

LoopNet, Inc.
Form 10-Q
October 31, 2006

Table of Contents

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

(Mark One)

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

For the quarterly period ended September 30, 2006

OR

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

For the transition period from _____ to _____

Commission file number 000-52026

LOOPNET, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or
organization)

77-0463987

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

185 Berry Street, Suite 4000

San Francisco, CA 94107

(Address of principal executive offices)

(415) 243-4200

(Registrant's telephone number, including area code)

N/A

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

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

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer, as defined in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

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

Yes No

As of October 25, 2006, there were 37,192,085 shares of the registrant's common stock outstanding.

TABLE OF CONTENTS

	Page
<u>PART I FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements (unaudited):</u>	3
<u>Condensed Consolidated Balance Sheets as of December 31, 2005 and September 30, 2006</u>	3
<u>Condensed Consolidated Statements of Income for the three and nine month periods ended September 30, 2005 and 2006</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the nine month periods ended September 30, 2005 and 2006</u>	5
Notes to Condensed Consolidated Financial Statements	6
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	12
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	20
<u>Item 4. Controls and Procedures</u>	20
<u>PART II OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	20
<u>Item 1A. Risk Factors</u>	20
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	30
<u>Item 3. Defaults Upon Senior Securities</u>	31
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	31
<u>Item 5. Other Information</u>	31
<u>Item 6. Exhibits</u>	31
<u>Signatures</u>	32
<u>EXHIBIT 31.1</u>	
<u>EXHIBIT 31.2</u>	
<u>EXHIBIT 32.1</u>	
<u>EXHIBIT 32.2</u>	

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Consolidated Financial Statements**

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

	December 31, 2005	September 30, 2006 (unaudited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 18,765	\$ 80,581
Short-term investments	3,100	3,202
Accounts receivable, net of allowance of \$33 and \$66, respectively	529	1,034
Prepaid expenses and other current assets	325	839
Deferred income taxes	824	824
Total current assets	23,543	86,480
Property and equipment, net	843	1,012
Goodwill	2,417	2,417
Intangibles, net	1,418	1,339
Deferred income taxes	6,798	2,988
Deposits and other noncurrent assets	158	160
Total assets	\$ 35,177	\$ 94,396
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	\$ 65	\$ 192
Accrued compensation and benefits	1,284	1,527
Accrued liabilities	599	771
Deferred revenue	4,640	6,584
Income taxes payable	16	2,406
Total current liabilities	6,604	11,480
Commitments and contingencies		
Preferred stock, \$.001 par value, 32,795,752 and 10,000,000 shares authorized; 22,541,528 and 0 shares issued and outstanding at December 31, 2005 and September 30, 2006, respectively	39,962	
Stockholders (deficit) equity:		
Common stock, \$.001 par value, 125,000,000 shares authorized; 8,514,538 and 37,180,785 shares issued and outstanding at December 31, 2005 and September 30, 2006, respectively	9	37
Additional paid in capital	12,482	95,307
Deferred stock-based compensation	(827)	

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Stockholder notes receivable	(453)	
Other comprehensive income	(29)	(31)
Accumulated deficit	(22,571)	(12,397)
Total stockholders (deficit) equity	(11,389)	82,916
Total liabilities and stockholders (deficit) equity	\$ 35,177	\$ 94,396

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		Nine months ended	
	September 30,		September 30,	
	2005	2006	2005	2006
Revenues	\$ 8,379	\$ 12,707	\$ 21,853	\$ 34,565
Cost of revenue (1)	975	1,421	2,749	4,015
Gross margin	7,404	11,286	19,104	30,550
Operating Expenses (1):				
Sales and marketing	1,561	2,776	4,201	6,908
Technology and product development	852	1,146	2,848	3,139
General and administrative	1,582	2,147	4,099	5,376
Total operating expenses	3,995	6,069	11,148	15,423
Income from operations	3,409	5,217	7,956	15,127
Interest income, net	137	1,028	283	1,747
Other income, net			7	(2)
Income before tax	3,546	6,245	8,246	16,872
Income taxes	97	2,479	235	6,698
Net Income	\$ 3,449	\$ 3,766	\$ 8,011	\$ 10,174
Net income per share				
Basic	\$ 0.10	\$ 0.10	\$ 0.22	\$ 0.28
Diluted	\$ 0.10	\$ 0.09	\$ 0.16	\$ 0.27

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

Cost of revenue	\$ 6	\$ 54	\$ 12	\$ 87
Sales and marketing	39	301	105	438
Technology and product development	26	64	330	118
General and administrative	25	190	125	278
Total	\$ 96	\$ 609	\$ 572	\$ 921

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)

	Nine months ended September	
	30,	
	2005	2006
Cash flows from operating activities:		
Net income	\$ 8,011	\$ 10,174
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	359	456
Stock-based compensation	572	921
Net loss on disposal of assets		3
Deferred income tax benefit		3,810
Changes in operating assets and liabilities:		
Accounts receivable	(159)	(505)
Prepaid expenses and other assets	(4)	(638)
Income taxes payable	(88)	2,390
Accounts payable	107	127
Accrued expenses and other current liabilities	771	172
Accrued compensation and benefits	32	244
Deferred revenue	1,757	1,944
Net cash provided by operating activities	11,358	19,098
Cash flows from investing activities:		
Purchase of property and equipment	(517)	(534)
Acquisitions, net of cash	(1,000)	
Net cash used in investing activities	(1,517)	(534)
Cash flows from financing activities:		
Proceeds from sale of common stock, net of issuance costs paid		42,309
Net proceeds from exercise of stock options	31	38
Net proceeds from exercise of warrants		449
Net proceeds from payment of notes receivable on options exercised and restricted stock purchased		456
Net cash provided by financing activities	31	43,252
Net increase in cash and cash equivalents	9,872	61,816
Cash and cash equivalents at beginning of period	5,698	18,765
Cash and cash equivalents at end of period	\$ 15,570	\$ 80,581

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

-5-

Table of Contents

Note 1 Background and Basis of Presentation

Basis of Presentation

The accompanying condensed consolidated balance sheet as of September 30, 2006, the statements of income for the three and nine months ended September 30, 2005 and 2006 and the statements of cash flows for the nine months ended September 30, 2005 and 2006 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 Registration Statement on Form S-1 filed with the Securities and Exchange Commission on June 6, 2006.

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 Registration Statement and include all adjustments necessary for the fair value presentation of the Company's financial position for the periods presented. The results for the three and nine months ended September 30, 2006 are not necessarily indicative of the results to be expected for the fiscal year ending December 31, 2006.

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.

Note 2 Earnings Per Share

For periods where the Company had two classes of equity securities, it followed EITF Issue No. 03-6, *Participating Securities and the Two-Class Method under FASB Statement 128*, which established standards regarding the computation of earnings per share (EPS) by companies that have issued securities other than common stock that contractually entitle the holder to participate in dividends and earnings of the company. EITF Issue No. 03-6 requires earnings available to common shareholders for the period, after deduction of redeemable convertible preferred stock dividends, to be allocated between the common and redeemable convertible preferred shareholders based on their respective rights to receive dividends. Basic EPS is then calculated by dividing income allocable to common shareholders (including the reduction for any undeclared, preferred stock dividends assuming current income for the

Table of Contents

period had been distributed) by the weighted average number of shares outstanding. EITF Issue No. 03-6 does not require the presentation of basic and diluted EPS for securities other than common stock; therefore, the following EPS amounts only pertain to the Company's common stock.

Upon the closing of the Company's initial public offering, all outstanding redeemable convertible preferred shares were converted to common shares. Since the Company became a public company, the Company followed SFAS No. 128, *Earnings Per Share*, which requires that basic EPS be calculated by dividing earnings available to common shareholders for the period by the weighted average number of common shares outstanding. Income for the year was allocated between these periods on a straight-line basis over the number of days of the respective periods.

The Company calculates diluted EPS under the if-converted method unless the conversion of the redeemable convertible preferred stock is anti-dilutive to basic EPS. To the extent redeemable convertible preferred stock is anti-dilutive, the Company calculates diluted EPS under the two class method to include the effect of potential common shares.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2006	2005	2006
Weighted-average common shares outstanding used to compute basic net income per share (two-class method)	7,434		7,142	8,028
Weighted average shares outstanding used to compute basic net income per share after conversion of redeemable convertible preferred stock; one class of common shares was outstanding for the period from June 7 to September 30, 2006		36,643		36,587
Weighted average common shares outstanding	7,434	36,643	7,142	19,647
Add dilutive common equivalents:				
Stock options	2,086	2,642	2,164	2,536
Warrants		528		238
Unvested restricted stock (1)	916	511	974	612
Redeemable convertible preferred stock	21,729			13,633
Redeemable convertible preferred warrants	3,079			1,390
Shares used to compute diluted net income per share	35,244	40,324	10,280	38,056

(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		Nine Months Ended	
	September 30,		September 30,	
	2005	2006	2005	2006
Stock Options		413	428	884
Warrants			2,889	
Redeemable convertible preferred stock			21,729	

-7-

Table of Contents

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

	Three Months Ended September 30, 2005 2006		Nine Months Ended September 30, 2005 2006	
Calculation of basic net income per share:				
Net income (1)	\$ 3,449		\$ 8,011	\$ 5,851
Assumed preferred stock dividends	540		1,619	978
Net income, net of assumed stock dividends	\$ 2,909		\$ 6,392	\$ 4,873
Percent of net income allocable to common shareholders (2)	25%		25%	26%
Net income allocable to common shareholders	727		1,598	1,267
Weighted average common shares outstanding	7,434		7,142	8,028
Basic net income per share two-class method	\$ 0.10		\$ 0.22	\$ 0.16
Net income for period during which single class of equity securities was outstanding (1)			\$ 3,766	\$ 4,323
Weighted average common shares outstanding			36,643	36,587
Basic earnings per share for period during which single class of equity securities were outstanding				\$ 0.12
Basic earnings per share	\$ 0.10	\$ 0.10	\$ 0.22	\$ 0.28
Calculation of diluted net income per share:				
Net Income	\$ 3,449	\$ 3,766	\$ 1,598	\$ 10,174
Weighted average diluted shares outstanding	35,244	40,324	10,280	38,056
Diluted net income per share	\$ 0.10	\$ 0.09	\$ 0.16	\$ 0.27

(1) Net income for the three months and nine months ended September 30, 2006 was allocated between the periods during which two classes of equity securities were outstanding and during which a single class of equity securities was outstanding based on the respective number of days.

The redeemable convertible preferred stock was converted to common stock on the effective date of the Company's initial public offering.

(2) Calculation of percent of net income allocable to common shareholders:

Three Months Ended	Nine Months Ended
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	September 30,		September 30,	
	2005	2006	2005	2006
Weighted average common shares outstanding	7,434		7,142	8,028
Weighted average redeemable convertible preferred shares outstanding	21,729		21,729	22,896
Weighted average common shares and preferred shares outstanding	29,163		28,871	30,924
Percent of net income allocable to common shareholders		25%		25%
				26%

-8-

Table of Contents**Note 3 Stock-Based Compensation**

In the first quarter of 2006, the Company adopted Statement of Financial Accounting Standards No. 123R, *Share-Based Payment* (SFAS 123R), which revises Statement of Financial Accounting Standards 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.

Prior to January 1, 2006, the Company accounted for employee stock-based compensation in accordance with provisions APB 25, and Financial Accounting Standards Board Interpretation No. 44, *Accounting for Certain Transactions Involving Stock Compensation* an Interpretation of APB No. 25, and complied with the disclosure provisions of SFAS 123, and related Statement of Financial Accounting Standard No. 148, *Accounting for Stock-Based Compensation* Transaction and Disclosure. Under APB 25, compensation expense is based on the difference, if any, on the date of the grant, between the fair value of our stock and the exercise price of the option. The Company amortized deferred stock-based compensation using the straight-line method over the vesting period.

The following table illustrates the effect on net income for the three month and nine month periods ended September 30, 2005 if the fair value based method as prescribed by SFAS 123R had been applied to all outstanding awards in each period (in thousands, except per share data):

	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
Net income, as reported	\$ 3,449	\$ 8,011
Add: Stock-based employee compensation expense included in net income available to shareholders, net of related tax effects	96	572
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(102)	(552)
Pro forma net income	\$ 3,443	\$ 8,031
Earnings per share		
Basic as reported	\$ 0.10	\$ 0.22
Diluted as reported	\$ 0.10	\$ 0.16
Basic pro forma	\$ 0.10	\$ 0.22
Diluted pro forma	\$ 0.10	\$ 0.16

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 nine month periods ended September 30, 2006 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 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 nine month period ended September 30, 2006 also reflects the application of SAB 107 interpretive guidance and, accordingly, incorporates historical volatility of similar entities whose share price is publicly available. Volatility for 2005 was based on the minimum value method.

-9-

Table of Contents

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