an unstable work environment and may have a negative effect on our ability to hire, retain and motivate employees.

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

Like many technology companies, we use stock options and other equity-based awards to recruit technology professionals and senior level employees. Our stock options, which typically vest over a two-, three- or four-year period, are one of the means by which we have historically attempted to motivate long-term employee performance. Beginning in 2006, the accounting treatment of options required us to expense the fair value of our employee stock options, which may make it difficult or overly expensive for us to issue stock options to our employees in the future. We also face a significant challenge in retaining our employees if the value of these stock options is either not substantial enough or so substantial that the employees leave after their stock options have vested. If our stock price does not increase significantly above the prices of our options, or option programs become impracticable, we may need to issue new options or other equity incentives or increase other forms of compensation to motivate and retain our employees. We recently instituted a restricted stock unit program in lieu of issuing stock options to employees, other than executives, because stock options were not currently seen as providing enough incentive to attract or retain employees. We may undertake or seek stockholder approval to undertake other equity-based programs to retain our employees, which may be viewed as dilutive to our stockholders or may increase our compensation costs. Additionally, there can be no assurance that any such programs we undertake, including the restricted stock unit awards, will be successful in motivating and retaining our employees.

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

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

In the past, there have been legal actions brought or threatened against distributors of downloadable applications deemed to be adware or spyware. Additionally, certain bills are pending and some laws have been passed in certain jurisdictions setting forth requirements that must be met before a downloadable application is downloaded to an end user s computer. We partner with some distribution partners that provide adware to their users if the partners adhere to our strict guidelines requiring them, among other things, to disclose to the user what the adware does and to obtain the consent of the user before the application is downloaded. The adware must also be easy to uninstall. We also review the application the partner proposes to use before we distribute our results to them. We also have the right to audit our partners, and if we find that they are not

following our guidelines, we can terminate our agreement with them or cease providing content to that downloadable application. Some partners have not been able to meet the new guidelines imposed by us or some of our content providers, and we no longer provide the applicable content or any content, as the case may be, to such partners or certain of their downloadable applications. We work closely with some of our major content providers to try to identify potential distribution partners that do not meet our guidelines or are in breach of our distribution agreements and we work with our distribution partners to ensure they deliver quality traffic. However, there can be no assurance that the measures we implement to reduce our exposure to claims that certain ways in which the content is distributed violate legal requirements will be successful. As stated above, these claims could result in material harm to our business.

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

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

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

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

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

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

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

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

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

Our success depends, in part, on the performance, reliability and availability of our services. We have data centers in Seattle and Bellevue, Washington; Los Angeles, California; Waltham, Massachusetts; and Papendrecht, The Netherlands. Although we have completed our disaster and redundancy planning for certain of our business-critical systems so that some are now redundant across two physical locations, we have not yet completed our disaster recovery and redundancy planning for others. Our systems and operations could be damaged or interrupted by fire, flood, power loss, telecommunications failure, Internet breakdown, break-in, earthquake or similar events. We would face significant damage as a result of these events, and our business interruption insurance may not be adequate to compensate us for all the losses that may occur. In addition, our

Table of Contents

systems use sophisticated software that may contain bugs that could interrupt service. For these reasons, we may be unable to develop or successfully manage the infrastructure necessary to meet current or future demands for reliability and scalability of our systems.

If the volume of traffic to our products and services increases substantially, we must respond in a timely fashion by expanding our systems, which may entail upgrading our technology and network infrastructure. Due to the number of our customers and the products and services that we offer, we could experience periodic capacity constraints which may cause temporary unanticipated system disruptions, slower response times and lower levels of customer service. Our business could be harmed if we are unable to accurately project the rate or timing of increases, if any, in the use of our products and application services or expand and upgrade our systems and infrastructure to accommodate these increases in a timely manner.

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

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

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

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

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

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

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

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

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

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

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

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

RISKS RELATED TO THE INDUSTRIES IN WHICH WE OPERATE

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

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

Some of the companies we compete with are currently customers of ours, the loss of which could harm our business. Many of our customers have established relationships with some of our competitors. If these competitors develop products and services that compete with ours, we could lose market share and our revenues could decrease. Additionally, our financial results could be adversely affected as well if our distribution partners create their own products and services that compete or replace the products and services we provide.

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

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

- our distribution partners could acquire or be acquired by one of our competitors and terminate their relationship with us;
- our distribution partners could merge with each other, which could reduce our ability to negotiate favorable terms;
- competitors could improve their competitive positions through strategic acquisitions; and

companies from whom we acquire content could acquire or be acquired by one of our competitors and stop licensing content to us, or gain additional negotiating leverage in their relationships with us.

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

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

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

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

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

Several federal or state laws could impact our business. Federal laws include those designed to restrict the online distribution of certain materials deemed harmful to children and impose additional restrictions or obligations for online services when dealing with minors. Such legislation may impose significant additional costs on our business or subject us to additional liabilities. The application to advertising in our industries of existing laws regulating or requiring licenses for certain businesses can be unclear. Such regulated businesses may include, for example, gambling; distribution of pharmaceuticals, alcohol, tobacco or firearms; or insurance, securities brokerage and legal services. Additionally, certain bills are pending and some laws have been passed in certain jurisdictions setting forth requirements that must be met before a downloadable application is downloaded to an end user s computer. Moreover, regulations by the Federal Communications Commission regarding unsolicited commercial email to wireless devices have created new requirements that could adversely affect our business by limiting our ability to communicate with users and increasing our burden of disclosure.

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

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

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

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

Our success depends, in large part, on other companies maintaining the Internet system infrastructure and mobile operators who utilize or distribute our mobile products and services to maintain their proprietary wireless networks. In particular, with respect to the Internet, we rely on other companies to maintain a reliable network backbone that provides adequate speed, data capacity and security and to develop products that enable reliable Internet access and services. With respect to wireless networks, we depend on mobile operators to maintain their wireless networks so as to provide adequate speed, data capacity and security and that enable reliable mobile access to our products and services.

As the Internet and usage of mobile services continues to experience growth in the number of users, frequency of use and amount of data transmitted, the Internet system infrastructure and the wireless networks of mobile operators may be unable to support the demands placed on them, and the Internet s and mobile operators networks performance or reliability may suffer as a result of this continued growth. Some of the companies that we rely upon to maintain network infrastructure may lack

Table of Contents

sufficient capital to support their long-term operations. The failure of the internet infrastructure or wireless networks would substantially undermine our operations and may have a material adverse effect on our financial results.

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

On June 8, 2007, our Board of Directors authorized the repurchase of up to $100 million of our outstanding common stock over the succeeding twelve months. On May 30, 2006, our Board of Directors approved a stock repurchase plan whereby we were authorized to purchase up to $100 million of our common stock which expired on May 29, 2007.

We did not purchase any shares under any of these plans during the three and six months ended June 30, 2007 and 2006.

Item 3. Defaults Upon Senior Securities

Not applicable with respect to the current reporting period.

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

At our annual meeting of stockholders held on May 31, 2007, the following proposals were adopted by the margin indicated:

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

Nominee	Shares Voted For	Votes Withheld
Richard D. Hearney	25,821,923	1,183,781
James F. Voelker	26,321,929	683,775
Nicholas F. Graziano	26,513,950	491,754

2. To ratify the appointment of Deloitte & Touche LLP as independent registered public accounting firm for InfoSpace for the fiscal year ending December 31, 2007:

	Shares Voted
For	26,852,976
Against	109,731
Abstain	26,004

Reference is made to the INFOSPACE, INC. SUPPLEMENT TO PROXY STATEMENT FOR 2007 ANNUAL MEETING OF STOCKHOLDERS, dated May 4, 2007, for a description of the terms of settlement between InfoSpace, Inc. and the Sandell Group (as defined therein) terminating the Sandell Group s solicitation subject to proxy rule 14a-12(c) promulgated by the SEC.

Item 5. Other Information

On August 3, 2007, InfoSpace, Inc. (the Company) entered into Amended and Restated Employment Agreements (each, an Agreement and, collectively, the Agreements) with each of James F. Voelker, R. Bruce Easter, Jr., Steve Elfman, Allen M. Hsieh and Brian McManus. The aforementioned agreements are filed as exhibits to this Quarterly Report on Form 10-Q. The summary of the Agreements set forth below is qualified in its entirety by the full text of the Agreements as filed.

Amended and Restated Employment Agreement with James F. Voelker

Salary and Bonus; Benefits and Severance

The Agreement between the Company and James F. Voelker provides for an initial employment term ending on December 31, 2008, as extended upon the mutual consent of the Company and Mr. Voelker and to be automatically extended in the event of a Change of Control (as defined in the Agreement) to the date that is one year following such Change of Control.

Table of Contents

Also pursuant to the terms of his Agreement, Mr. Voelker s annual base salary shall be $400,000 and he shall be eligible to receive a performance bonus of not less than fifty percent (50%) of his base salary, based on performance objectives to be mutually determined by Mr. Voelker and the Compensation Committee of the Company s Board of Directors.

The Company also will provide Mr. Voelker with certain payments in connection with the payment by the Company of any extraordinary dividend or special cash dividends to the shareholders of the Company (Dividend Benefit Payments), such that Mr. Voelker shall receive, subject to certain conditions, the greater of (i) the dividend amount with respect to the shares of Company common stock underlying his restricted stock units, in-the-money stock options and restricted shares of Company common stock (collectively, Benefit Payment Equity Awards) or (ii) a payment structured to compensate him with respect to the lost value of the shares of Company common stock underlying his Benefit Payment Equity Awards resulting from the declaration and payment of such dividend. Mr. Voelker also will receive a cash payment from the Company to compensate him for the tax consequences of the Dividend Benefit Payments (the Make Whole Payment).

In the event that Mr. Voelker terminates his employment with the Company while an at-will employee following the expiration of the employment term, subject to certain conditions, he will be eligible to receive severance payments equal to six (6) months of his base salary as well as reimbursement from the Company for continuing health insurance coverage for up to twelve (12) months. In addition, in such event, Mr. Voelker s then-unvested and outstanding restricted stock units (RSUs), stock options and restricted shares (collectively, Equity Awards) will vest in their entirety.

Mr. Voelker s employment with the Company may be terminated by the Company with or without Cause (as defined in the Agreement). In the event of Mr. Voelker is terminated by the Company without Cause or if Mr. Voelker s voluntarily terminates his employment with the Company for Good Reason (as defined in the Agreement), Mr. Voelker shall receive certain payments and benefits (the Separation Benefits), including (i) a lump sum cash payment equal to three (3) times the sum of his base salary and 100% of his bonus (based upon the higher of his actual bonus earned in the prior year or his target bonus in the year of termination), (ii) a pro rated portion of his bonus for the year of termination (based upon the higher of his actual bonus earned in the prior year or his target bonus in the year of termination), (iii) guaranteed continuation of comparable health coverage for him and his family for a period of thirty six (36) months and (iv) immediate vesting of Mr. Voelker s then-unvested and outstanding Equity Awards.

In the event that the Company terminates Mr. Voelker s employment with the Company for Cause, Mr. Voelker shall be entitled to receive (i) his base salary through the date of termination, (ii) the balance of any incentive awards earned and due but not yet paid, (iii) his accrued but unused vacation time through his termination date, (iv) other payments, if any, in accordance with applicable plans, programs, and other arrangements of the Company, and (v) continued entitlements with respect to expense reimbursements.

Retention Awards

In connection with the Agreement, the Company s Board of Directors granted to Mr. Voelker 160,424 restricted stock units (RSUs) pursuant to the terms of the Company s Restated 1996 Flexible Stock Incentive Plan (the Plan). These RSUs vest on July 10, 2008, subject to Mr. Voelker s continued employment with the Company as of such date.

In addition, on July 10, 2008, the Company shall pay to Mr. Voelker, subject to his continued employment with the Company as of such date, a lump sum cash payment of $3,600,000 (the Retention Cash Award). If and to the extent that the value of an award of 240,420 RSUs granted July 10, 2008 would exceed the Retention Cash Award, as calculated based upon the closing price of the Company s common stock on the Nasdaq on such date, Mr. Voelker shall receive an additional grant of RSUs pursuant to the terms of the Plan for such number of additional RSUs as would make up the difference in value between a grant of 240,420 RSUs at such date and the Retention Cash Award. In the event that Mr. Voelker s employment with the Company is terminated by the Company without Cause or Mr. Voelker voluntarily terminates his employment with the Company for Good Reason prior to July 10, 2008, Mr. Voelker shall be entitled to receive the Retention Cash Award within ten (10) business days following the date of such termination.

Change of Control Benefits and Obligations

If, during the employment term, Mr. Voelker s employment is terminated by the Company (i) other than for Cause within ninety (90) days prior to a Change of Control, (ii) is terminated other than for Cause by the Company (or its successor corporation) in connection with a Change of Control, (iii) is terminated other than for Cause by the Company (or its successor corporation) within eighteen (18) months following a Change of Control, or (iv) if Mr. Voelker resigns for Good Reason within eighteen (18) months following a Change of Control but within ninety (90) days following his learning of the occurrence of a Good Reason event and following the end of a specified cure period, then, subject to certain conditions, Mr. Voelker shall be entitled to certain payments and benefits including:

The Separation Benefits;

in the event such termination of employment takes place prior to July 10, 2008, the Retention Cash Award, payable within ten (10) business days; and

other payments and benefits including (a) his base salary through the date of termination, (b) the balance of any incentive awards earned and due but not yet paid, (c) his accrued but unused vacation time through his termination date, (d) other payments, if any, in accordance with applicable plans, programs, and other arrangements of the Company and (e) continued entitlements with respect to expense reimbursements.

The Agreement provides that Mr. Voelker shall be subject to a non-competition agreement for a period of one (1) year following any termination of his employment in connection with a Change of Control.

Additionally, the Agreement provides that, in the event that Mr. Voelker incurs any excise tax pursuant to Section 4999 of the Internal Revenue Code (Excise Tax) with respect to any payment made or benefit granted pursuant to the terms of the Agreement, the Company shall make a payment to Mr. Voelker (a Tax Reimbursement Payment) which, after the imposition of all income, excise and employment taxes thereon, is equal to the Excise Tax incurred.

Amended and Restated Employment Agreements with R. Bruce Easter, Jr., Steve Elfman, Allen M. Hsieh and Brian McManus

As noted above, the Company also entered into Agreements with each of R. Bruce Easter, Jr., Steve Elfman, Allen M. Hsieh and Brian McManus (each an Executive Officer and collectively, the Executive Officers), which Agreements contain, among other things, the provisions set forth below.

Salary and Bonus; Benefits and Severance

Messrs. Easter s, Elfman s, Hsieh s and McManus s annual base salaries shall be $275,000, $275,000, $220,000 and $300,000, respectively, and each is eligible to receive a performance bonus of not less than fifty percent (50%) of his base salary, based on performance objectives to be mutually determined by him and the Compensation Committee of the Company s Board of Directors.

The Company will provide each Executive Officer with Dividend Benefit Payments, and each also will receive a Make Whole Payment with respect to any such Dividend Benefit Payments.

Each of the Executive Officers may be terminated by the Company with or without Cause. In the event that any of them is terminated by the Company without Cause or voluntarily terminates his employment with the Company for Good Reason, he shall receive certain payments and benefits (the Executive Separation Benefits) including (i) a lump sum cash payment equal to two (2) times (one (1) time in the case of Mr. Easter) the sum of his base salary and 100% of his bonus (based upon the higher of his actual bonus earned in the prior year or his target bonus in the year of termination), (ii) a pro rated portion of his bonus for the year of termination (based upon the higher of his actual bonus earned in the prior year or his target bonus in the year of termination), (iii) guaranteed continuation of comparable health coverage for him and his family for a period of twenty four (24) months (twelve (12) months in the case of Mr. Easter) and (iv) immediate vesting of the Executive Officer s then-unvested outstanding Equity Awards in their entirety, giving the Executive Officer a period of twelve (12) months following the termination of his employment to exercise such Equity Awards.

In the event that the Company terminates any Executive Officer s employment with the Company for Cause, such Executive Officer shall be entitled to receive (i) his base salary through the date of termination, (ii) the balance of any incentive awards earned and due but not yet paid, (iii) his accrued but unused vacation time through his termination date, (iv) other payments, if any, in accordance with applicable plans, programs, and other arrangements of the Company, and (v) continued entitlements with respect to expense reimbursements.

Retention Awards

In connection with each Executive Officer s respective Agreement, the Company granted to Messrs. Easter, Elfman, Hsieh and McManus 25,886 RSUs, 64,465 RSUs, 34,515 RSUs and 69,030 RSUs, respectively, each such grant pursuant to the terms of the Plan. Each such grant shall become fully vested on July 10, 2008, subject to the recipient Executive Officer s continued employment with the Company as of such date.

On July 10, 2008, the Company shall grant to each of Messrs. Easter, Elfman, Hsieh and McManus, subject to such Executive Officer s continued employment with the Company as of such date, an additional grant pursuant to the Plan of 18,144 RSUs, 45,184 RSUs, 24,192 RSUs and 48,382 RSUs, respectively, with such additional RSUs to become fully vested on July 10, 2009.

Change of Control Benefits and Obligations

If during the employment term any Executive Officer s employment (i) is terminated by the Company other than for Cause within ninety (90) days prior to a Change of Control, (ii) is terminated other than for Cause by the Company (or its successor corporation) in connection with a Change of Control, (iii) is terminated other than for Cause by the Company (or its successor corporation) within eighteen (18) months following a Change of Control, or (iv) if the Executive Officer resigns for Good Reason within eighteen (18) months following a Change of Control but within ninety (90) days following his learning of the occurrence of a Good Reason event and following the end of a specified cure period, then, subject to certain conditions, the Executive Officer shall be entitled to certain payments and benefits including:

- the Executive Separation Benefits; and

- other payments and benefits including (i) his base salary through the date of termination, (ii) the balance of any incentive awards earned and due but not yet paid, (iii) his accrued but unused vacation time through his termination date, (iv) other payments, if any, in accordance with applicable plans, programs, and other arrangements of the Company and (v) continued entitlements with respect to expense reimbursements.

Additionally, each Agreement provides that, in the event that an Executive Officer incurs any Excise Tax with respect to any payment made or benefit granted pursuant to the terms of the Agreement, the Company shall make a Tax Reimbursement Payment to such Executive Officer.

Item 6. Exhibits

Exhibits	
10.6*	Amended and Restated 2001 Nonstatutory Stock Option Plan
10.32(1)	Agreement by and between InfoSpace, Inc. and certain entities affiliated with the Sandell Asset Management Corp., dated April 26, 2007
10.33*	Form of InfoSpace, Inc. Amended and Restated 2001 Nonstatutory Stock Option Plan Notice of Grant of Restricted Stock Units and Restricted Stock Unit Agreement
10.34	Form of InfoSpace, Inc. Restricted Stock Unit Award Tax Withholding Election Form
10.35*	Form of InfoSpace, Inc. Restated 1996 Flexible Stock Incentive Notice of Grant of Restricted Stock Units and Restricted Stock Unit Agreement for vice presidents and above
10.36*	Amended and Restated Employment Agreement dated August 3, 2007 between InfoSpace, Inc. and R. Bruce Easter, Jr.
10.37*	Amended and Restated Employment Agreement dated August 3, 2007 between InfoSpace, Inc. and Steve Elfman
10.38*	Amended and Restated Employment Agreement dated August 3, 2007 between InfoSpace, Inc. and Allen M. Hsieh
10.39*	Amended and Restated Employment Agreement dated August 3, 2007 between InfoSpace, Inc. and Brian McManus
10.40*	Amended and Restated Employment Agreement dated August 3, 2007 between InfoSpace, Inc. and James F. Voelker
31.1	Certification of Principal Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(1) Incorporated by reference to the Current Report on Form 8-K filed by registrant on May 2, 2007.

* Indicates a management contract or compensatory plan or arrangement.

Table of Contents

SIGNATURE

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

INFOSPACE, INC.

By /s/ Allen M. Hsieh
Allen M. Hsieh
Chief Financial Officer
(Principal Financial Officer)

Dated: August 8, 2007

Table of Contents

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