LoopNet, Inc.
Form 10-Q
May 08, 2009

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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 March 31, 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	Smaller reporting company o

(Do not check if a smaller reporting company)

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

Yes o No þ

As of April 30, 2009, there were 34,415,691 shares of the registrant s common stock outstanding.

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

	December 31, 2008	March 31, 2009 (unaudited)
Assets		
Current assets:		
Cash and cash equivalents	$ 61,325	$ 65,409
Short-term investments	3,262	3,296
Accounts receivable, net of allowance of $121 and $128, respectively	1,564	1,498
Prepaid expenses and other current assets	1,530	2,353
Deferred income taxes, net	607	607
Total current assets	68,288	73,163
Property and equipment, net	2,208	2,095
Goodwill	23,056	23,243
Intangibles, net	5,678	5,376
Deferred income taxes, net, non-current	5,829	5,361
Deposits and other noncurrent assets	3,151	3,118
Total assets	$ 108,210	$ 112,356
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 622	$ 928
Accrued liabilities	2,020	2,103
Accrued compensation and benefits	2,759	2,034
Deferred revenue	10,358	10,330
Total current liabilities	15,759	15,395
Commitments and contingencies		
Stockholders equity:		
Common stock, $.001 par value, 125,000,000 shares authorized; 39,218,665 and 39,332,848 shares issued, respectively; and 34,292,704 and 34,406,887 shares outstanding, respectively	39	39
Additional paid in capital	114,915	116,872
Other comprehensive loss	(276)	(512)
Treasury stock, at cost, 4,925,961 shares	(54,556)	(54,556)
Retained earnings	32,329	35,118

Total stockholders equity		92,451		96,961
Total liabilities and stockholders equity	$	108,210	$	112,356

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

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

	Three months ended March 31, 2008	Three months ended March 31, 2009
Revenues	**$ 20,590**	**$ 20,102**
Cost of revenue (1)	2,414	2,892
Gross margin	**18,176**	**17,210**
Operating expenses (1):		
Sales and marketing	4,841	4,507
Technology and product development	1,993	2,559
General and administrative	4,056	5,437
Total operating expenses	10,890	12,503
Income from operations	**7,286**	**4,707**
Interest and other income, net	975	12
Income before tax	**8,261**	**4,719**
Income tax expense	3,407	1,930
Net income	**$ 4,854**	**$ 2,789**
Net income per share		
Basic	$ 0.13	$ 0.08
Diluted	$ 0.12	$ 0.08
Weighted average shares		
Basic	37,460	34,302
Diluted	39,117	35,219

(1) Stock-based compensation is

allocated as follows:

Cost of revenue	$ 115	$ 167
Sales and marketing	553	600
Technology and product development	246	486
General and administrative	438	590
Total	$ 1,352	$ 1,843

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

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

	Three months ended March 31,	
	2008	**2009**
Cash flows from operating activities:		
Net income	$ 4,854	$ 2,789
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	419	617
Stock-based compensation	1,352	1,843
Tax benefits from exercise of stock options	(249)	(59)
Deferred income tax	298	469
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(275)	66
Prepaid expenses and other assets	104	(808)
Income taxes payable	1,913	59
Accounts payable	(171)	306
Accrued expenses and other current liabilities	652	83
Accrued compensation and benefits	(773)	(725)
Deferred revenue	777	(29)
Net cash provided by operating activities	8,901	4,611
Cash flows from investing activities:		
Purchase of property and equipment	(182)	(203)
Purchase of short-term investments	(250)	(250)
Acquisitions, net of acquired cash	(1,300)	(188)
Net cash used in investing activities	(1,732)	(641)
Cash flows from financing activities:		
Net proceeds from exercise of stock options	127	55
Repurchase of common stock	(39,145)	
Tax benefits from exercise of stock options	249	59
Net cash provided by (used in) financing activities	(38,769)	114
Net increase (decrease) in cash and cash equivalents	(31,600)	4,084
Cash and cash equivalents at beginning of period	104,564	61,325

Cash and cash equivalents at end of period	$ 72,964	$ 65,409

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Background and Basis of Presentation

Basis of Presentation

The accompanying condensed consolidated balance sheet as of March 31, 2009, the statements of income for the three months ended March 31, 2008 and 2009 and the statements of cash flows for the three months ended March 31, 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 months ended March 31, 2009 are not necessarily indicative of the results to be expected for the fiscal year ending December 31, 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 depend on 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.

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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 March 31,	
	2008	2009
Weighted average common shares outstanding	37,460	34,302
Add dilutive common equivalents:		
Stock options	1,503	895
Restricted stock units	3	0
Unvested restricted stock (1)	151	22
Shares used to compute diluted net income per share	39,117	35,219

(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 March 31,	
	2008	2009
Stock options	1,498	5,147
Restricted stock units		415

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

	Three Months Ended March 31,	
	2008	2009
Net income	$ 4,854	$ 2,789
Weighted average common shares outstanding	37,460	34,302
Basic earnings per share	**$ 0.13**	**$ 0.08**

Calculation of diluted net income per share:

Net income	$ 4,854	$ 2,789
Weighted average diluted shares outstanding	39,117	35,219
Diluted net income per share	**$ 0.12**	**$ 0.08**

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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 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 month period ended March 31, 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 month period ended March 31, 2009 also reflects the application of SAB 107 interpretive guidance and, accordingly, incorporates historical volatility of similar companies whose share price is publicly available.

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

	Three Months Ended March 31,	
	2008	**2009**
Risk-free interest rate	2.75%	1.76%
Expected volatility	41%	47%
Expected life	4.6 years	4.6 years
Dividend yield	0%	0%

The weighted-average fair value of options granted during the three month period ended March 31, 2008 and 2009 was $4.35 and $2.96, respectively, using the Black-Scholes option-pricing model.

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

	Three Months Ended March 31,	
	2008	**2009**
Cost of revenue	$ 115	$ 167

Sales and marketing	553	600
Technology and product development	246	486
General and administrative	438	590
Total	$ 1,352	$ 1,843

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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	2,091,497	$ 7.20				
Exercised	(83,056)	$ 0.89				
Cancelled	(112,236)	$13.28				
Outstanding at March 31, 2009	6,533,445	$ 9.23	5.91	2,353,586	$8.35	5.27

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 March 31, 2009	396,250	$ 9.28	2.15

Note 5 Income Taxes

The Company recorded a provision for income taxes of $1.9 million for the three month period ended March 31, 2009, based upon a 40.9% 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 6 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 first quarter of 2009, the Company made no repurchases. As of March 31, 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 7 Litigation and Other Contingencies

Litigation and Other Legal Matters

There have been no material developments in our pending legal proceedings. 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.

Note 8 Subsequent Events

On March 29, 2009, the Company entered into a Securities Purchase Agreement (the Purchase Agreement) with certain accredited investors (the Purchasers). Pursuant to 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 aggregate consideration to be paid for the Series A Preferred Stock by the Purchasers is $50 million (the Purchase Price). 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 parties also entered into an Investors Rights Agreement (the Investors Rights Agreement) with the Purchasers, pursuant to which, among other things, the Company agrees to grant the Purchasers certain registration rights including the right to require the Company a file a registration statement to register the Common Stock issuable upon conversion of the Series A Preferred Stock.

On March 30, 2009 the Company filed a Certificate of Designations of Series A Convertible Preferred Stock (the Certificate of Designations) with the Secretary of State of the State of Delaware. The Certificate of Designations authorizes the Company to issue 50,000 shares of Series A Preferred Stock and sets forth the terms of the Series A Preferred Stock.

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 990,000 per month during the first 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

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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 3.4 million as of March 31, 2009. The number of monthly unique visitors to our marketplace averaged 800,000 in 2006, 900,000 in 2007 and 2008, and 990,000 in the first 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 74,000 as of March 31, 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 first quarter of 2009 in our average monthly conversion rate to approximately 2.2% 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, the impact of a slowdown in commercial real estate transaction activity, and an approximately 12% increase in the average monthly subscription prices which we charge our premium members. Transaction activity in the Commercial Real Estate market that we serve has slowed, 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 first 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 $66.18 in the first 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 75% of our revenue in the first 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 687,000 as of March 31, 2009. The number of property profiles that were viewed by our registered members decreased from 44.2 million in the first quarter of 2008 to 33.0 million in the first quarter of 2009.

Our Revenues and Expenses

Our primary sources of revenues are:

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

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 $20.1 million in the three month period ended March 31, 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 m