

INSWEB CORP
Form 10-Q
May 12, 2011

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 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 March 31, 2011

Or

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

For the transition period from to

Commission file number 0-26083

[Missing Graphic Reference]

INSWEB CORPORATION
(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

94-3220749
(IRS Employer
Identification Number)

10850 Gold Center Drive, Suite 250 Rancho Cordova, CA 95670
(Address of principal executive offices)

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

[Missing Graphic Reference]

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

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

Yes No

The number of outstanding shares of the Registrant’s Common Stock, par value \$0.001 per share, on April 29, 2011 were 5,704,782 shares.

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INSWEB CORPORATION
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PART I FINANCIAL INFORMATION

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PART I: FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

INSWEB CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)
(unaudited)

| | March 31, 2011 | December 31, 2010 |
|--|-------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 8,423 | \$ 6,733 |
| Short-term investments | 156 | 1,137 |
| Accounts receivable, net | 4,180 | 3,307 |
| Prepaid expenses and other current assets | 388 | 559 |
| Restricted short-term investments | 580 | 580 |
| Related party receivables | 321 | 319 |
| Total current assets | 14,048 | 12,635 |
| Intangible assets | 6,635 | 6,965 |
| Goodwill | 2,689 | 2,689 |
| Property and equipment, net | 154 | 171 |
| Other assets | 39 | 32 |
| Total assets | \$ 23,565 | \$ 22,492 |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 4,747 | \$ 3,740 |
| Accrued expenses and other current liabilities | 523 | 428 |
| Accrued contingent consideration | 1,393 | 1,172 |
| Deferred revenue | 1,165 | 2,321 |
| Total current liabilities | 7,828 | 7,661 |
| Accrued contingent consideration | 1,853 | 2,071 |
| Other liabilities | 80 | - |
| Total liabilities | 9,761 | 9,732 |

| | | |
|--|-----------|-----------|
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Common stock | 9 | 9 |
| Paid-in capital | 211,499 | 210,753 |
| Treasury stock | (6,334) | (6,334) |
| Accumulated deficit | (191,370) | (191,668) |
| Total stockholders' equity | 13,804 | 12,760 |
| Total liabilities and stockholders' equity | \$ 23,565 | \$ 22,492 |

See accompanying notes.

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INSWEB CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share amounts)
(unaudited)

| | Three Months Ended March 31, | |
|--------------------------------|---------------------------------|----------|
| | 2011 | 2010 |
| Revenues: | | |
| Transaction fees and other | \$ 13,861 | \$ 9,500 |
| Total revenues | 13,861 | 9,500 |
| Operating expenses: | | |
| Direct marketing | 9,295 | 6,428 |
| Sales and marketing | 1,900 | 1,334 |
| Technology | 978 | 502 |
| General and administrative | 1,369 | 738 |
| Total operating expenses | 13,542 | 9,002 |
| Income from operations | 319 | 498 |
| Interest income (expense), net | (21) | 5 |
| Income before income taxes | 298 | 503 |
| Provision for income taxes | - | 4 |
| Net income | \$ 298 | \$ 499 |
| Net income per share: | | |
| Basic | \$ 0.05 | \$ 0.10 |
| Diluted | \$ 0.05 | \$ 0.09 |

Weighted-average shares used in computing net
income per share:

| | | |
|---------|-------|-------|
| Basic | 5,523 | 4,824 |
| Diluted | 6,610 | 5,382 |

See accompanying notes.

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INSWEB CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)
(unaudited)

| | Three Months Ended March 31, | |
|--|---------------------------------|--------|
| | 2011 | 2010 |
| Cash flows from operating activities: | | |
| Net income | \$ 298 | \$ 499 |
| Adjustments to reconcile net income to net cash used by operating activities: | | |
| Share-based compensation | 378 | 118 |
| Depreciation and amortization | 362 | 40 |
| Interest income from related party receivables | (2) | (2) |
| Provision for doubtful accounts | 2 | - |
| Interest on contingent consideration | 26 | - |
| Net changes in operating assets and liabilities: | | |
| Accounts receivable | (875) | (575) |
| Prepaid expenses and other current assets | 171 | 357 |
| Other assets | (7) | 1 |
| Accounts payable | 1,007 | 249 |
| Accrued expenses and other current liabilities | 95 | (184) |
| Deferred revenue | (1,156) | 867 |
| Other liabilities | 80 | - |
| Net cash provided by operating activities | 379 | 1,370 |
| Cash flows from investing activities: | | |

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| | | |
|--|----------|----------|
| Purchases of short-term investments | (490) | (1,285) |
| Redemption of short-term investments | 1,470 | |
| Change in restricted cash | - | 1,155 |
| Purchases of property and equipment | (15) | - |
| Payments related to Potrero Media acquisition | (23) | - |
| Change in interest receivable | 2 | - |
| Net cash provided by (used in) investing activities | 944 | (130) |
| Cash flows from financing activities: | | |
| Proceeds from issuance of common stock through stock plans | 367 | 19 |
| Net cash provided by financing activities | 367 | 19 |
| Net increase in cash and cash equivalents | 1,690 | 1,259 |
| Cash and cash equivalents, beginning of period | 6,733 | 6,401 |
| Cash and cash equivalents, end of period | \$ 8,423 | \$ 7,660 |

See accompanying notes.

INSWEB CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Business of InsWeb

InsWeb operates an online insurance marketplace that electronically matches consumers and providers of automobile, property, health, term life, and small business insurance. On October 1, 2010, InsWeb acquired Potrero Media Corporation (“Potrero Media”), which operates a similar service focused on the health and term life insurance markets. From the acquisition date through May 2, 2011, Potrero Media was operated as a separate, wholly-owned subsidiary of InsWeb. Potrero Media is treated as a separate reportable segment in recognition of its separate corporate structure for the period covered by this Quarterly Report on Form 10-Q, but due to the similarity in their business models, all references to “InsWeb” in describing our business for periods after October 1, 2010 will include Potrero Media, except as specifically noted otherwise.

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

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

2. Basis of Presentation

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

The accompanying unaudited interim financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, they do not contain all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, the accompanying unaudited interim condensed consolidated financial statements reflect all adjustments, which include only normal

recurring adjustments, necessary to present fairly InsWeb's financial position as of March 31, 2011 and the results of operations for the three months ended March 31, 2011 and 2010 and of cash flows for the three months ended March 31, 2011 and 2010. The financial data and other information disclosed in these notes to the condensed consolidated financial statements related to these periods are unaudited. The results for the three months ended March 31, 2011 are not necessarily indicative of the results to be expected for any future period.

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in InsWeb's Annual Report on Form 10-K and other information as filed with the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations. The December 31, 2010 condensed consolidated balance sheet was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States. The Company believes the disclosures in its notes to the condensed consolidated financial statements are adequate to make the information presented not misleading.

INSWEB CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

InsWeb has evaluated subsequent events through the time of filing these financial statements. Based upon the evaluation, there was no material impact on the accompanying consolidated financial statements. See Part I, Item 1, “Financial Statements — Note 15 — Subsequent Events”. The Board of Directors approved a reorganization that will combine the operations of InsWeb Corporation and its wholly-owned subsidiary, Potrero Media Corporation, into a single entity under the InsWeb name.

3. Share-Based Payments

InsWeb maintains a stock option plan and an employee stock purchase plan. The following table sets forth the total share-based compensation expense relating to these plans included in InsWeb’s operating expenses in its condensed consolidated statements of income for the three months ended March 31, 2011 and 2010 (in thousands):

| | Three Months Ended March 31, | |
|----------------------------|---------------------------------|--------|
| | 2011 | 2010 |
| Technology | \$ 36 | \$ 10 |
| Sales and marketing | 52 | 16 |
| General and administrative | 290 | 92 |
| | \$ 378 | \$ 118 |

4. Concentration of Risk — Significant Customers

For the three months ended March 31, 2011, two customers (Geico and Allstate) accounted for 11% and 10% of total revenues, respectively. For the three months ended March 31, 2010, three customers (State Farm, American Family, and NetQuote) accounted for 15%, 11%, and 11% of total revenues, respectively. At March 31, 2011, three customers (Geico, Allstate, and SureHits) accounted for 13%, 12%, and 12% of accounts receivable, respectively. At December 31, 2010, two customers (SureHits and Geico) accounted for 17% and 12% of accounts receivable, respectively.

5. Fair Value Measurements

The following table presents the assets and liabilities measured at fair value on a recurring basis as of March 31, 2011 (in thousands):

| | March 31, 2011 | Level 1 | Level 2 | Level 3 |
|------------------------|-------------------|----------|---------|---------|
| Assets: | | | | |
| Cash equivalents | \$ 1,506 | \$ 1,506 | \$ — | — |
| Short-term investments | 156 | 156 | — | — |

| | | | | |
|-----------------------------------|----------|----------|------|-------|
| Restricted short-term investments | 580 | 580 | | |
| Total assets at fair value | \$ 2,242 | \$ 2,242 | \$ — | — |
| Liabilities: | | | | |
| Contingent consideration | \$ 3,246 | — | —\$ | 3,246 |
| Total liabilities at fair value | \$ 3,246 | — | —\$ | 3,246 |

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INSWEB CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

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

| | December 31, 2010 | Level 1 | Level 2 | Level 3 |
|-----------------------------------|----------------------|----------|---------|---------|
| Assets: | | | | |
| Cash equivalents | \$ 3,850 | \$ 3,850 | \$ — | — |
| Short-term investments | 1,137 | 1,137 | — | — |
| Restricted short-term investments | 580 | 580 | | |
| Total assets at fair value | \$ 5,567 | \$ 5,567 | \$ — | — |
| Liabilities: | | | | |
| Contingent consideration | \$ 3,243 | — | —\$ | 3,243 |
| Total liabilities at fair value | \$ 3,243 | — | —\$ | 3,243 |

Cash equivalents, short-term investments and restricted short-term investments include certificates of deposit, money market funds and commercial paper from corporations whose credit ratings are P-1 by Moody's or A-1 by Standard & Poor's. The carrying value of these cash equivalents, short-term investments and restricted short-term investments

approximates fair value. For these securities, InsWeb uses quoted prices in active markets for identical assets to determine their fair value and are considered to be Level 1 instruments.

The fair value of the contingent consideration associated with the Potrero Media acquisition was accrued for and classified as accrued contingent consideration in the accompanying consolidated balance sheet. The fair value was determined based on unobservable inputs, namely management's estimate of expected performance based on current information, and therefore are considered to be Level 3 liabilities. The following table provides a reconciliation of the beginning and ending balances for the liability measured at fair value using significant unobservable inputs (Level 3).

| | Contingent Consideration |
|--------------------------------------|-----------------------------|
| Balance as of January 1, 2011 | \$ 3,243 |
| Payments – Potrero Media acquisition | (23) |
| Interest on contingent consideration | 26 |
| Balance as of March 31, 2011 | \$ 3,246 |

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

6. Acquisition

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

On April 28, 2011, InsWeb's Board of Directors approved the third amendment ("Third Amendment") to the Purchase Agreement. The Third Amendment was executed on May 2, 2011 between the InsWeb and Potrero's prior owners.

(unaudited)

The Third Amendment revises certain portions of the contingent consideration that were to be made to Potrero's prior owners by InsWeb related to the \$1.5 million due at the first anniversary of the Closing Date, and the up to \$3.0 million in contingent consideration to be paid in cash up to \$1.0 million annually for each of the first three full calendar years following the Closing Date. The condensed consolidated financial statements through March 31, 2011 and this footnote do not reflect the impact of the Third Amendment. See Part I, Item 1, "Financial Statements — Note 15 — Subsequent Events".

The maximum purchase price for Potrero Media, exclusive of the discounting or probability reductions associated with the contingent consideration, was \$12.5 million as of the Closing Date. The \$12.5 million maximum purchase price is comprised of \$6.0 million in cash paid at the Closing Date, \$844,000 in cash paid within 30 days of the Closing Date associated with excess working capital as of September 30, 2010, \$1.5 million in cash due at the first anniversary of the Closing Date (Revised based on the execution of the Third Amendment.), \$1.2 million related to issuance of 312,578 shares

of common stock in Insweb to be held in escrow and released on the first anniversary of the Closing Date, and a total of up to \$3.0 million in contingent consideration, to be paid in cash up to \$1.0 million annually for each of the first three full calendar years following the Closing Date (Revised based on the execution of the Third Amendment).

Contingent Consideration

InsWeb is entitled to withhold \$1.5 million of the purchase consideration due to the selling shareholders if Potrero Media's EBITDA (EBITDA refers to a financial measure that the Company defines as net income (loss) excluding interest, taxes, depreciation and amortization), subject to certain adjustments as specified in the Purchase Agreement, is less than approximately \$686,000 for the first nine months of calendar year 2011 (Revised based on the execution of the Third Amendment.). The selling shareholders have the right to elect whether the withholding, if earned, will be satisfied from the second cash payment or from the stock payment due on the first anniversary of the closing date.

As described in the Purchase Agreement, the annual contingent consideration payments were contingent upon Potrero Media meeting certain adjusted EBITDA target. Provided Potrero Media's EBITDA exceeds the minimum EBITDA requirements for 2011, 2012, or 2013, Potrero Media's stakeholders will receive contingent consideration payments for that year. The contingent consideration is calculated as five times the amount that annual EBITDA exceeds the required minimum EBITDA, up to a maximum of \$1 million (Revised based on the execution of the Third Amendment.).

7. Related Party Receivables

As of March 31, 2011 and December 31, 2010, related party receivables relate to promissory notes totaling \$300,000 from three non-officer employees of InsWeb in exchange for cash and the related interest accrued on these notes. These notes are unsecured loans with a per annum rate of 2.42%. Principal and interest are payable in full on or before July 28, 2011.

8. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following (in thousands):

| March 31, 2011 | December 31, 2010 |
|-------------------|----------------------|
|-------------------|----------------------|

| | | | |
|---|----|-----|--------|
| | | | |
| Prepaid rent and current portion of lease deposits | \$ | 168 | \$ 185 |
| Prepaid insurance | | 50 | 133 |
| Prepaid software licenses | | 57 | 47 |
| Other | | 113 | 194 |
| | \$ | 388 | \$ 559 |

9. Restricted Short-Term Investments

As of March 31, 2011 and December 31, 2010, restricted short-term investments consisted of \$580,000 in short-term investments used as collateral to obtain a commercial credit line. Pursuant to the commercial credit agreement the collateral value of the securities account should be no less than \$550,000, based on investments held by InsWeb. As of March 31, 2011 and December 31, 2010, restricted short-term investments used as collateral for the credit line was \$580,000. The collateral value may become unrestricted if InsWeb elects to cancel the commercial credit agreement with the issuing bank.

INSWEB CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

10. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following (in thousands):

| | March 31, 2011 | December 31, 2010 |
|-------------------------------|-------------------|----------------------|
| Accrued employee compensation | \$ 474 | \$ 357 |
| Deferred rent | 16 | 39 |
| Other | 33 | 32 |
| | \$ 523 | \$ 428 |

11. Comprehensive Income

Total comprehensive income was as follows (in thousands):

| | Three months ended March 31, | |
|---|---------------------------------|--------|
| | 2011 | 2010 |
| Net income | \$ 298 | \$ 499 |
| Other comprehensive income (expense) | | |
| - change in unrealized gain (loss) on investments | - | (6) |
| Comprehensive income | \$ 298 | \$ 493 |

12. Net Income Per Share

Basic net income per share is computed using the weighted-average number of shares of common stock outstanding. Diluted income per share is a measure of the potential dilution that would occur if stock options had been exercised.

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

| | Three months ended March 31, | |
|--|---------------------------------|------|
| (In thousands, except per share amounts) | 2011 | 2010 |
| | | |

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Numerator for basic and diluted net income per share:

| | | | | |
|---|----|-----|----|-----|
| Net income available to common stockholders | \$ | 298 | \$ | 499 |
|---|----|-----|----|-----|

Denominator for net income per share:

| | | | | |
|---|--|-------|--|-------|
| Basic—weighted average shares of common stock outstanding | | 5,523 | | 4,824 |
| Dilutive effect of employee stock options | | 1,087 | | 558 |
| Diluted | | 6,610 | | 5,382 |

Net income per share:

| | | | | |
|---------|----|------|----|------|
| Basic | \$ | 0.05 | \$ | 0.10 |
| Diluted | \$ | 0.05 | \$ | 0.09 |

INSWEB CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

13. Segments

For the period ending March 31, 2011, InsWeb's products and operations were managed and reported in two operating segments, InsWeb and Potrero Media. Both segments operate an online insurance marketplace that electronically matches consumers and providers of automobile, property, health and term life insurance. InsWeb's Chief Operating Decision Maker reviewed the operating results of InsWeb and Potrero Media separately and makes decisions about resources to be allocated to each based on their separate performance. Transfers between segments are recorded at cost. Potrero Media was acquired on October 1, 2010 and therefore, only one segment was in existence for the period ended March 31, 2010, therefore segment information is not disclosed for the period ended March 31, 2010.

| Segment Information | InsWeb | Potrero Media | Intercompany Eliminations | Consolidated |
|--|-----------|---------------|---------------------------|--------------|
| Operating revenues from external customers | \$ 11,038 | \$ 2,823 | \$ - | \$ 13,861 |
| Intersegment revenues | - | 243 | (243) | - |
| Total revenue | \$ 11,038 | \$ 3,066 | (243) | \$ 13,861 |
| Direct marketing expenses paid to external vendors | \$ 7,318 | \$ 1,977 | \$ - | \$ 9,295 |
| Intersegment direct marketing expenses | 123 | 103 | (226) | - |
| Total direct marketing | \$ 7,441 | \$ 2,080 | (226) | \$ 9,295 |
| Gross margin | \$ 3,597 | \$ 986 | (17) | \$ 4,566 |
| Other operating expenses | \$ 3,505 | \$ 742 | \$ - | \$ 4,247 |
| Income from operations | \$ 92 | \$ 244 | (17) | \$ 319 |

As a result of the approved reorganization that will combine the operations of InsWeb Corporation and its wholly-owned subsidiary, Potrero Media Corporation into a single entity under the InsWeb name, management is currently evaluating the impact on its operating segments. See Part I, Item 1, “Financial Statements — Note 15 — Subsequent Events”.

14. Commitments and Contingencies

Leases

InsWeb has a non-cancelable lease through February 14, 2017 for approximately, 16,000 square feet of office space in the Sacramento area which houses its corporate headquarters. InsWeb has two, consecutive options to extend the term for five years each at the prevailing market rent.

Potrero Media’s headquarters and its principal administrative, product development, sales and marketing operations are located in a 10,000 square foot facility in San Francisco, California, which Potrero Media occupies under a non-cancelable lease expiring in October 2014. Potrero Media has four consecutive options to extend the term for five years each. Mr. Richard A. Natsch, President, Potrero Media and Mrs. Heather K. Natsch, Chief Financial Officer, Potrero Media are co-owners of Mission Potrero Properties, LLC, which are the lessors of the property that Potrero Media occupies.

Securities Class Action

A securities class action lawsuit was filed on December 5, 2001 in the United States District Court for the Southern District of New York, (the “Court”) purportedly on behalf of all persons who purchased our common stock from July 22, 1999 through December 6, 2000. The complaint named as defendants InsWeb, certain current and former officers and directors, and three investment banking firms that served as underwriters for InsWeb’s initial public offering in July 1999. The complaint, as subsequently amended, alleges violations of Sections 11 and 15 of the Securities Act of 1933 and Sections 10 and 20 of the Securities Exchange Act of 1934, on the grounds that the prospectuses incorporated in the registration statements for the offering failed to disclose, among other things, that (i) the underwriters had solicited and received excessive and undisclosed commissions from certain investors in exchange for which the underwriters allocated to those investors material portions of the shares of our stock sold in the offerings and (ii) the underwriters had entered into

INSWEB CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

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

Section 16(b) Lawsuit

On October 12, 2007, Vanessa Simmonds, a purported stockholder of InsWeb, filed a complaint in the United States District Court for the Western District of Washington, against InsWeb and two investment banking firms that served as underwriters for the initial public offering of our common stock in July 1999. The complaint alleges that: (i) the defendants, other underwriters of the offering, and unspecified officers, directors and principal stockholders of InsWeb constituted a "group" that owned in excess of 10% of InsWeb's outstanding common stock between July 23, 1999 and July 20, 2000; (ii) the defendants were therefore subject to the "short swing" prohibitions of Section 16(b) of the Securities Exchange Act of 1934; and (iii) the defendants engaged in purchases and sales, or sales and purchases, of InsWeb's common stock within periods of less than six months in violation of the provisions of Section 16(b). The complaint seeks disgorgement of all profits allegedly received by the defendants, with interest and attorneys' fees, for transactions in violation of Section 16(b). InsWeb, as the statutory beneficiary of any potential Section 16(b) recovery, is named as a nominal defendant in the complaint. A number of similar lawsuits against underwriters of other public offerings have recently been filed by the same plaintiff and law firm. On February 11, 2008, the court approved a

stipulated order that InsWeb need not answer or otherwise respond to the complaint. On February 28, 2008, the plaintiff filed an amended complaint, and InsWeb was again excused from filing an answer. On March 12, 2009 the court issued an order dismissing the lawsuit with prejudice, but plaintiffs appealed this order to the Ninth Circuit Court of Appeal. On December 2, 2010, the Ninth Circuit determined that the plaintiff's demand letters sent to 30 defendant issuers were inadequate and affirmed the district court's dismissal of plaintiff's claim as to those defendants. The Ninth Court remanded another 24 cases, including InsWeb's case, with instructions that the District Court permit the underwriters and issuers to file motions challenging the adequacy of the demand letters in those cases. The Ninth Circuit made clear to the District Court that the Ninth Circuit expects the District Court to dismiss claims as to issuers, such as InsWeb, that received demand letters similar to the letters that were found to be inadequate. But the Ninth Circuit also reversed the District Court's decision that the statute of limitations had run on claims of certain issuers, including InsWeb, which may leave open the possibility that plaintiff could send new demand letters. The underwriters and plaintiff are seeking review by the United States Supreme Court. If the lawsuit is reinstated on appeal, InsWeb intends to defend the lawsuit vigorously. The litigation and settlement process is inherently uncertain and management cannot predict the outcome, though, if unfavorable, it could have a material adverse effect on InsWeb's financial condition, results of operations and cash flows.

INSWEB CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

15. Subsequent Event

On April 28, 2011, the InsWeb Corporation Board of Directors approved a reorganization that will combine the operations of InsWeb Corporation and its wholly-owned subsidiary, Potrero Media Corporation, into a single entity under the InsWeb name. The Board of Directors also approved a third amendment to the Stock Purchase Agreement dated August 31, 2010. Within seven days of executing Amendment No. 3, InsWeb will pay Potrero Media's prior owners \$2.1 million in exchange for their waiver of all rights to contingent consideration related to InsWeb's acquisition. The Stock Purchase Agreement and previous amendments would have required InsWeb to pay up to \$4.5 million in contingent consideration based on Potrero Media achieving specific EBITDA targets in 2011, 2012, and 2013.

As a result of the Third Amendment, InsWeb paid Potrero Media's prior owners \$2.1 million on May 2, 2011, and the contingent-consideration liability of \$3.246 million will be eliminated during the three month period ended June 30, 2011. Management of InsWeb believes that the Third Amendment will have a material impact on the Company's results of financial statements for the remainder of the periods presented through December 31, 2011. It is estimated that as a result of the Third Amendment that the Company will recognize other income of approximately \$1.146 million, which represents the difference between the payment of \$2.1 million agreed to in Third Amendment and the \$3.246 million contingent consideration liability outstanding as of March 31, 2011.

In addition, the Board of Directors announced the promotion of Richard A. Natsch to President and Chief Operating Officer of the combined organization, and Mr. Brad F. Cooper was promoted to the position of Chief Revenue Officer. The Compensation Committee of the Board of Directors increased Mr. Natsch's 2011 base salary from \$12 to \$250,000 per year, and Mr. Cooper's 2011 salary was increased to \$230,000 per year, in recognition of their increased responsibilities in the combined company. Mr. Natsch and Mr. Cooper also will be eligible for cash performance bonuses pursuant to the 2011 executive compensation plan approved by the Compensation Committee on December 15, 2010. Hussein A. Enan will continue to serve as InsWeb's Chief Executive Officer and Chairman of the Board.

INSWEB CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

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

This Quarterly Report on Form 10-Q, and in particular Management's Discussion and Analysis of Financial Condition and Results of Operations, contains "forward-looking statements" with respect to InsWeb's future financial performance. The words or phrases "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," and similar expressions are generally intended to identify forward-looking statements. Such forward-looking statements are subject to various known and unknown risks and uncertainties, and InsWeb cautions you that any forward-looking information provided by, or on behalf of, InsWeb is not a guarantee of future performance. Actual results could differ materially from those anticipated in such forward-looking statements due to a number of factors, some of which are beyond InsWeb's control, including, but not limited to, uncertain economic conditions which could result in lower growth rates, fluctuations in revenues, anticipated and unanticipated losses, the unpredictability of consumer shopping and/or buying behavior, especially on the internet, potential increases in advertising and marketing costs on the internet, the rate of participation by insurance companies and agents, reliance on key customers, who are themselves subject to volatility in their operating cycles, reliance on third party lead aggregators who provide leads to their networks of insurance providers on InsWeb's behalf, competition, risks associated with system development and operation risks, management of potential growth and risks of new business areas, business combinations, litigation in which InsWeb is a party, and strategic alliances. These risks and uncertainties, as well as other risks and uncertainties, which are described in greater detail in InsWeb's Annual Report on Form 10-K for the year ended December 31, 2010 and other documents filed with the Securities and Exchange Commission, could cause InsWeb's actual results to differ materially from historical results or those currently anticipated. All forward-looking statements are based on information available to InsWeb on the date hereof, and InsWeb assumes no obligation to update such statements.

Overview

InsWeb (the "Company," "InsWeb," "we," "us," or "our") operates an online insurance marketplace that electronically matches consumers and providers of automobile, property, health, term life and small business insurance. InsWeb has combined extensive knowledge of the insurance industry, technological expertise and close relationships with insurance companies, agents and other providers to develop an integrated online marketplace.

InsWeb's principal source of revenues is transaction fees from participating insurance providers, which include insurance companies, national, statewide or nationwide insurance brokers, and local independent or exclusive agents (such as State Farm agents). Quotes and other information obtained through InsWeb's online insurance marketplace are provided to consumers free of charge. InsWeb earns a majority of its revenues from participating insurance providers, based on the delivery of qualified leads from consumers who have completed an insurance form. Lead revenues represented approximately 87% and 80% of total revenues for the three months ended March 31, 2011 and 2010 respectively. In certain instances, consumers are provided the opportunity to link directly to a third-party insurance provider's website ("Cost per Click" or "CPC" program). In these situations, the consumer will complete the third-party company's online application, and InsWeb will be paid a fee for that consumer link or "click-through." Click-through revenues accounted for approximately 12% and 18% of total revenues for the three months ended March 31, 2011 and 2010 respectively.

We have focused our efforts on automobile insurance, which accounted for approximately 78% and 83% of our transaction revenues in 2010 and 2009 respectively. For the three month period ending March 31, 2011, automobile insurance accounted for 70% of our transaction revenues. For the comparable three month period in 2010, automobile insurance accounted for approximately 82% of transaction revenues. We anticipate that automobile insurance will continue to account for a substantial portion of our revenues for the foreseeable future.

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Results of Operations

The following financial highlights and key metrics are provided as a resource for our investors

| | Three months Ended | |
|--|--------------------|-------------------|
| | March 31, 2011 | March 31, 2010 |
| Revenues (in thousands): | | |
| Auto | \$ 9,623 | \$ 7,769 |
| Health | 2,382 | 32 |
| Property | 872 | 992 |
| Term life | 820 | 481 |
| Agent directory | 75 | 101 |
| Other | 56 | 83 |
| Total transaction fees | \$ 13,828 | \$ 9,458 |
| Direct marketing expenses (in thousands): | \$ 9,295 | \$ 6,428 |
| Direct marketing expenses as a percent of transaction revenues: | 67% | 68% |
| Cash, cash equivalents, short-term investments and restricted short-term investments (in thousands): | \$ 9,159 | \$ 9,888 |
| Account receivable, net (in thousands): | \$ 4,180 | \$ 2,589 |
| Day sales outstanding (DSO): | 24 | 22 |
| Headcount: | 85 | 62 |

Transaction Fees.

InsWeb earns transaction fees from participating insurance providers based on the delivery of qualified consumer leads or consumer clickthroughs. InsWeb primary methods of acquiring consumer traffic are:

Direct to consumers: consumers who started a shopping session on a website of InsWeb or its subsidiaries, including consumers acquired through paid and organic search;

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

Form hosting: consumers who InsWeb acquired directly from non-competitor 3rd parties in the form of qualified leads.

Automobile insurance transaction fees (consisting of lead fees and click through fees) increased to \$9.6 million for the three months ended March 31, 2011, from \$7.8 million for the comparable period in 2010. The increase in transaction fees was primarily attributable to a net increase in the number of consumers visiting our websites from form hosting and competitor traffic sources. InsWeb's automobile websites experienced a 352,000 or 101% increase in the number of consumers acquired from form hosting traffic sources and a 146,000 or 30% increase in the number of consumers acquired from competitor traffic sources, partially offset by a 996,000 or 26% decrease in the number of consumers acquired through direct to consumer traffic sources. The increase in the number of consumers from form hosting and competitor traffic sources is consistent with the increase in revenues of \$1.4 million and \$1.5 million respectively, offset by a \$1.1 million decrease in revenue from direct to consumer traffic sources for the comparable periods. The increase in number of consumers from form hosting traffic reflects InsWeb's efforts in 2011 to expand form hosting relationships. InsWeb expects the number of form hosting relationships to increase for the remainder of 2011.

Health insurance transaction fees (consisting of lead fees and click through fees) increased to \$2.4 million for the three months ended March 31, 2011, from \$32,000 for the comparable period in 2010, the entire increase was attributed to the acquisition of Potrero Media on October 1, 2010. With the acquisition, InsWeb expects health insurance transaction fees to comprise a growing percentage of its future total revenues.

Property insurance transaction fees (consisting primarily of lead fees) decreased to \$0.9 million for the three months ended March 31, 2011, compared to \$1.0 million for the same period in 2010. The decrease in transaction fees for the three

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months ended March 31, 2011 from the comparable period in 2010 was primarily attributable to a decrease in revenue from direct to consumer traffic sources.

Term life insurance transaction fees (consisting primarily of lead fees) increased to \$0.8 million for the three months ended March 31, 2011 from \$0.5 million for the comparable period in 2010. The increase in transaction fees was primarily attributable to the acquisition of Potrero Media on October 1, 2010 and a net increase in the number of consumers visiting our websites through form hosting traffic sources. An increase of 975,000 consumers were acquired from direct to consumer traffic sources and a 12,000 or 296% increase in the number of consumers were acquired from form hosting traffic sources. The increase in direct to consumer traffic was primarily attributed to Potrero Media. The increase in number of consumers from form hosting traffic reflects InsWeb's efforts in 2011 to expand form hosting relationships. InsWeb expects the number of form hosting relationships to increase for the remainder of 2011.

We expect auto, health, property and term life transaction fees to remain at current levels for the remainder of 2011.

Agent directory revenues (consisting of subscription revenue and advertising revenues) remained level at \$0.1 million for the three months ended March 31, 2011 and 2010. Agent directory revenues are expected to remain at current levels for the remainder of 2011.

Operating Expenses

| (in thousands, except percentages) | Three months ended March 31, | | Percentage change from prior period |
|------------------------------------|---------------------------------|----------|---|
| | 2011 | 2010 | |
| Operating expenses: | | | |
| Direct marketing | \$ 9,295 | \$ 6,428 | 45 % |
| Sales and marketing | 1,900 | 1,334 | 42 % |
| Technology | 978 | 502 | 95 % |
| General and administrative | 1,369 | 738 | 86 % |

Direct Marketing. Direct marketing expenses consist of advertising, promotions and fees incurred to drive consumer traffic directly to the InsWeb online marketplace, and fees paid to third parties pursuant to form hosting marketing partnerships.

Direct marketing expenses for the three months ending March 31, 2011 increased to \$9.3 million from \$6.4 million for the comparable period in 2010. The 45% increase in spending for the three months ended March 31, 2011 from the comparable period in 2010 is primarily due to continued increase of consumers being acquired through form hosting marketing partnerships. Direct marketing expenses also increased by \$2.0 million for the three months ended March 31, 2011 attributed to the acquisition of Potrero Media on October 1, 2010. Direct marketing expenses as a percent of total revenues were 67% for the three months ended March 31, 2011, compared to 68% for the comparable period in 2010.

We expect direct marketing expenses relative to revenues, to remain at current levels for the remainder of 2011 as we do not expect significant changes in our marketing sources.

Sales and Marketing. Sales and marketing expenses consist primarily of payroll and related expenses, including employee benefits, facility costs, telecommunications and systems costs, for our sales and marketing personnel. Sales and marketing expenses increased to \$1.9 million for the three months ended March 31, 2011, from \$1.3 million for the comparable period in 2010. The increase was primarily due to sales and marketing expenses attributed to the acquisition of Potrero Media on October 1, 2010 and corporate overhead allocation. Sales and marketing expenses are expected to remain at or near current levels for the remainder of 2011.

Technology. Technology expenses consist primarily of payroll and related expenses, including employee benefits, facility and systems costs, for product and site development personnel involved with our technology initiatives. Technology expenses increased to \$1.0 million for the three months ended March 31, 2011, from \$0.5 million for the comparable period in 2010. The increase was primarily due to technology related expenses attributable to the acquisition of Potrero Media on October 1, 2010, corporate overhead allocation, software licenses and headcount related expenses. Technology expenses are expected to remain at or near current levels for the remainder of 2011.

General and Administrative. General and administrative expenses consist primarily of payroll and related expenses, including employee benefits, facility costs, telecommunications and systems costs, for our general management, administrative and accounting personnel, as well as other general corporate expenses. General and administrative expenses increased to \$1.4 million for the three months ended March 31, 2011 from \$0.7 million for the comparable period in 2010. The increase was primarily due to the general and administrative expenses attributable to the acquisition related expenses of Potrero Media, share-based compensation expense, and an increase in salaries and benefits. The increase in salaries and benefits includes the increases for senior management approved by the Compensation Committee on December 15, 2010. General and administrative expenses are expected to decrease slightly for the remainder of 2011 with decreased rent expenses attributed to our new lease, offset by a salary increase to Rick Natsch, mentioned previously.

Interest and Other Income, Net. Net interest income (expense) was (\$21,000) for the three months ended March 31, 2011 as compared to \$5,000 in the comparable period in 2010. Due to the acquisition of Potrero Media on October 1, 2010, interest expense is recognized on imputed interest for the contingent consideration related to the transaction. InsWeb's investment portfolio consists entirely of cash, cash equivalents and short-term investments. InsWeb expects that returns received from its investment portfolio in the near future will be negligible given current economic conditions in the United States.

Income Taxes. InsWeb recognized no expense for, and did not receive a benefit from income taxes for the three months ended March 31, 2011. A provision of \$4,000 for income taxes was recognized for the comparable period in 2010.

Critical Accounting Policies

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

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

collectability of the sales price is reasonably assured.

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

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Contingencies. As discussed in Part I, Item 1, "Financial Statements — Note 14 — Commitments and Contingencies." Notes to Consolidated Financial Statements of this report, InsWeb is a defendant in: i) a class action lawsuit that alleges InsWeb violated certain federal securities laws at the time of its initial public offering; ii) a securities lawsuit alleging certain officers and directors and significant shareholders violated the short swing trading prohibition of Section 16(b) of the Securities Exchange Act. InsWeb cannot accurately predict the ultimate outcome of these matters at this time and therefore, cannot estimate the range of probable loss, if any, due to the inherent uncertainties of litigation. InsWeb believes it has meritorious defenses; however InsWeb cannot assure that it will prevail in any of these actions. An unfavorable outcome could have a material adverse effect on InsWeb's financial condition, results of operations and cash flows.

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

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

For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. At March 31, 2011 and March 31, 2010, InsWeb had unrecognized tax benefits of approximately \$0.3 million and \$0.3 million, respectively (none of which, if recognized, would favorably affect InsWeb's effective tax rate). InsWeb does not believe there will be any material changes in its unrecognized tax positions over the next twelve months.

For tax return purposes, InsWeb had net operating loss carry forwards at March 31, 2011 of approximately \$184.9 million and \$76.8 million for federal income tax and state income tax purposes, respectively. Included in these amounts are unrealized federal and state net operating loss deductions resulting from stock option exercises of approximately \$5.3 million each. The benefit of these unrealized stock option-related deductions has not been included in the deferred tax assets table below and will be recognized as a credit to additional paid-in capital when realized. Federal and state net operating loss carry forwards begin expiring in 2011 and 2012, respectively.

The carrying value of our deferred tax assets, which was approximately \$66.4 million at December 31, 2011, is dependent upon our ability to generate sufficient future taxable income. We have established a full valuation allowance against our net deferred tax assets to reflect the uncertainty of realizing the deferred tax benefits, given historical losses. A valuation allowance is required when it is more likely than not that all or a portion of a deferred tax asset will not be realized. This assessment requires a review and consideration of all available positive and negative evidence, including our past and future performance, the market environment in which we operate, the utilization of tax attributes in the past, and the length of carryforward periods and evaluation of potential tax planning strategies. We expect to continue to maintain a full valuation allowance until an appropriate level of profitability is sustained or we are able to develop tax strategies that would enable us to conclude that it is more likely than not that a portion of our deferred tax assets would be realizable.

Liquidity and Capital Resources

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

| | Three months ended | |
|---|--------------------|----------|
| | March 31, | |
| | 2011 | 2010 |
| Cash provided by operating activities | \$ 379 | \$ 1,370 |
| Cash provided by (used in) investing activities | 944 | (130) |
| Cash provided by financing activities | 367 | 19 |

At March 31, 2011, InsWeb's principal source of liquidity was \$8.4 million in cash and cash equivalents. Since inception, we have financed our operations primarily through the sale of preferred and common stock; and more recently, operations have been funded through operating cash flows.

For the three months ended March 31, 2011, net cash provided by operating activities was \$0.4 million, primarily consisting of our net income adjusted for non-cash share-based compensation and depreciation and amortization of property, equipment and intangible assets of \$1.1 million, offset by net changes in operating assets and liabilities of \$0.7 million. For the three months ended March 31, 2010, net cash provided by operating activities was \$1.4 million,

consisting of our net income adjusted for non-cash share-based compensation and depreciation and amortization of property, equipment and intangible assets of \$0.7 million and net changes in operating assets and liabilities of \$0.7 million.

For the three months ended March 31, 2011 net cash provided by investing activities was \$0.9 million representing \$1.4 million relating to the redemption of short term investments offset by the purchases of short term investments of \$0.5 million. For the comparable three months ended March 31, 2010, net cash used in investing activities was \$0.1 million consisting of a decrease in cash restricted for the use as collateral to obtain a commercial credit line of \$1.2 million offset by purchases of short term investments of \$1.3 million.

For the three months ended March 31, 2011 and 2010, net cash provided by financing activities was \$367,000 and \$19,000 respectively, and was primarily attributable to proceeds from employee stock plans.

InsWeb has a non-cancelable lease through February 14, 2017 for approximately 16,000 square feet of office space in the Sacramento area which houses its corporate headquarters. InsWeb has two, consecutive options to extend the term for five years each at the prevailing market rent.

Potrero Media's headquarters and its principal administrative, product development, sales and marketing operations are located in a 10,000 square foot facility in San Francisco, California, which Potrero Media occupies under a non-cancelable lease expiring in October 2014. Potrero Media has four consecutive options to extend the term for five years each. Mr. Richard A. Natsch, President, Potrero Media and Mrs. Heather K. Natsch, Chief Financial Officer, Potrero Media are co-owners of Mission Potrero Properties, LLC, which are the lessors of the property that Potrero Media occupies.

Future minimum lease commitments as of March 31, 2011 are summarized as follows (in thousands):

| Years ending December 31 | Future minimum lease commitments |
|--------------------------|----------------------------------|
| 2011 | 202 |
| 2012 | 424 |
| 2013 | 472 |
| 2014 | 444 |
| 2015 | 341 |
| Thereafter | 394 |
| | \$ 2,277 |

InsWeb currently anticipates that its cash and cash equivalents will be sufficient to meet its anticipated cash needs to fund operations and capital expenditures for at least the next 12 months.

Non-GAAP Financial Measure and Reconciliation

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

InsWeb Corporation

NON-GAAP FINANCIAL MEASURE AND RECONCILIATION

(In thousands)

(unaudited)

Three months ended

| | March 31, 2011 | December 31, 2010 | March 31, 2010 |
|---|-------------------|----------------------|-------------------|
| Net income | \$ 298 | \$ 146 | \$ 499 |
| Less | | | |
| Interest income | 5 | 5 | 5 |
| Add | | | |
| Interest expense | 26 | 26 | - |
| Provision (benefit) | - | (17) | 4 |
| for income taxes | | | |
| Share-based compensation expense | 378 | 337 | 118 |
| Depreciation and amortization of property, equipment and intangible assets from continuing operations | 362 | 363 | 40 |
| Acquisition costs | 21 | 152 | - |
| Adjusted EBITDA from continuing operations | \$ 1,080 | \$ 1,002 | \$ 656 |

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

per share; and 2) it may not be comparable to Adjusted EBITDA as reported by other companies. In addition, the March 31, 2010 information does not include Potrero Media.

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ITEM 4. CONTROLS AND PROCEDURES

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

(b) There has been no change in our internal control over financial reporting during the three months ended March 31, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II: OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Part I, Item 1, "Financial Statements — Note 14 — Commitments and Contingencies."

ITEM 1A. RISK FACTORS.

Except for the risk factor set forth below, there have been no material changes to the description of the risk factors associated with our business previously disclosed in Part I, Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2010. In addition to the other information set forth in this report, you should carefully consider the risk factors discussed in our Annual Report on Form 10-K as they could materially affect our business, financial condition and future results.

The risks described herein and in our Annual Report on Form 10-K are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition or operating results.

Our integration of the operations of Potrero Media and InsWeb into a single entity may result in additional expenses or distract management from their other responsibilities, either of which could harm our business

As described in "Subsequent Event", on May 2, 2011, InsWeb's Board of Directors approved a plan to integrate the operations of Potrero Media and InsWeb into a single entity under the InsWeb name. The integration is expected to achieve additional operational synergies and efficiencies. However, successful integration of the two companies will require significant attention by management to allocate resources, prioritize initiatives and develop a business plan for the combined organization. These tasks may distract management from their current responsibilities, or we may incur

expenses to obtain additional resources to optimize the value of the integration, either of which could materially harm our business.

ITEM 6. EXHIBITS

| Exhibit Number | Description of Document |
|----------------|--|
| 10.25 | Amendment No. 3 to the Stock Purchase Agreement dated May 2, 2011. Incorporated from an identically numbered exhibit from a Current Report on Form 8-K filed on May 2, 2011. |
| 31.1 | Certification of Chief Executive Officer, pursuant to Exchange Act Rule 13a-14(a). |
| 31.2 | Certification of Chief Financial Officer, pursuant to Exchange Act Rule 13a-14(a). |
| 32 | Certification of Chief Executive Officer and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350. |

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SIGNATURE

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

Dated: May 12, 2011

INSWEB
CORPORATION
(Registrant)

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

