LoopNet, Inc.
Form 10-Q
August 05, 2009

Table of Contents

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

(Mark One)

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

For the quarterly period ended June 30, 2009

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 000-52026

LOOPNET, INC.

(Exact name of registrant as specified in its charter)

Delaware	**77-0463987**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

185 Berry Street, Suite 4000
San Francisco, CA 94107
(Address of principal executive offices)
(415) 243-4200
(Registrant s telephone number, including area code)
N/A
(Former name, former address and former fiscal year, if changed since last report)

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

Yes þ No o

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

Yes o No o

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

Yes o No þ

As of July 31, 2009, there were 34,471,949 shares of the registrant s common stock outstanding.

TABLE OF CONTENTS

Table of Contents

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

	December 31, 2008	June 30, 2009 (unaudited)
Assets		
Current assets:		
Cash and cash equivalents	$ 61,325	$ 116,644
Short-term investments	3,262	3,355
Accounts receivable, net of allowance of $121 and $156, respectively	1,564	1,712
Prepaid expenses and other current assets	1,530	2,769
Deferred income taxes, net	607	607
Total current assets	68,288	125,087
Property and equipment, net	2,208	2,342
Goodwill	23,056	23,243
Intangibles, net	5,678	5,077
Deferred income taxes, net, non-current	5,829	6,215
Deposits and other noncurrent assets	3,151	3,683
Total assets	$ 108,210	$ 165,647
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 622	$ 572
Accrued liabilities	2,020	3,849
Accrued compensation and benefits	2,759	2,336
Deferred revenue	10,358	9,857
Total current liabilities	15,759	16,614
Commitments and contingencies		
Series A convertible preferred stock		48,037
Stockholders equity:		
Common stock, $.001 par value, 125,000,000 shares authorized; 39,218,665 and 39,362,871 shares issued, respectively; and 34,292,704 and 34,436,910 shares outstanding, respectively	39	39
Additional paid in capital	114,915	119,085
Other comprehensive loss	(276)	(473)
Treasury stock, at cost, 4,925,961 shares	(54,556)	(54,556)
Retained earnings	32,329	36,901

Total stockholders equity		92,451		100,996
Total liabilities and stockholders equity	$	108,210	$	165,647

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

3

Table of Contents

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

	Three months ended June 30,		Six Months Ended June 30,	
	2008	2009	2008	2009
Revenues	**$ 22,027**	**$ 19,248**	**$ 42,617**	**$ 39,350**
Cost of revenue (1)	2,704	2,777	5,118	5,669
Gross margin	**19,323**	**16,471**	**37,499**	**33,681**
Operating expenses (1):				
Sales and marketing	4,822	4,237	9,664	8,744
Technology and product development	2,355	2,654	4,347	5,214
General and administrative	4,949	6,434	9,005	11,871
Total operating expenses	12,126	13,325	23,016	25,829
Income from operations	**7,197**	**3,146**	**14,483**	**7,852**
Interest and other income, net	478	95	1,454	107
Income before tax	**7,675**	**3,241**	**15,937**	**7,959**
Income tax expense	3,141	1,386	6,549	3,316
Net income	**$ 4,534**	**$ 1,855**	**$ 9,388**	**$ 4,643**
Convertible preferred stock accretion of discount		(71)		(71)
Net income applicable to common stockholders	**$ 4,534**	**$ 1,784**	**$ 9,388**	**$ 4,572**
Net income per share applicable to common stockholders				
Basic	$ 0.13	$ 0.04	$ 0.26	$ 0.11
Diluted	$ 0.12	$ 0.04	$ 0.25	$ 0.11
Weighted average shares				
Basic	35,631	41,842	36,582	41,777
Diluted	37,130	42,949	38,128	42,747

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

Cost of revenue	$ 139	$ 189	$ 255	$ 357
Sales and marketing	525	637	1,078	1,236
Technology and product development	327	560	572	1,046
General and administrative	515	711	953	1,301
Total	$ 1,506	$ 2,097	$ 2,858	$ 3,940

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

Table of Contents

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

	Six months ended June 30, 2008	Six months ended June 30, 2009
Cash flows from operating activities:		
Net income	$ 9,388	$ 4,643
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	996	1,241
Stock-based compensation	2,858	3,940
Tax benefits from exercise of stock options	(531)	(127)
Deferred income tax	(331)	(385)
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(307)	(148)
Prepaid expenses and other assets	(1,679)	(1,541)
Income taxes payable	(167)	127
Accounts payable	81	(51)
Accrued expenses and other current liabilities	887	1,830
Accrued compensation and benefits	(347)	(422)
Deferred revenue	827	(502)
Net cash provided by operating activities	11,675	8,605
Cash flows from investing activities:		
Purchase of property and equipment	(721)	(793)
Purchase of investments	(500)	(500)
Acquisitions, net of acquired cash	(10,475)	(188)
Net cash used in investing activities	(11,696)	(1,481)
Cash flows from financing activities:		
Net proceeds from exercise of stock options	254	102
Net proceeds from sale of preferred stock		47,966
Repurchase of common stock	(39,145)	
Tax benefits from exercise of stock options	531	127
Net cash provided by (used in) financing activities	(38,360)	48,195
Net increase (decrease) in cash and cash equivalents	(38,381)	55,319
Cash and cash equivalents at beginning of period	104,564	61,325
Cash and cash equivalents at end of period	$ 66,183	$ 116,644

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

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Background and Basis of Presentation

Basis of Presentation

The accompanying condensed consolidated balance sheet as of June 30, 2009, the statements of income for the three and six months ended June 30, 2008 and 2009 and the statements of cash flows for the six months ended June 30, 2008 and 2009 are unaudited. These statements should be read in conjunction with the audited consolidated financial statements and related notes, together with management s discussion and analysis of financial position and results of operations, contained in the Company s annual report on Form 10-K for the year ended December 31, 2008.

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States, or GAAP. In the opinion of the Company s management, the unaudited condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements in the Company s annual report on Form 10-K for the year ended December 31, 2008 and include normal and recurring adjustments necessary for the fair presentation of the Company s financial position for the periods presented. The results for the three and six months ended June 30, 2009 are not necessarily indicative of the results to be expected for the fiscal year ending December 31, 2009.

The Statement of Financial Accounting Standards No. 165, *Subsequent Events*, (SFAS 165) is effective for financial statements ending after June 15, 2009. SFAS 165 establishes general standards of accounting for and disclosure of subsequent events that occur after the balance sheet date. Entities are also required to disclose the date through which subsequent events have been evaluated and the basis for that date. The Company has evaluated subsequent events through the date of filing its Form 10-Q with the Securities and Exchange Commission, August 5, 2009.

Use of Estimates

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

Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* (SFAS 141R). This Statement provides greater consistency in the accounting and financial reporting of business combinations. It requires the acquiring entity in a business combination to recognize all assets acquired and liabilities assumed in the transaction, establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed, and requires the acquiror to disclose the nature and financial effect of the business combination. SFAS 141R is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. SFAS 141R is effective for the Company beginning January 1, 2009 and the Company will account for future business combinations in accordance with its provisions. There has been no material impact on the financial statements; however, the future effects of SFAS No. 141R will affect any future acquisitions completed by the Company.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* (SFAS 160). This Statement amends Accounting Research Bulletin No. 51, *Consolidated Financial Statements,* to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 is effective for fiscal years beginning after December 15, 2008. The Company adopted SFAS 160 effective January 1, 2009 and there has been no material impact on the financial statements.

Table of Contents

Note 2 Earnings Per Share (EPS)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2009	2008	2009
Weighted average common shares outstanding	35,631	34,402	36,582	34,337
Convertible preferred stock		7,440		7,440
Shares used to compute basic net income applicable to common stockholders	35,631	41,842	36,582	41,777
Add dilutive common equivalents:				
Stock options	1,423	1,065	1,463	937
Restricted stock units	12	32	8	16
Unvested restricted stock (1)	64	10	75	17
Shares used to compute diluted net income applicable to common stockholders	37,130	42,949	38,128	42,747

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2009	2008	2009
Stock options	1,749	3,128	1,792	5,262
Restricted stock units		101		

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2009	2008	2009
Calculation of basic net income per share applicable to common stockholders				

Net income	$ 4,534	$ 1,855	$ 9,388	$ 4,643
Convertible preferred stock accretion of discount		(71)		(71)
Net income applicable to common stockholders	$ 4,534	$ 1,784	$ 9,388	$ 4,572
Shares used to compute basic net income applicable to common stockholders	35,631	41,842	36,582	41,777
Basic net income per share applicable to common stockholders	**$ 0.13**	**$ 0.04**	**$ 0.26**	**$ 0.11**
Calculation of diluted net income per share applicable to common stockholders				
Net Income	$ 4,534	$ 1,855	$ 9,388	$ 4,643
Convertible preferred stock accretion of discount		(71)		(71)
Net income applicable to common stockholders	$ 4,534	$ 1,784	$ 9,388	$ 4,572
Shares used to compute diluted net income applicable to common stockholders	37,130	42,949	38,128	42,747
Dilutive net income per share applicable to common stockholders	**$ 0.12**	**$ 0.04**	**$ 0.25**	**$ 0.11**

Note 3 Acquisitions

On April 7, 2008, the Company acquired all of the shares of capital stock of REApplications, Inc., a private company incorporated in Delaware (REApps) pursuant to a Stock Purchase Agreement dated as of April 7, 2008, by and among the Company and the shareholders of REApps for a purchase price of $9.2 million net of acquired cash.

On July 29, 2008, the Company acquired all of the shares of capital stock of RPB Media, Inc., a private company incorporated in Massachusetts pursuant to a Stock Purchase Agreement dated as of July 29, 2008, by and among the Company and the sole shareholder of RPB Media, Inc. for a purchase price of $2.1 million net of acquired cash. In addition, the Company is obligated to make additional cash payments up to $750,000 if certain performance targets are met, which would be treated as additional consideration for the acquisition. On February 26, 2009, the Company made a cash payment of $187,500, which represents the first of four potential contingent payment obligations. On August 19, 2008, Articles of Amendment were filed with The Commonwealth of Massachusetts to amend the exact name of the corporation from RPB Media, Inc. to LandAndFarm.com, Inc. (LandAndFarm).

The acquisitions of REApps and LandAndFarm were accounted for as a purchase consistent with SFAS No. 141 *Business Combinations* (see the Company s 2008 Form 10-K for additional information).

Note 4 Series A Convertible Preferred Stock

On March 29, 2009, the Company completed a $50 million private placement to accredited investors (the Purchasers). The transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended. Pursuant to the Securities Purchase Agreement (the Purchase Agreement), the Company agreed to sell to the Purchasers an aggregate of 50,000 shares of its newly-created Series A Convertible Preferred Stock, par value $0.001 per share (the Series A Preferred Stock). The Series A Preferred Stock is initially convertible into an aggregate of 7,440,472 shares of the Company s common stock, par value $0.001 per share (the Common Stock), at a conversion price of $6.72 per share (as may be adjusted for stock dividends, stock splits or similar recapitalizations).

The holders of the Series A Preferred Stock are entitled to receive, prior to any distribution to the holders of the Common Stock, an amount per share equal to the greater of (1) the Original Issue Price, plus any declared and unpaid dividends and (2) the amount that Purchasers would receive in respect of the shares of Common Stock issuable upon conversion of the Series A Preferred Stock if all of the then outstanding Series A Preferred Stock were converted into Common Stock. The rights, privileges and preferences of the Series A convertible preferred stock are set forth in the Certificate of Designations of Series A Convertible Preferred Stock attached as an exhibit to the Company s Form 8-K filed with the SEC on April 2, 2009.

The transaction closed on April 14, 2009. The net proceeds of $48 million from the issuance of the Series A Preferred Stock are net of issuance costs of $2 million. The Series A Preferred Stock reported on the Company s condensed consolidated balance sheet consists of the net proceeds plus the amount of accretion for issuance costs. Such accretion costs are being accreted over 72 months with such accretion being recorded as a reduction in retained earnings. During the second quarter of 2009, the Company recorded accretion on the issuance costs of $71,000.

Note 5 Stock-Based Compensation

In the first quarter of 2006, the Company adopted SFAS No. 123R, *Share-Based Payment* (SFAS 123R), which revises SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS 123) and supersedes Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25). SFAS 123R requires that share-based payment transactions with employees be recognized in the financial statements based on their fair value and recognized as compensation expense over the vesting period. Prior to SFAS 123R, the Company disclosed the pro forma effects of SFAS 123 under the minimum value method. The Company adopted SFAS 123R effective January 1, 2006, prospectively for new equity awards issued subsequent to January 1, 2006.

In connection with the adoption of SFAS 123R, the Company reviewed and updated, among other things, its forfeiture rate, expected term and volatility assumptions. The weighted average expected lives of the options for the three and six month periods ended June 30, 2009 reflects the application of the simplified method set out in SEC Staff Accounting Bulletin No. 107 (SAB 107), which was issued in March 2005. The SEC subsequently issued SAB 110 in December 2007 extending the opportunity to use the simplified method. The simplified method defines the life as the average of the contractual term of the options and the weighted average vesting period for all option tranches. Estimated volatility for the three and six month periods ended June 30, 2009 also reflects the application of SAB 107 interpretive guidance and, accordingly, incorporates historical volatility of similar companies whose share price is publicly available.

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2009	2008	2009
Risk-free interest rate	3.16%	2.23%	2.95%	2.00%
Expected volatility	42%	50%	41%	49%
Expected life	4.6 years	4.6 years	4.6 years	4.6 years
Dividend yield	0%	0%	0%	0%

The weighted-average fair value of options granted during the three month period ended June 30, 2008 and 2009 was $5.11 and $3.43, respectively, and during the six month periods ended June 30, 2008 and 2009 was $4.52 and $2.99, respectively, using the Black-Scholes option-pricing model.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2009	2008	2009
Cost of revenue	$ 139	$ 189	$ 255	$ 357
Sales and marketing	525	637	1,078	1,236
Technology and product development	327	560	572	1,046
General and administrative	515	711	953	1,301
Total	$ 1,506	$ 2,097	$ 2,858	$ 3,940

Stock Plan Activity

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

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

	Options outstanding			Options Exercisable		
	Number of shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Number of shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
Outstanding at December 31, 2008	4,637,240	$10.10	5.72	2,175,935	$7.96	5.45
Granted	2,230,697	$ 7.25				
Exercised	(113,079)	$ 1.07				
Cancelled	(160,176)	$13.98				
Outstanding at June 30, 2009	6,594,682	$ 9.20	5.71	2,763,221	$8.68	5.19

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

	Unvested Restricted Stock Units		
	Number of shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Life (Years)
Balance at December 31, 2008	195,000	$11.47	1.74
Granted	235,000	$ 7.16	
Vested	(33,750)	$ 7.13	
Cancelled		$	
Outstanding at June 30, 2009	396,250	$ 9.28	1.91

9

Note 6 Income Taxes

The Company recorded a provision for income taxes of $3.3 million for the six month period ended June 30, 2009, based upon a 41.7% effective tax rate. The effective tax rate is based upon the Company s estimated fiscal 2009 income before the provision for income taxes. To the extent the estimate of fiscal 2009 income before the provision for income taxes changes, the Company s provision for income taxes will change as well.

Note 7 Stock Repurchases

On January 31, 2008, LoopNet s Board of Directors authorized the repurchase of up to $50.0 million of the Company s common stock. The stock repurchase program was announced on February 5, 2008. On July 30, 2008, the Company announced that the board of directors of the Company authorized the repurchase of up to an additional $50 million of the Company s common stock. The repurchased shares are recorded as treasury stock and are accounted for under the cost method. During the second quarter of 2009, the Company made no repurchases. As of June 30, 2009, $54.6 million remained available for purchases under the program.

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

Note 8 Litigation and Other Contingencies

Litigation and Other Legal Matters

On June 8, 2009, CoStar Realty Information, Inc. and CoStar Group, Inc. filed a Complaint against LoopNet in the U.S. District Court for the District of Maryland, alleging that the Company has infringed CoStar copyrights and trademarks and breached a Settlement Agreement between the parties because photographs bearing CoStar logos that were posted by third parties allegedly have appeared in the Company s RecentSales product. The Complaint seeks $45 million in damages and injunctive relief. On July 31, 2009, the Company moved to dismiss the Complaint or for a more definite statement. The Company expects that motion to be decided in the next couple of months. The Company believes that CoStar s claims are wholly without merit and intends to vigorously defend the lawsuit and assert appropriate counterclaims.

See Part I Item 3 of our Annual Report on Form 10-K for the year ended December 31, 2008, which was filed with the Securities and Exchange Commission on February 27, 2009, for a description of two additional legal proceedings that are pending in California and New York between the Company and CoStar.

Although the results of litigation cannot be predicted with certainty, we believe that the resolution of our current pending matters will not have a material adverse effect on our business, consolidated financial position and results of operations.

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

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

Overview

We are a leading online marketplace for commercial real estate in the United States, based on the number of monthly unique visitors to our marketplace, which averaged approximately 800,000 unique visitors per month during 2006, approximately 900,000 per month during 2007 and 2008, and approximately 950,000 per month during the second quarter of 2009 as reported by comScore Media Metrix. comScore Media Metrix defines a unique visitor as an individual who visited any content of a website, a category, a channel, or an application. Our online marketplace, available at *www.LoopNet.com* , enables commercial real estate agents, working on behalf of property owners and landlords, to list properties for sale or for lease and submit detailed information on property listings including qualitative descriptions, financial and tenant information, photographs and key property characteristics in order to find a buyer or tenant. We offer two types of memberships on the LoopNet online marketplace. Basic membership is available free-of-charge, and enables members to experience some of the benefits of the LoopNet offering, with limited functionality. LoopNet premium membership is available for a monthly subscription fee and provides enhanced marketing exposure for property listings and full access to LoopNet property listings, as well as numerous other features. The minimum term of a premium membership subscription is one month.

We believe that the key metrics that are material to an analysis of our business are the number of our registered members, the number of monthly unique visitors to our marketplace, the number of our premium members, the rate of conversion of our basic members to premium members, the average monthly subscription price paid by our premium members and the cancellation rate of our premium members. We also believe that the number of listings on our marketplace and the number of property profiles viewed by our registered members are key metrics, as they affect the attractiveness of our website to current and potential customers. Our registered members have grown from approximately

Table of Contents

1.7 million as of December 31, 2006, to over 2.5 million as of December 31, 2007, to over 3.2 million as of December 31, 2008, to over 3.5 million as of June 30, 2009. The number of monthly unique visitors to our marketplace averaged 800,000 in 2006, 900,000 in 2007 and 2008, and 950,000 in the second quarter 2009. Our premium members were 78,000 as of December 31, 2006, 88,000 as of December 31, 2007, 77,000 as of December 31, 2008, and 71,000 as of June 30, 2009. Historically, our average monthly rate of conversion of basic members to premium members has been approximately five percent, and our average monthly cancellation rate for premium members has ranged between three and five percent. We believe that a decline in the second quarter of 2009 in our average monthly conversion rate to approximately 2.0% is attributable to an increasing proportion of principals (i.e. investors and tenants) in our membership base, who convert to premium membership at a lower rate than the professional agents and brokers in the market and the impact of a slowdown in commercial real estate transaction activity. Transaction activity in the Commercial Real Estate market that we serve has slowed significantly, due to deteriorating economic conditions and due to the credit crunch impacting the availability and cost of debt capital for real estate transactions. In the second quarter of 2009 our cancellation rate exceeded our historical levels and we believe the increase is attributable to the credit tightening that the commercial real estate industry experienced, the slowdown in overall transaction activity in the industry, and the increase in the average subscription prices which we charge our premium members. The average monthly subscription price paid by our premium members has increased from $47.26 in the fourth quarter of 2006, to $56.00 in the fourth quarter of 2007, to $65.64 in the fourth quarter of 2008, and to $65.83 in the second quarter of 2009. Premium membership fees have driven the majority of our growth in revenues since 2001 and were the source of approximately 80% of our revenues in 2006, 77% of our revenue in 2007, 75% of our revenue in 2008 and in the second quarter of 2009. The number of listings on our marketplace has grown from approximately 460,000 as of December 31, 2006, to approximately 560,000 as of December 31, 2007, to approximately 652,000 as of December 31, 2008, to approximately 713,000 as of June 30, 2009. The number of property profiles that were viewed by our registered members decreased from 43.2 million in the second quarter of 2008 to 35.0 million in the second quarter of 2009.

Our Revenues and Expenses

Our primary sources of revenues are:

- LoopNet premium membership fees;
- BizBuySell BrokerWorks membership fees and paid listings;
- LoopNet RecentSales membership fees;
- LoopLink product license fees; and
- advertising on, and lead generation from, our marketplaces.

Our revenues have grown significantly in the past three years from $48.4 million in 2006, to $70.7 million in 2007 and to $86.1 million in 2008. We had revenues of $19.2 million and $39.4 million in the three and six month periods ended June 30, 2009. We have been profitable and cash flow positive each quarter since the second quarter of 2003. The key factors influencing our growth in revenues are:

- the increased adoption of our premium membership services by the commercial real estate industry;
- increases in the average monthly subscription price of our premium membership product;
- the increased adoption of our RecentSales services by the commercial real estate industry; and
- our acquisition of BizBuySell in October, 2004, and the increased adoption of our services by the operating business for sale industry.

Our ability to continue to grow our revenues will largely depend on our ability to expand the number of users of *www.LoopNet.com* and *www.BizBuySell.com* and to convince those users to upgrade to our paid services, especially premium membership.

We derive the substantial majority of our revenues from customers that pay monthly fees for a suite of services to market and search for commercial real estate and operating businesses. The fee for our LoopNet premium membership averaged $65.83 per month during the second quarter of 2009. The minimum term of a premium membership subscription is one month. We also offer quarterly and annual memberships which are priced and discounted accordingly, and paid in advance for the subscription period. A customer choosing to cancel a discounted annual or quarterly membership will receive a refund based on the number of months the membership was used and charging the customer at the monthly rate rather than at the discounted quarterly or annual rates. We also license our LoopLink product to commercial real estate brokerage firms who pay a monthly, quarterly or annual fee. For our BrokerWorks product at BizBuySell, we charge $49.95 per month. We also charge fees associated with marketing individual businesses listed on BizBuySell. For our RecentSales product, we charge $29.95 per month or $1.95 to $3.95 for an individual transaction.

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

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

Critical Accounting Policies and Estimates

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

Our significant accounting policies are described in Note 1 to the consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2008.

Seasonality and Cyclicality

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

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

The commercial real estate industry has historically experienced cyclicality. The different segments of the industry, such as office, industrial, retail, multi-family, and others, are influenced differently by different factors, and have historically moved through cycles with different timing. The for lease and for sale components of the market also do not necessarily move on the same timing cycle. During the past several quarters transaction activity in the commercial real estate industry has slowed significantly, due to deteriorating economic conditions and due to the credit crunch impacting the availability and cost of debt capital for real estate transactions. We believe these conditions caused our cancellation rates to exceed our historical levels, as well as resulted in a lower conversion rate of basic members to premium members.

Table of Contents

Results of Operations

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

	Three months ended June 30,		Six months ended June 30,	
	2008	2009	2008	2009
	(unaudited)			
Revenues	100.0%	100.0%	100.0%	100.0%
Cost of revenue	12.3	14.4	12.0	14.4
Gross margin	87.7	85.6	88.0	85.6
Operating expenses				
Sales and marketing	21.9	22.0	22.7	22.2
Technology and product development	10.7	13.8	10.2	13.3
General and administrative	22.5	33.4	21.1	30.2
Total operating expenses	55.1	69.2	54.0	65.6
Income from operations	32.7	16.3	34.0	20.0
Interest and other income, net	2.2	0.5	3.4	0.3
Income before tax	34.8	16.8	37.4	20.2
Income tax expense	14.3	7.2	15.4	8.4
Net income	20.6	9.6	22.0	11.8
Convertible preferred stock accretion of discount		(0.4)		(0.2)
Net income applicable to common stockholders	20.6%	9.3%	22.0%	11.6%

Comparison of Three Months Ended June 30, 2008 and 2009

Revenues

	Three Months Ended June 30,			
	2008	2009	Decrease	Percent Change
	(dollars in thousands)			
Revenues	$22,027	$19,248	$ 2,779	12.6%
Premium members at June 30	86,627	71,375	15,252	17.6%

The decrease in revenues was primarily due to a lower premium membership base due to the impact of the depressed market conditions in the commercial real estate industry.

We anticipate that revenues will decrease in future periods due to the current market conditions we are experiencing.

Cost of Revenues

	Three Months Ended June 30,			
	2008	2009	Increase	Percent Change
	(dollars in thousands)			
Cost of revenues	$2,704	$2,777	$73	2.7%
Percentage of revenues	12.3%	14.4%		

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

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

We expect cost of revenues to potentially increase in absolute dollar amounts and as a percentage of revenues, as we continue to aggregate listing content.

Table of Contents

Sales and Marketing

	Three Months Ended June 30,			
	2008	2009	Decrease	Percent Change
	(dollars in thousands)			
Sales and marketing	$4,822	$4,237	$585	12.1%
Percentage of revenues	21.9%	22.0%		

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

The decrease in sales and marketing expenses was due primarily to lower advertising costs and lower sales commissions.

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

Technology and Product Development

	Three Months Ended June 30,			
	2008	2009	Increase	Percent Change
	(dollars in thousands)			
Technology and product development	$2,355	$2,654	$299	12.7%
Percentage of revenues	10.7%	13.8%		

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

The increase in technology and product development expenses was due primarily to increases in salaries and related costs associated with the launch of new product enhancements and services and the maintenance of our existing services. Also contributing to the increase was higher stock-based compensation, which increased to $560,000 in the second quarter of 2009 compared to $327,000 in the second quarter of 2008.

We expect technology and product development expenses to potentially increase in absolute dollar amounts and as a percentage of revenues, as we continue to build the infrastructure required to support the development of new products and services.

General and Administrative

	Three Months Ended June 30,			
	2008	2009	Increase	Percent Change
	(dollars in thousands)			
General and administrative	$4,949	$6,434	$1,485	30.0%
Percentage of revenues	22.5%	33.4%		

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

The increase in general and administrative expenses was due primarily to higher legal fees associated with litigation matters. Also contributing to the increase was higher stock-based compensation, which increased to $711,000 in the second quarter of 2009 compared to $515,000 in the second quarter of 2008.

We expect general and administrative expenses to potentially increase in absolute dollar amounts and as a percentage of revenues, as we continue to incur additional litigation related costs.

Interest Income

Interest and other income decreased by $383,000 to $95,000 in the three months ended June 30, 2009, from $478,000 in the three months ended June 30, 2008. This decrease was due primarily to lower interest rates.

Table of Contents

Income Taxes

We recorded a provision for income taxes of $1.4 million for the three month period ended June 30, 2009, based upon a 41.7% effective tax rate for the full year of 2009. The effective tax rate is based upon our estimated fiscal 2009 income before the provision for income taxes. To the extent the estimate of fiscal 2009 income before the provision for income taxes changes, our provision for income taxes will change as well.

Comparison of Six Months Ended June 30, 2008 and 2009

Revenues

	Six Months Ended June 30,			
	2008	2009	Decrease	Percent Change
	(dollars in thousands)			
Revenues	$42,617	$39,350	$ 3,267	7.7%
Premium members at June 30	86,627	71,375	15,252	17.6%

The decrease in revenues was primarily due to a lower premium membership base due to the impact of the depressed market conditions in the commercial real estate industry.

Cost of Revenues

	Six Months Ended June 30,			
	2008	2009	Increase	Percent Change
	(dollars in thousands)			
Cost of revenues	$5,118	$5,669	$551	10.8%
Percentage of revenues	12.0%	14.4%		

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

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

Sales and Marketing

	Six Months Ended June 30,			
	2008	2009	Decrease	Percent Change
	(dollars in thousands)			
Sales and marketing	$9,664	$8,744	$920	9.5%
Percentage of revenues	22.7%	22.2%		

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

The decrease in sales and marketing expenses was primarily due to lower advertising costs and lower sales commissions.

Technology and Product Development

	Six Months Ended June 30,			
	2008	2009	Increase	Percent Change

		(dollars in thousands)		
Technology and product development	$4,347	$5,214	$867	19.9%
Percentage of revenues	10.2%	13.3%		

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

The increase in technology and product development expenses was due primarily to increases in salaries and related costs associated with the launch of new product enhancements and services and the maintenance of our existing services. Also contributing to the increase was higher stock-based compensation, which increased to $1,046,000 in the six months ended June 30, 2009 compared to $572,000 in the six months ended June 30, 2008.

Table of Contents

General and Administrative

	Six Months Ended June 30,			
	2008	2009	Increase	Percent Change
	(dollars in thousands)			
General and administrative	$9,005	$11,871	$2,866	31.8%
Percentage of revenues	21.1%	30.2%		

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

The increase in general and administrative expenses was due primarily to higher legal fees associated with litigation matters. Also contributing to the increase was higher stock-based compensation, which increased to $1,301,000 in the six months ended June 30, 2009 compared to $953,000 in the six months ended June 30, 2008.

Interest Income

Interest and other income decreased by $1,347,000 to $107,000 in the six months ended June 30, 2009, from $1,454,000 in the six months ended June 30, 2008. This decrease was due to lower interest rates. As of June 30, 2009, we held $120.0 million in cash, cash equivalents and short-term investments, compared to $69.5 million in cash, cash equivalents and short-term investments as of June 30, 2008.

Income Taxes

We recorded a provision for income taxes of $3.3 million for the six month period ended June 30, 2009, based upon a 41.7% effective tax rate for the full year of 2009. The effective tax rate is based upon our estimated fiscal 2009 income before the provision for income taxes. To the extent the estimate of fiscal 2009 income before the provision for income taxes changes, our provision for income taxes will change as well.

Liquidity and Capital Resources

The following table summarizes our cash flows:

	Six Months Ended June 30,	
	2008	2009
	(unaudited) (in thousands)	
Cash flow data:		
Cash provided by operating activities	$ 11,675	$ 8,605
Cash used in investing activities	(11,696)	(1,481)
Cash provided by (used in) financing activities	(38,360)	48,195

As of June 30, 2009, our cash, cash equivalents and short-term investments totaled $120.0 million, compared to $69.5 million in cash, cash equivalents and short-term investments as of June 30, 2008. The amount includes $48 million in aggregate net proceeds received on April 14, 2009 pursuant to our sale of Series A convertible preferred stock to certain accredited investors.

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

Operating Activities

Net cash provided by operating activities primarily consists of net income adjusted for certain non-cash items, including depreciation, amortization, stock-based compensation, and the effect of changes in working capital. Net cash provided by operating activities was $11.7 million and $8.6 million in the six months ended June 30, 2008 and 2009, respectively. The decrease in cash provided by operating activities in the six month period ended June 30, 2009 compared to the six month period ended June 30, 2008 was primarily due to lower net income generated by the Company.

Investing Activities

Cash used in investing activities in the six months ended June 30, 2009 of $1.5 million was attributable to capital expenditures of $793,000 for the purchase of computer equipment, office equipment and furniture and leasehold improvements, the purchase of investments of $500,000, and a $188,000 contingent purchase price payment related to the July 2008 acquisition of LandAndFarm.com.

Cash used in investing activities in the six months ended June 30, 2008 of $11.7 million was attributable to the April 7, 2008 acquisition of REApplications, Inc. of $9.2 million, a $1.3 million contingent purchase price payment related to the August 2007 acquisition of CityFeet.com, the purchase of investments of $500,000, and capital expenditures of $721,000 primarily for the purchase of computer equipment.

Table of Contents

Financing Activities

Cash provided by financing activities in the six months ended June 30, 2009 of $48.2 was attributable to $48.0 million in aggregate net proceeds from the sale of Series A convertible preferred stock to certain accredited investors, $102,000 of proceeds from the exercise of stock-based awards and a $127,000 tax benefit from the exercise of stock options.

Cash used in financing activities in the six months ended June 30, 2008 of $38.3 million was primarily attributable to the Company s stock repurchases in the amount of $39.1 million partially offset by $254,000 of proceeds from the exercise of stock options and a $531,000 tax benefit from the exercise of stock options.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The primary objective of our investment activities is to preserve principal while at the same time maximizing yields without significantly increasing risk. To achieve this objective, we invest in short-term, high-quality, interest-bearing securities. Our investments in debt securities are subject to interest rate risk. To minimize our exposure to an adverse shift in interest rates, we invest in short-term securities and maintain an average maturity of one year or less. If interest rates were to instantaneously increase or decrease by 100 basis points, the change in the fair market value of our short-term investment would not be a material amount to our financial statements. There have not been any material changes during the period covered by this Quarterly Report on Form 10-Q to our primary market risk exposures, or how these exposures are managed.

Item 4. Controls and Procedures.

(a) *Evaluation of disclosure controls and procedures.* Under the supervision and with the participation of our Company s management, including the Chief Executive Officer and Chief Financial Officer, the Company has evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934 (the Exchange Act) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, the Company s Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective to that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

On June 8, 2009, CoStar Realty Information, Inc. and CoStar Group, Inc. filed a Complaint against LoopNet in the U.S. District Court for the District of Maryland, alleging that the Company has infringed CoStar copyrights and trademarks and breached a Settlement Agreement between the parties because photographs bearing CoStar logos that were posted by third parties allegedly have appeared in the Company s RecentSales product. The Complaint seeks $45 million in damages and injunctive relief. On July 31, 2009, the Company moved to dismiss the Complaint or for a more definite statement. The Company expects that motion to be decided in the next couple of months. The Company believes that CoStar s claims are wholly without merit and intends to vigorously defend the lawsuit and assert appropriate counterclaims.

See Part I Item 3 of our Annual Report on Form 10-K for the year ended December 31, 2008, which was filed with the Securities and Exchange Commission on February 27, 2009, for a description of two additional legal proceedings that are pending in California and New York between the Company and CoStar.

Although the results of litigation cannot be predicted with certainty, we believe that the resolution of our current pending matters will not have a material adverse effect on our business, consolidated financial position and results of operations.

Item 1A. Risk Factors.

We have updated the risk factors previously disclosed in Part I Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2008, which was filed with the Securities and Exchange Commission on February 27, 2009.

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

Risks Related to Our Business

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

Our business is sensitive to trends in the general economy and trends in commercial real estate markets, which are unpredictable and continue to experience severe disruptions. Currently, the credit crisis and turbulence in the debt markets continue to affect the investment sales market, contributing to a significant slow down in our industry, which we anticipate will continue through the remainder of 2009. These negative general economic conditions could further reduce the overall amount of sale and leasing activity in the commercial real estate industry, and hence the demand for our services. Conditions such as continued tightening in credit markets, reduced industry-wide transaction volumes and negative trends in consumer confidence in global and domestic markets could also further dampen the general economy, and our business. While we believe the increase in the number of distressed sales and resulting decrease in asset prices will eventually translate to greater market activity, the current overall reduction in sales transaction volume continues to negatively impact our business. Therefore, our operating results, to the extent they reflect changes in the broader commercial real estate industry, may be subject to significant fluctuations. Factors that are affecting and could further affect the commercial real estate industry include:

- periods of economic slowdown or recession globally, in the United States or locally;
- inflation;
- flows of capital into or out of real estate investment in the United States or various regions of the United States;
- rates of unemployment;
- interest rates;

- the availability and cost of capital;
- wage and salary levels; or
- concerns about any of the foregoing.

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

- economic slowdown or recession;
- changes in levels of rent or appreciation of asset values;
- changing interest rates;
- tax and accounting policies;
- the availability and cost of capital;
- costs of construction;
- increased unemployment;
- lower consumer confidence;
- lower wage and salary levels;
- war, terrorist attacks or natural disasters; or
- the public perception that any of these conditions may occur.

For example, as of June 30, 2009, more than 26% of our premium members were based in California and more than 11% were based in Florida. Negative conditions in these or other significant commercial real estate submarkets could disproportionately affect our business as compared to competitors who have less or different geographic concentrations of their customers. Additionally, negative general economic conditions could further reduce the overall amount of sale and leasing activity in the commercial real estate industry, and hence the demand for our services. Events such as a war or a significant terrorist attack are also likely to affect the general economy, and could cause a slowdown in the commercial real estate industry and therefore reduce utilization of our marketplace, which could reduce our revenue from premium members. In addition, the occurrence of any of the events listed above could increase our need to make significant expenditures to continue to attract customers to our marketplace.

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

Our customers include premium members of our LoopNet marketplace, LoopLink users, users of our BizBuySell, Cityfeet and LandAndFarm marketplaces, RecentSales subscribers, REApplications users and advertising and lead generation customers. Most of our revenues are generated by subscription fees paid by our premium members. Our growth depends in large part on increasing the number of our free basic members and then converting them into paying premium members, as well as retaining existing premium members. Either category of members may decide not to continue to use our services in favor of alternate services or because of budgetary constraints or other reasons. Historically, the overall conversion ratio of premium members to basic members on LoopNet has been approximately five percent, and our average monthly cancellation rate for premium members has ranged between three and five percent. We believe that a decline in the second quarter of 2009 in our basic to premium conversion rate to approximately 2% is attributable to an increasing proportion of principals (i.e., investors and tenants) in our membership base, who convert to premium membership at a lower rate than the professional agents and brokers in the market and the impact of a slowdown in commercial real estate transaction activity. In the second quarter of 2009 our cancellation rate exceeded our historical levels and we believe the increase is attributable to the slowdown in the commercial real estate transaction activity and the increase in the average subscription prices which we charge our premium members.

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

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

We rely on our marketing efforts to generate new registered members. If our marketing efforts are ineffective, we could fail to attract new registered members, which could reduce the attractiveness of our marketplace to current and potential customers and lead to a reduction in our revenues.

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

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

Our success depends substantially on the number of commercial real estate property listings submitted by brokers, agents and property owners to our online marketplace. The number of listings on our marketplace has grown from approximately 460,000 as of December 31, 2006, to approximately 560,000 as of December 31, 2007, to approximately 652,000 as of December 31, 2008, to approximately 713,000 as of June 30, 2009. If agents marketing large numbers of property listings, such as large brokers in key real estate markets, choose not to continue their listings with us, or choose to list them with a competitor, our website would be less attractive to other real estate industry transaction participants, thus resulting in cancelled premium memberships, failure to attract and retain new members, or failure to attract advertising and lead generation revenues.

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

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

We compete with CoStar Group, Inc., a provider of information and research services to the commercial real estate market. Some of the services that CoStar offers directly compete with our product offering. For example, CoStar provides commercial real estate for sale and for lease property listings which compete directly with our online commercial real estate marketplace.

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

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

Large Internet companies that have large user bases and significantly greater financial, technical and marketing resources than we do, such as eBay Inc. and craigslist, Inc., provide commercial real estate listing or advertising services in addition to a wide variety of other products or

Table of Contents

services. eBay and craigslist operate real estate listing services which include commercial real estate and operating businesses. Other large Internet companies, such as Google, Yahoo! and Microsoft, have classified listing services which could be used to market and search for commercial real estate property listings. Competition by these companies could reduce demand for our services or require us to make additional expenditures, either of which could reduce our profitability.

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

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

- rates of member adoption and retention;
- changes in our pricing strategy and timing of changes;
- changes in our marketing or other corporate strategies;
- our introduction of new products and services or changes to existing products and services;
- the amount and timing of our operating expenses and capital expenditures;
- the amount and timing of non-cash stock-based charges;
- the amount and timing of litigation related expenses;
- costs related to acquisitions of businesses or technologies; and
- other factors outside of our control.

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

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

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

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

We could face liability for information on our website.

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

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

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

If we are unable to convince commercial real estate brokers and other commercial real estate professionals that our services and products are superior to traditional methods of listing, searching, and marketing commercial real estate, they could choose not to use our marketplace, which could reduce our revenues or increase our expenses.

A primary source of new customers for us is the commercial real estate professional community. Many commercial real estate professionals are used to listing, searching and marketing real estate in traditional ways, such as through the distribution of print brochures, sharing of written lists, placing signs on properties, word-of-mouth, and newspaper advertisements. Commercial real estate professionals may prefer to continue to use traditional methods or may be slow to adopt our products and services. If we are not able to continue to persuade commercial real estate professionals of the efficacy of our products and services, they may choose not to use our marketplace, which could reduce our revenues. In addition, we could be required to increase our marketing and other expenditures to continue our efforts to attract these potential customers.

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

Our success depends in large part on our ability to retain and attract high-quality management and operating personnel, including our Chief Executive Officer and Chairman of the Board of Directors, Richard J. Boyle, Jr.; our President and Chief Operating Officer, Thomas Byrne; our Chief Financial Officer and Senior Vice President, Finance and Administration, Brent Stumme; our Chief Strategy Officer and Senior Vice President, Corporate Development, Jason Greenman; and our Chief Technology Officer and Senior Vice President, Information Technology, Wayne Warthen. Our business plan was developed in large part by our senior-level officers, and its implementation requires their skills and knowledge. We may not be able to offset the impact on our business of the loss of the services of Mr. Boyle or other key officers or employees. We have no employment agreements that prevent any of our key personnel from terminating their employment at any time, and we do not maintain any key-person life insurance for any of our personnel.

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

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

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

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

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

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

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

We may be subject to claims against us alleging infringement of the intellectual property rights of others, including our competitors. Any intellectual property claims, regardless of merit, could be expensive to litigate or settle and could significantly divert our management s attention from other business concerns. For example, on or about April 8, 2008, Real Estate Alliance Ltd. filed a lawsuit against the Company and its subsidiary, Cityfeet.com Inc., in the U.S. District Court for the Central District of California, Western Division, alleging that the Company and Cityfeet.com Inc. have infringed upon certain patents of Real Estate Alliance Ltd. On June 8, 2009, CoStar filed a complaint against us alleging that we have infringed their copyrights and trademarks because photographs bearing CoStar s logo that were posted by third parties allegedly appeared in our RecentSales product.

Our technologies and content may not be able to withstand third-party claims of infringement. If we were unable to successfully defend against such claims, we might have to pay damages, stop using the technology or content found to be in violation of a third party s rights, seek a license for the infringing technology or content, or develop alternative noninfringing technology or content. Licenses for the infringing technology or content may not be available on reasonable terms, if at all. In addition, developing alternative noninfringing technology or content could require significant effort and expense. If we cannot license or develop technology or content for any infringing aspects of our business, we may be forced to limit our service offerings. Any of these results could reduce our ability to compete effectively and harm our business.

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

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

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

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

We also rely on laws, including those regarding patents, copyrights, and trade secrets, to protect our intellectual property rights. Current laws may not adequately protect our intellectual property or our databases and the data contained in them. In addition, legal standards relating to the validity, enforceability and scope of protection of proprietary rights in Internet-related businesses are uncertain and evolving, and we cannot assure you of the future viability or value of any of our proprietary rights.

Table of Contents

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

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

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

- difficulties in integrating the operations, technologies, and products of the acquired companies;
- diversion of management s attention from the normal daily operations of our business;
- inability to maintain the key business relationships and the reputations of acquired businesses;
- entry into markets in which we have limited or no prior experience and in which competitors have stronger market positions;
- dependence on unfamiliar affiliates and partners;
- insufficient revenues to offset increased expenses associated with acquisitions;
- reduction or replacement of the sales of existing services by sales of products or services from acquired lines of business;
- responsibility for the liabilities of acquired businesses;
- inability to maintain our internal standards, controls, procedures and policies; and
- potential loss of key employees of the acquired companies.

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

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

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

We may be unable to effectively manage our growth.

Our overall employee base has grown from 198 employees as of December 31, 2006 to 281 employees as of June 30, 2009. If we do not effectively manage our growth, our customer service and responsiveness could suffer and our costs could increase, which could harm our brand, increase our expenses, and reduce our profitability. Restructuring costs could also be required if we do not effectively manage our growth.

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

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

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

In the first quarter of 2006, we adopted Statement of Financial Accounting Standards No. 123R, *Share-Based Payment* (SFAS 123R), which revises SFAS 123, *Accounting for Stock-Based Compensation* and supersedes Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25). SFAS 123R requires that share-based payment transactions with employees be recognized in the financial statements based on their value and recognized as compensation expense over the vesting period. Prior to SFAS 123R we disclosed the pro forma effects of SFAS 123 under the minimum value method. We adopted SFAS 123R effective January 1, 2006, prospectively for new equity awards issued subsequent to January 1, 2006. As a result of SFAS 123R, we may choose to reduce our reliance on stock options as a compensation tool. If we reduce our use of stock options and do not adopt other forms of compensation, it may be more difficult for us to attract and retain qualified employees. If we do not reduce our reliance on stock options, our operating expenses would increase. We currently rely on stock options to retain existing employees and attract new employees. Although we believe that our accounting practices are consistent with current accounting pronouncements, changes to or interpretations of accounting methods or policies in the future may require us to adversely revise how our consolidated financial statements are prepared.

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

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

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

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

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

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

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

Experienced computer programmers, or hackers, may attempt to penetrate our network security from time to time. For example, in the first quarter of 2008, our subsidiary, Cityfeet.com, was informed that there may have been a security breach to its credit card database, and that some personally identifiable information of individuals contained in that database may have been misappropriated. The potential breach has not affected any personally identifiable information with respect to LoopNet members, which information is maintained on separate servers. Although we maintain a firewall, and will continue to enhance and review our databases to prevent unauthorized and unlawful intrusions, a hacker who penetrates our network security could misappropriate proprietary information or cause interruptions in our services. We might be required to expend significant capital and resources to protect against, or to alleviate, problems caused by hackers. We also may not have a timely remedy against a hacker who is able to penetrate our network security. In addition to purposeful security breaches, the inadvertent transmission of computer viruses could expose us to litigation or to a material risk of loss. Any of these incidents could materially impact our ability to provide our services as well as materially impact the confidence of our customers in our services, either of which could significantly impact our business.

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

As part of our membership registration process, our customers agree to receive emails and other communications from us. However, we may be subject to restrictions on our ability to communicate with our customers through email and phone calls. Several jurisdictions have proposed or adopted privacy-related laws that restrict or prohibit unsolicited email or spam. These laws may impose significant monetary penalties for violations. For example, the CAN-SPAM Act of 2003, or CAN-SPAM, imposes complex and often burdensome requirements in

Table of Contents

connection with sending commercial email. Key provisions of CAN-SPAM have yet to be interpreted by the courts. Depending on how it is interpreted, CAN-SPAM may impose burdens on our email marketing practices or services we offer or may offer. Although CAN-SPAM is thought to have pre-empted state laws governing unsolicited email, the effectiveness of that preemption is likely to be tested in court challenges. If any of those challenges are successful, our business may also be subject to state laws and regulations that may further restrict our email marketing practices and the services we may offer. The scope of those regulations is unpredictable. Compliance with laws and regulations of different jurisdictions imposing different standards and requirements is very burdensome for an online business. Our business, like most online businesses, offers products and services to customers in multiple state jurisdictions. Our business efficiencies and economies of scale depend on generally uniform service offerings and uniform treatment of customers. Compliance requirements that vary significantly from jurisdiction to jurisdiction impose an added cost to our business and increased liability for compliance deficiencies. In addition, laws or regulations that could harm our business could be adopted, or reinterpreted so as to affect our activities, by the government of the United States, state governments, regulatory agencies or by foreign governments or agencies. This could include, for example, laws regulating the source, content or form of information or listings provided on our websites, the information or services we provide or our transmissions over the Internet. Violations or new interpretations of these laws or regulations may result in penalties or damage our reputation or could increase our costs or make our services less attractive.

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

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

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

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

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

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

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

- providing for a classified board of directors with staggered, three-year terms;
- not providing for cumulative voting in the election of directors; or imposing a majority voting standard;
- authorizing the board to issue, without stockholder approval, preferred stock rights senior to those of common stock;
- prohibiting stockholder action by written consent;

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

requiring advance notification of stockholder nominations and proposals.

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

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

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

We had no issuance of unregistered securities during the three months ended June 30, 2009.

Item 3. Defaults Upon Senior Securities.

None.

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

a) *Annual meeting*

Our annual meeting was held on May 28, 2009.

c) *Matters voted upon at the meeting and the results of each vote*

1. The election of the nominees for the Board of Directors who will serve a term to expire at the 2012 Annual Meeting of Stockholders. The nominees, both of whom were elected, were Richard J. Boyle, Jr. and Scott Ingraham.

The Inspector of Election certified the following vote tabulations:

Directors:	Votes For	Votes Withheld
Richard J. Boyle, Jr.	28,765,990	455,292
Scott Ingraham	28,804,742	416,540

William G. Byrnes and Thomas E. Unterman, whose terms expire in 2010, Dennis Chookaszian and Noel J. Fenton, whose terms expire in 2011, and James T. Farrell, were not up for election at the meeting.

2. A proposal to ratify the selection of Ernst & Young LLP as independent registered public accounting firm for the Company for fiscal year 2009 was approved by the stockholders.

The Inspector of Election certified the following vote tabulations:

For	Against	Abstaining	Broker Nonvotes
29,019,410	121,025	80,847	0

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibits:

10.1	Certificate of Designations of Series A Convertible Preferred Stock of the Company, filed with the Secretary of the State of the State of Delaware on March 30, 2009 (incorporated herein by reference to the Company s Current Report on Form 8-K filed with the SEC on April 2, 2009)
10.2	Securities Purchase Agreement, dated as of March 29, 2009, by and among the Company and certain purchasers (incorporated herein by reference to the Schedule 13D filed with the SEC on April 24, 2009 by Calera Capital Partners IV, L.P., Calera Capital Partners IV Side-By-Side, L.P., Calera Capital Investors IV, L.P., and Calera Capital Management IV, Inc.)
10.3	Investors Rights Agreement, dated as of April 14, 2009, by and among the Company and certain investors (incorporated herein by reference to the Schedule 13D filed with the SEC on April 24, 2009 by Calera Capital Partners IV, L.P., Calera Capital Partners IV Side-By-Side, L.P., Calera Capital Investors IV, L.P., and Calera Capital Management IV, Inc.)
31.1	Rule 13a-14(a) Certification (CEO)
31.2	Rule 13a-14(a) Certification (CFO)
32.1	Section 1350 Certification (CEO)

32.2	Section 1350 Certification (CFO)

Table of Contents

SIGNATURES

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

	LOOPNET, INC.
Date: August 5, 2009	By: /s/ Richard J. Boyle, Jr. Richard J. Boyle, Jr. Chief Executive Officer, and Chairman of the Board of Directors Principal Executive Officer
Date: August 5, 2009	By: /s/ Brent Stumme Brent Stumme Chief Financial Officer and Senior Vice President, Finance and Administration Principal Financial or Accounting Officer

Table of Contents

EXHIBIT INDEX

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