LoopNet, Inc.
Form 10-Q
November 03, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2011

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	**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 x No ¨

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 x No ¨

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 ¨	Accelerated filer x
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	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 ¨ No x

As of October 25, 2011, there were 33,708,808 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, 2010	September 30, 2011 (unaudited)
Assets		
Current assets:		
Cash and cash equivalents	$ 88,773	$ 113,067
Short-term investments	3,512	3,517
Accounts receivable, net of allowance of $236 and $265	1,494	2,055
Prepaid expenses and other current assets	1,095	2,933
Deferred income taxes, net	1,317	1,315
Total current assets	96,191	122,887
Property and equipment, net	2,010	3,483
Goodwill	41,507	41,507
Intangibles, net	8,940	7,021
Deferred income taxes, net, non-current	17,134	17,069
Deposits and other non-current assets	6,208	6,900
Total assets	$ 171,990	$ 198,867
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 471	$ 929
Accrued liabilities and other current liabilities	3,393	5,985
Accrued compensation and benefits	3,522	3,958
Deferred revenue	8,888	9,653
Total current liabilities	16,274	20,525
Other long-term liabilities	2,491	2,941
Commitments and contingencies		
Series A convertible preferred stock	48,546	48,800
Stockholders equity:		
Common stock, $.001 par value, 125,000,000 shares authorized; 32,183,836 and 33,501,924 shares outstanding	40	41
Additional paid in capital	132,019	149,447
Other comprehensive loss	(389)	(421)
Treasury stock, at cost, 7,682,261 and 7,682,962 shares	(86,220)	(86,227)
Retained earnings	59,229	63,761
Total stockholders equity	104,679	126,601
Total liabilities and stockholders equity	$ 171,990	$ 198,867

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)

	Three months ended September 30, 2010	Three months ended September 30, 2011	Nine months ended September 30, 2010	Nine months ended September 30, 2011
		(unaudited)		
Revenues	**$ 19,779**	**$ 22,214**	**$ 57,965**	**$ 64,546**
Cost of revenue (1)	3,015	3,230	8,863	9,580
Gross margin	**16,764**	**18,984**	**49,102**	**54,966**
Operating expenses:				
Sales and marketing (1)	4,093	5,259	12,574	15,627
Technology and product development (1)	3,157	3,852	9,053	11,363
General and administrative (1)	4,496	7,598	12,111	18,298
Amortization of acquired intangible assets	516	638	1,442	1,920
Total operating expenses	12,262	17,347	35,180	47,208
Income from operations	**4,502**	**1,637**	**13,922**	**7,758**
Interest and other (expense) income, net	(301)	(391)	(670)	(1,067)
Income before tax	**4,201**	**1,246**	**13,252**	**6,691**
Income tax expense	1,463	300	4,809	1,905
Net income	**2,738**	**946**	**8,443**	**4,786**
Convertible preferred stock accretion of discount	(85)	(85)	(254)	(254)
Net income applicable to common stockholders	**$ 2,653**	**$ 861**	**$ 8,189**	**$ 4,532**
Net income per share				
Basic	$ 0.07	$ 0.02	$ 0.20	$ 0.11
Diluted	$ 0.06	$ 0.02	$ 0.19	$ 0.10
Weighted average shares				
Basic	39,569	40,872	40,947	40,377
Diluted	41,461	44,454	42,577	43,423

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

Cost of revenue	$ 132	$ 124	$ 414	$ 384
Sales and marketing	409	518	1,338	1,596
Technology and product development	675	680	2,042	2,165
General and administrative	798	763	2,435	2,547

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)

	Nine months ended September 30, 2010	2011
	(unaudited)	
Cash flows from operating activities:		
Net income	$ 8,443	$ 4,786
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	2,499	3,119
Stock-based compensation	6,229	6,692
Tax benefits from exercise of stock options	(611)	(2,107)
Deferred income tax	(2,154)	66
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(441)	(562)
Prepaid expenses and other assets	630	1,039
Accounts payable	51	458
Accrued expenses and other liabilities	235	3,041
Accrued compensation and benefits	375	436
Deferred revenue	115	766
Net cash provided by operating activities	15,371	17,734
Cash flows from investing activities:		
Purchase of property and equipment	(934)	(2,670)
Purchase of investments	(3,485)	(1,500)
Acquisitions, net of acquired cash	(22,077)	
Net cash used in investing activities	(26,496)	(4,170)
Cash flows from financing activities:		
Net proceeds from exercise of stock options	873	9,349
Tax withholdings related to net share settlements of restricted stock units	(237)	(719)
Repurchase of common stock	(31,664)	(7)
Tax benefits from exercise of stock options	611	2,107
Net cash provided by (used in) financing activities	(30,417)	10,730
Net increase (decrease) in cash and cash equivalents	(41,542)	24,294
Cash and cash equivalents at beginning of period	125,571	88,773
Cash and cash equivalents at end of period	$ 84,029	$ 113,067

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 Background and Basis of Presentation

The Company

LoopNet, Inc. (we, the Company or LoopNet) was incorporated under the laws of the state of California on June 2, 1997, and was reincorporated as a Delaware corporation in May 2006.

We own and operate the 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 2.0 million during the third quarter of 2011, compared with approximately 1.5 million during 2010, and approximately 985,000 during 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. Commercial real estate agents, buyers and tenants use the LoopNet online marketplace to search for available property listings that meet their commercial real estate criteria. By connecting the sources of commercial real estate supply and demand in an efficient manner, we believe that our online marketplace enables commercial real estate participants to initiate and complete more transactions more cost-effectively than through other means. As of September 30, 2011, the LoopNet online marketplace contained 824,761 listings.

The Company derives most of its revenue from customers that pay fees for a suite of services to market and search for commercial real estate and operating businesses. These services include a premium membership that gives the customer unlimited access to listings, maximized exposure for their listings along with enhanced services to market their listings.

On April 27, 2011, LoopNet and the CoStar Group, Inc. (CoStar) announced the signing of a merger agreement for the acquisition of LoopNet by CoStar (the Merger), which was approved by LoopNet s stockholders at a special meeting on July 11, 2011. Completion of the Merger remains subject to the expiration or termination of the waiting period imposed by the Hart-Scott Rodino Antitrust Improvement Act of 1976 as amended, and satisfaction or waiver of the other closing conditions specified in the merger agreement. See Note 9 Pending Merger with CoStar for more information.

Basis of Presentation

The accompanying condensed consolidated balance sheet as of September 30, 2011, the statements of income for the three and nine months ended September 30, 2010 and 2011 and the statements of cash flows for the nine months ended September 30, 2010 and 2011 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, 2010.

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, 2010 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 nine months ended September 30, 2011 are not necessarily indicative of the results to be expected for the fiscal year ending December 31, 2011. The Company has evaluated subsequent events after the balance sheet date through the financial statement issuance date for appropriate accounting and disclosure.

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.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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):

	$000,000	$000,000	$000,000	$000,000
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2011	2010	2011
	(unaudited)			
Weighted average common shares outstanding	32,129	33,432	33,507	32,937
Convertible preferred stock	7,440	7,440	7,440	7,440
Shares used to compute basic net income applicable to common shareholders	39,569	40,872	40,947	40,377
Add dilutive common equivalents:				
Stock options	1,391	2,740	1,243	2,292
Restricted stock units	501	842	387	754
Shares used to compute diluted net income applicable to common shareholders	41,461	44,454	42,577	43,423

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):

	$000,000	$000,000	$000,000	$000,000
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2011	2010	2011
	(unaudited)			
Stock options	3,495	330	3,882	1,502
Restricted stock units	34		41	

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

	$00,000	$00,000	$00,000	$00,000
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2011	2010	2011
	(unaudited)			
Calculation of basic net income per share applicable to common shareholders:				
Net income	$ 2,738	$ 946	$ 8,443	$ 4,786
Convertible preferred stock accretion of discount	(85)	(85)	(254)	(254)
Net income applicable to common shareholders	$ 2,653	$ 861	$ 8,189	$ 4,532
Shares used to compute basic net income applicable to common shareholders	39,569	40,872	40,947	40,377

Basic net income per share applicable to common shareholders	**$ 0.07**	**$ 0.02**	**$ 0.20**	**$ 0.11**
Calculation of diluted net income per share applicable to common shareholders:				
Net Income	$ 2,738	$ 946	$ 8,443	$ 4,786
Convertible preferred stock accretion of discount	(85)	(85)	(254)	(254)
Net income applicable to common shareholders	$ 2,653	$ 861	$ 8,189	$ 4,532
Shares used to compute diluted net income applicable to common shareholders	41,461	44,454	42,577	43,423
Dilutive net income per share applicable to common shareholders	**$ 0.06**	**$ 0.02**	**$ 0.19**	**$ 0.10**

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 3 Acquisitions

In 2010, the Company acquired three entities, each pursuant to Asset Purchase Agreements for a total cash consideration of $22.1 million (net of cash acquired), plus potential gross earn-out payments up to $4.3 million that are contingent upon achievement of certain performance targets. In February 2011, the Company made a cash payment of $0.3 million, which represents the first potential contingent payment obligation.

The acquisitions were accounted for as a business combination consistent with the authoritative guidance regarding business combinations (see the Company s 2010 Form 10-K for additional information). The results of operations of the three entities were included in the Company s condensed consolidated statements of income for the period subsequent to their respective acquisition dates. The entities results of operations for the periods prior to the acquisitions were not material to our condensed consolidated statement of income and, accordingly, pro forma financial information has not been presented.

Note 4 Series A Convertible Preferred Stock

The Company completed a $50 million private placement to accredited investors in 2009. The Company sold 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), which is initially convertible into an aggregate of 7,440,476 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). Holders of 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 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. For the three and nine month periods ended September 30, 2011, the Company recorded accretion on the issuance costs of $85,000 and $254.000, respectively.

Note 5 Stock Plan

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, 2010	8,953,668	$ 9.75	4.9	4,548,818	$ 9.73	4.1
Granted	868,000	$ 11.93				
Exercised	(1,155,189)	$ 8.09				

Cancelled	(184,045)	$	14.30				
Outstanding at September 30, 2011 (unaudited)	8,482,434	$	10.09	4.5	4,487,357	$ 10.11	3.7

Included in the options outstanding at September 30, 2011 are 1,440,000 shares of performance-based options awarded to its executive officers by the Board of Directors. These options are tied to incentivizing execution of the Company s long-term strategic plan. The Company has determined that the performance condition criteria have not been met to date, and therefore recognition of the compensation expense for these options has been deferred.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

A summary of the Company s restricted 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, 2010	1,403,750	$ 9.98	3.7
Granted	230,000	$ 11.71	
Vested	(218,125)	$ 9.64	
Cancelled		$	
Outstanding at September 30, 2011 (unaudited)	1,415,625	$ 10.30	3.4

Included in the restricted stock units outstanding at September 30, 2011 are 690,000 shares of performance-based restricted stock units awarded to its executive officers by the Board of Directors. These restricted stock units are tied to incentivizing execution of the Company s long-term strategic plan. The Company has determined that the performance condition criteria have not been met to date, and therefore recognition of the compensation expense for these options has been deferred.

Stock-based Compensation

Since 2006, the Company has applied the authoritative guidance surrounding stock-based compensation. The guidance 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. The Company adopted this guidance effective January 1, 2006, prospectively for new equity awards issued subsequent to January 1, 2006.

In connection with this guidance, the Company reviews and updates, among other things, its forfeiture rate, expected term and volatility assumptions. Commencing in the first quarter of 2011, the Company began estimating the weighted average expected life of the options based upon the historical exercise behavior of our employees. Prior to the first quarter of 2011, the Company used the simplified method to calculate the weighted average expected life of the options. The estimated volatility for the nine month period ended September 30, 2011 reflects the application of the authoritative guidance and, accordingly, incorporates historical volatility of similar companies whose share price is publicly available. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant.

Due to the pending merger with CoStar, no options were granted in the third quarter of 2011. The fair value of each option for the three and nine month periods are estimated on the date of grant using the Black-Scholes method with the following assumptions:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2011	2010	2011
	(unaudited)			
Risk-free interest rate	1.55%	n/a	2.07%	1.99%
Expected volatility	47%	n/a	47%	49%
Expected life (in years)	4.6	n/a	4.6	3.7
Dividend yield	0%	n/a	0%	0%

The weighted-average fair value of options granted during the three month period ended September 30, 2010 was $4.54, and during the nine month periods ended September 30, 2010 and 2011 was $4.31 and $4.71, respectively, using the Black-Scholes method.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2011
		(unaudited)		
Cost of revenue	$ 132	$ 124	$ 414	$ 384
Sales and marketing	409	518	1,338	1,596
Technology and product development	675	680	2,042	2,165
General and administrative	798	763	2,435	2,547
Total	$ 2,014	$ 2,085	$ 6,229	$ 6,692

Note 6 Income Taxes

The Company recorded a provision for income taxes of $1.9 million for the nine month period ended September 30, 2011, based upon a 28.5% effective tax rate. The effective tax rate is based upon the Company s estimated fiscal 2011 income before the provision for income taxes. To the extent the estimate of fiscal 2011 income before the provision for income taxes changes, the Company s provision for income taxes will change as well.

Note 7 Stock Repurchases

The Company s Board of Directors (the Board) authorized the repurchase of up to $50.0 million of the Company s common stock on February 5, 2008 and an additional authorized level of $50.0 million of the Company s common stock on July 30, 2008. During 2008, the Company repurchased $54.6 million of the Company s common stock. In February 2010, the Board approved the repurchase of up to an additional $29.6 million in shares of the Company s common stock, bringing to $75.0 million the total amount of authorized Common Stock repurchases, of which $43.3 million remained available as of September 30, 2011.

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

The Company and its board of directors and CoStar have been named as defendants in three putative class action lawsuits brought by alleged stockholders challenging our proposed merger with CoStar. Two of the actions, Raymond E. Williams Jr. v. LoopNet, Inc., et al. and Ronald T. West v. Richard Boyle, et al., were filed on or around May 3, 2011 and Ronald T. West v. Richard Boyle, et al. was amended on May 20, 2011. The third action, Karin Cahill v. LoopNet, Inc., et al., was filed on June 3, 2011. All three actions were filed in the Superior Court of California, County of San Francisco. The complaints generally allege, among other things, that each member of the board breached his fiduciary duties to the Company s stockholders by authorizing the sale of the Company to CoStar for consideration that does not maximize value to the shareholders and engineering the transaction to benefit themselves without regard to the Company s shareholders. The complaints also generally allege that the Company (and, in the case of the Ronald T. West action, CoStar) aided and abetted the breaches of fiduciary duty allegedly committed by the members of the board and made incomplete or materially misleading disclosures about the proposed transaction. The shareholder actions seek equitable relief, including an injunction against consummating the merger.

On June 21, 2011, counsel for the parties in the lawsuits entered into a memorandum of understanding in which they agreed on the terms of a settlement of all litigation, which would include the dismissal with prejudice of all claims against all of the defendants. The proposed settlement is conditional upon, among other things, the execution of an appropriate stipulation of settlement, consummation of the merger and final approval of the proposed settlement by the court. In addition, in connection with the settlement and as provided in the memorandum of understanding, the parties contemplate that plaintiff s counsel will seek an award of attorneys fees and expenses as part of the settlement. There can be no assurance that the merger will be consummated, that the parties ultimately will enter into a stipulation of settlement or that the court will approve the settlement even if the parties enter into such stipulation. In such event, the proposed settlement as contemplated by the memorandum of understanding may be terminated. The settlement will not affect the amount of the merger consideration that the Company s stockholders are entitled to receive in the merger.

Except as set forth above, there have been no material changes from legal proceedings as previously disclosed in Part I Item 3 of our Annual Report on Form 10-K for the year ended December 31, 2010 filed with the Securities and Exchange Commission on March 3, 2011.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 9 Pending Merger with CoStar

Merger Agreement with CoStar Group, Inc.

On April 27, 2011, the Company entered into an Agreement and Plan of Merger (the Merger Agreement) with CoStar Group, Inc., a Delaware corporation (CoStar) and Lonestar Acquisition Sub, Inc., a Delaware corporation and a wholly-owned subsidiary of CoStar (Merger Subsidiary), pursuant to which Merger Subsidiary will be merged with and into the Company (the Merger), with the Company surviving as a wholly-owned subsidiary of CoStar.

Subject to the terms and conditions of the Merger Agreement, at the effective time of the Merger, each outstanding share of the Company s common stock will be converted into the right to receive a unit consisting of (i) $16.50 in cash, without interest, and (ii) 0.03702 shares of CoStar common stock (the Common Stock Consideration). The holders of the Company s Series A Preferred Stock will receive the Common Stock Consideration on an as-converted basis.

Subject to the terms and conditions of the Merger Agreement, at the effective time of the Merger, each of the Company s outstanding equity awards (including stock options and restricted stock units), whether vested or unvested, will be cancelled in exchange for cash and/or shares of CoStar common stock (depending on the type of award and the exercise price of the award, if any) based on the Common Stock Consideration less, in the case of a stock option, the per share exercise price.

The Company s board of directors has unanimously approved the Merger Agreement. On July 11, 2011, at a special meeting of the Company s stockholders, the Merger was approved by the holders of a majority of the outstanding shares of the Company s common stock and Series A Preferred Stock, voting together as a single class on an as-converted basis.

As previously disclosed in the proxy statement/prospectus dated June 6, 2011, both CoStar and the Company filed notification and report forms with the Department of Justice and the Federal Trade Commission (the FTC) pursuant to the Hart-Scott-Rodino Antitrust Improvement Act of 1976 (the HSR Act), on May 31, 2011. As a result, the waiting period under the HSR Act with respect to the proposed merger between CoStar and the Company was scheduled to expire on June 30, 2011. As previously announced, on June 30, 2011, CoStar and the Company each received a request for additional information (commonly referred to as a second request) from the FTC with respect to the proposed Merger. CoStar and the Company have been working cooperatively with the FTC in connection with its review and expect to certify substantial compliance with the second request shortly. At the FTC s request, CoStar and the Company have agreed to extend the waiting period imposed by the HSR Act from 30 to 60 days after the date of substantial compliance with the second request unless that period is extended voluntarily by the parties or terminated sooner by the FTC. While the parties remain hopeful that the FTC will complete its review in a time frame that would permit the Merger to close by the end of 2011, the current timing is such that it is quite possible that the Merger may not close by such time. Consummation of the Merger remains subject to the expiration or termination of the waiting period under the HSR Act and other customary closing conditions. Consummation of the Merger is not subject to any financing condition.

The Merger Agreement contains customary representations, warranties and covenants by each of the Company and CoStar.

The Merger Agreement contains termination rights for both the Company and CoStar, including for the Company if its board of directors changes its recommendation of the Merger to its stockholders in connection with a superior proposal. Upon termination of the Merger Agreement under certain circumstances, the Company may be obligated to pay CoStar a termination fee of $25,800,000. Upon termination of the Merger Agreement in the event necessary antitrust approval is not obtained, CoStar may be obligated to pay the Company a termination fee of $51,600,000.

Concurrently with the execution of the Merger Agreement, the Company s directors and certain of its executive officers and significant stockholders entered into a voting and support agreement (the Support Agreement) with CoStar and the Company, and agreed, in their capacities as stockholders of the Company, to, among other things, vote their shares of the Company s capital stock in favor of the Merger and the Merger Agreement.

The foregoing description of the Merger, the Merger Agreement and the Support Agreement is qualified in its entirety by reference to the Merger Agreement and the Support Agreement, copies of which are attached as Exhibit 2.1 and Exhibit 2.2, respectively, to the Company s Current Report on Form 8-K filed with the Securities and Exchange Commission (the SEC) on April 28, 2011 and which are incorporated by reference herein.

The Company cannot guarantee that the Merger will be completed or that, if completed, it will be exactly on the terms as set forth in the Merger Agreement.

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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 own and operate the 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 2.0 million per month during the third quarter of 2011, compared with approximately 1.5 million per month during 2010, and 985,000 per month during 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. Commercial real estate agents, buyers and tenants use the LoopNet online marketplace to search for available property listings that meet their commercial real estate criteria. 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. Premium membership service remains the largest revenue contributor to our business and accounted for 65% of our revenue in the third quarter of 2011, compared with 71% of our revenues in 2010, and 75% in 2009, reflecting changing market conditions, as well as our ongoing efforts to expand and develop our business beyond our core marketplace services.

Recent Developments

On April 27, 2011, we entered into an Agreement and Plan of Merger (the Merger Agreement) with CoStar Group, Inc., a Delaware corporation (CoStar) and Lonestar Acquisition Sub, Inc., a Delaware corporation and a wholly-owned subsidiary of CoStar (Merger Subsidiary), pursuant to which Merger Subsidiary will be merged with and into us (the Merger), with LoopNet surviving as a wholly-owned subsidiary of CoStar. Subject to the terms and conditions of the Merger Agreement, at the effective time of the Merger, each outstanding share of our common stock will be converted into the right to receive a unit consisting of (i) $16.50 in cash, without interest, and (ii) 0.03702 shares of CoStar common stock (the Common Stock Consideration). The holders of our Series A Preferred Stock will receive the Common Stock Consideration on an as-converted basis. Subject to the terms and conditions of the Merger Agreement, at the effective time of the Merger, each of our outstanding equity awards (including stock options and restricted stock units), whether vested or unvested, will be cancelled in exchange for cash and/or shares of CoStar common stock (depending on the type of award and the exercise price of the award, if any) based on the Common Stock Consideration less, in the case of a stock option, the per share exercise price. On July 11, 2011, at a special meeting of the Company s stockholders, the Merger was approved by the holders of a majority of the outstanding shares of our common stock and Series A Preferred Stock, voting together as a single class on an as-converted basis. Both we and CoStar filed notification and report forms with the Department of Justice and the Federal Trade Commission (the FTC) pursuant to the Hart-Scott-Rodino Antitrust Improvement Act of 1976 (the HSR Act) on May 31, 2011. As a result, the waiting period under the HSR Act with respect to the proposed merger between us and CoStar was scheduled to expire on June 30, 2011. As previously announced, on June 30, 2011, CoStar and we each received a request for additional information (commonly referred to as a second request) from the FTC with respect to the proposed Merger. We and CoStar have been working cooperatively with the FTC in connection with its review and expect to certify substantial compliance with the second request shortly. At the FTC s request, we and CoStar have agreed to extend the waiting period imposed by the HSR Act from 30 to 60 days after the date of substantial compliance with the second request unless that period is extended voluntarily by the parties or terminated sooner by the FTC. While the parties remain hopeful that the FTC will complete its review in a time frame that would permit the Merger to close by the end of 2011, the current timing is such that it is quite possible that the Merger may not close by such time. Consummation of the Merger remains subject to the expiration or termination of the waiting period under the HSR Act and other customary closing conditions. Consummation of the Merger is not subject to any financing condition. Upon termination of the Merger Agreement under certain circumstances, we may be obligated to pay CoStar a termination fee of $25.8 million. Similarly, upon termination of the Merger Agreement in the event necessary antitrust approval is not obtained, CoStar may be obligated to pay us a termination fee of $51.6 million. Concurrently with the execution of the Merger Agreement, our directors and certain of our executive officers and significant stockholders entered into a voting and support agreement (the Support Agreement) with CoStar and us. We cannot guarantee that the Merger will be completed or that, if completed, it will be exactly on the terms as set forth in the Merger Agreement.

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Key Operating Metrics and Trends

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 average monthly subscription price paid by our premium members;
- the cancellation rate of our premium members;
- the number of active commercial real estate listings on our marketplace;
- the number of property profiles viewed by visitors to LoopNet;
- the number of unique paying subscribers to our other commercial real estate subscription products and services; and
- the average monthly subscription price paid by our unique subscribers to our commercial real estate subscription products and services.

Our registered members have grown to approximately 5.2 million as of September 30, 2011, from approximately 4.6 million as of December 31, 2010, and 3.9 million as of December 31, 2009. The number of monthly unique visitors to our marketplace averaged approximately 2.0 million in the third quarter of 2011. Our premium members were 73,283 as of September 30, 2011, compared to 68,608 as of December 31, 2010, and 68,378 as of December 31, 2009. The average monthly subscription price paid by our premium members was $66.34 in the third quarter of 2011, compared to $66.59 in 2010, and $66.03 in 2009. Our average monthly cancellation rate in the third quarter of 2011 fell within the 4.5% to 6.5% range we began seeing in late 2007. We believe the higher cancellation rate seen in the last several years is primarily the result of a significant slow-down in transaction activity in the commercial real estate industry that began in the fourth quarter of 2007, due to deteriorating economic conditions and due to the credit crunch impacting the availability and cost of debt capital for real estate transactions. Premium membership fees have driven the majority of our growth in revenues since 2001 and were the source of approximately 65% of our revenue in the third quarter of 2011, compared to 71% of our revenues in 2010, and 75% in 2009. The number of listings on our marketplace has increased to 824,761 as of September 30, 2011, from 788,330 as of December 31, 2010, and 732,503 as of December 31, 2009. The number of property profiles that were viewed by visitors of LoopNet grew to 84.8 million in the third quarter of 2011, compared to 64.2 million in the third quarter of 2010. The number of unique paying subscribers to one or more of our commercial real estate related products and services (i.e. Premium Membership, Property Comps, Property Facts, Professional Profile, LandsofAmerica, and LandAndFarm) was 94,793 as of September 30, 2011, and the average monthly revenue per unique paying subscriber during the third quarter of 2011 was $60.01.

The commercial real estate (CRE) industry has experienced and continues to experience challenging times, although certain segments of our industry have shown signs of increasing stabilization and modest improvement in transaction volumes. Industry-wide improvement, however, has been uneven, with most segments of the industry, particularly those involving smaller property transactions, remaining weak as compared to normalized historical standards. To capitalize on the CRE industry s shifting dynamics in 2011 and beyond, we are currently focused on initiatives to increase our long-term value and expand the breadth and depth of the products and services we provide to our customers, which we believe will extend our leadership position and maximize our opportunities. To this end, we have been increasing the rate of investment in our business through execution of our strategy and business plan, ongoing investments in our existing products and services and investments in new organic initiatives.

While we continued investing in our business throughout 2009 and 2010, during the worst commercial real estate cycle in decades, we did so cautiously in light of uncertainties around the magnitude of the decline, and the timing of recovery, in the CRE industry. However, as we began seeing early, albeit uneven, indications that activity levels in the industry may be stabilizing and in some segments, improving, we accelerated our investment plans to capitalize on the potential longer-term opportunities. In 2011, we are investing several million dollars on a range of internal and external investments that we believe will complement and extend our business and, over time, create meaningful long-term shareholder value. Some of these investments are accelerations of ongoing efforts in areas that we have highlighted previously, such as our efforts to aggregate market and searching activity in our CRE, business-for-sale and land-for-sale marketplaces, aggregate more on-market available properties, organically develop new services aimed at increasing the scope of information we deliver to an expanded set of customers, our ongoing strategic investment in Xceligent, a provider of fully researched information services to CRE professionals, and various efforts to attract more demand side activity to our marketplace.

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A significant area of investment for us has been, and will likely continue to be, our Property Facts, formally known as Property Research Database product. Introduced in May 2010, Property Facts uses a hybrid approach that combines user-generated marketplace data with a variety of other information sources. We believe there are significant opportunities in the ability to deliver easy access to timely, useful, accurate market data at prices below traditional alternatives particularly as we enter what we believe may be the early stage of a market recovery. We have been gathering and responding to customer feedback and continue to refine the Property Facts product. In March 2011, we began selling access to this service independent of Premium Membership in addition to continuing to offer bundles of complimentary products and services to our subscribers and customers.

Property Comps, formally known as RecentSales, which we developed and funded internally, is another area of investment, which will continue through 2011. As transaction volumes likely accelerate over the next few years, we intend to continue to expand the breadth and depth of the data coverage in this service, providing more value to existing customers and introducing the service to many new subscribers.

We are also continuing to work on upgrading and integrating technology platforms from some of the acquisitions we have done in the past, including REApplications, BizQuest, Reaction Web, LandAndFarm, and LandsofAmerica. For example, we announced the release of Enterprise Deal Tools in December 2010, a suite of deal management products and tools that leverages Reaction Web s technology and enables our corporate customers to minimize back-end work associated with property marketing campaigns and transaction management.

These planned investments, which extend throughout the organization to include product development, data aggregation, sales & marketing, and possible M&A related efforts, among others, are being made to position our business for long-term growth. This investment strategy is focused on accelerating our revenue growth and market share gains, as activity in the CRE market begins to recover. While this strategy may reduce our margins in the short term, we believe our investments will increase the likelihood that we will attain our goal of becoming a substantially larger company and extend our longer-term competitive and technological advantages.

Our Revenues and Expenses

Our primary sources of revenues are:

- LoopNet premium membership fees;
- other property advertising fees, such as Cityfeet.com, LandsofAmerica and LandAndFarm.com;
- BizBuySell and BizQuest membership fees and paid listings;
- advertising on, and lead generation from, our marketplaces;
- LoopLink product license fees;
- LoopNet Property Comps membership fees; and
- LoopNet Property Facts membership fees.

We have been profitable and cash flow positive each quarter since the second quarter of 2003. The key factors that impact our revenues are:

- the adoption of our premium membership services by the commercial real estate industry and cancellation rates;

- the average monthly subscription price of our premium membership product;
- the adoption of our Property Comps and Property Facts services and other new products and services by the commercial real estate industry; and
- the adoption of our services by the operating business for sale industry.

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 $66.34 per month during the third quarter of 2011, compared to $66.59 per month during 2010, and $66.03 during 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.

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We also generate revenue from Property Comps, by charging a flat monthly fee to access our database of recent commercial real estate transactions or a per transaction fee for individual transactions; Property Facts, for which we charge a flat monthly fee to access our database of commercial property information or a per property record fee for individual property record purchases; LoopLink, which we license to commercial real estate brokerage firms who pay a monthly, quarterly or annual fee; and, BizBuySell and BizQuest, for which we charge a flat monthly fee for business brokers to market their listings or a per listing fee for owners to market their own listings. Revenues from other sources include advertising and lead generation revenues from both our LoopNet and business-for-sale marketplaces, which are recognizedratably 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.

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 years, 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 compared to historical norms, although we believe that modest growth in activity levels are returning but at a fairly gradual pace.

Results of Operations

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

	Three months ended September 30, 2010	Three months ended September 30, 2011	Nine months ended September 30, 2010	Nine months ended September 30, 2011
	(unaudited)			
Revenues	100.0%	100.0%	100.0%	100.0%
Cost of revenue	15.2	14.5	15.3	14.8
Gross margin	84.8	85.5	84.7	85.2
Operating expenses				
Sales and marketing	20.7	23.7	21.7	24.2
Technology and product development	16.0	17.3	15.6	17.6
General and administrative	22.7	34.2	20.9	28.3
Amortization of acquired intangible assets	2.6	2.9	2.5	3.0
Total operating expenses	62.0	78.1	60.7	73.1
Income from operations	22.8	7.4	24.0	12.0

Interest and other (expense) income, net	(1.5)	(1.8)	(1.2)	(1.7)
Income before tax	21.2	5.6	22.9	10.4
Income tax expense	7.4	1.4	8.3	3.0
Net income	13.8	4.3	14.6	7.4
Convertible preferred stock accretion of discount	(0.4)	(0.4)	(0.4)	(0.4)
Net income applicable to common stockholders	13.4%	3.9%	14.1%	7.0%

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Comparison of Three Months Ended September 30, 2010 and 2011

Revenues

	Three Months Ended September 30,			
	2010	2011	Increase	Percent Change
	(Dollars in thousands)			
Revenues	$ 19,779	$ 22,214	$ 2,435	12.3%
Premium members at September 30	69,363	73,283	3,920	5.7%

The increase in revenues was due to a combination of a higher premium membership base, higher revenue from our Property Comps and Property Facts products and the favorable impact of prior year acquisitions in the three month period ended September 30, 2011 as compared to the three month period ended September 30, 2010.

We currently anticipate that revenues will grow modestly in future periods as we continue to expand the array of products and services we deliver to our customers, although revenue in the fourth quarter of 2011 may decline slightly as a result of the normal slow-down during the end-of-year holiday period.

Cost of Revenues

	Three Months Ended September 30,			
	2010	2011	Increase	Percent Change
	(Dollars in thousands)			
Cost of revenues	$ 3,015	$ 3,230	$ 215	7.1%
Percentage of revenues	15.2%	14.5%		

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 primarily to an increase in internet connectivity costs and 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 invest in current and new products and services.

Sales and Marketing

	Three Months Ended September 30,			
	2010	2011	Increase	Percent Change
	(Dollars in thousands)			
Sales and marketing	$ 4,093	$ 5,259	$ 1,166	28.5%
Percentage of revenues	20.7%	23.7%		

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

The increase in sales and marketing expenses was due to an increase in the number of sales personnel, higher commissions and higher advertising costs.

We expect sales and marketing expenses to potentially increase in both absolute dollar amounts and as a percentage of revenues, as we continue to expand our marketing and sales programs to attract and retain customers and market new products and services.

Technology and Product Development

	Three Months Ended September 30,			
	2010	**2011**	**Increase**	**Percent Change**
	(Dollars in thousands)			
Technology and product development	$ 3,157	$ 3,852	$ 695	22.0 %
Percentage of revenues	16.0%	17.3%		

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

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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.

We expect technology and product development expenses to increase in absolute dollar amounts and as a percentage of revenues, as we continue to invest in current and new products and services, such as our new Property Facts product.

General and Administrative

	$00,000	$00,000	$00,000	$00,000
	Three Months Ended September 30,			
	2010	2011	Increase	Percent Change
	(Dollars in thousands)			
General and administrative	$ 4,496	$ 7,598	$ 3,102	69.0 %
Percentage of revenues	22.7%	34.2%		

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 costs and acquisition related costs associated with the potential Merger.

We expect general and administrative expenses to potentially increase in absolute dollar amounts and as a percentage of revenues, as we continue to incur costs associated with the potential Merger.

Amortization of acquired intangible assets

	$00,000	$00,000	$00,000	$00,000
	Three Months Ended September 30,			
	2010	2011	Increase	Percent Change
	(Dollars in thousands)			
Amortization of acquired intangible assets	$ 516	$ 638	$ 122	23.6 %
Percentage of revenues	2.6%	2.9%		

Amortization of acquired intangible assets is a result of purchased assets or businesses. These purchased transactions result in the creation of acquired intangible assets with finite lives and lead to a corresponding increase in our amortization expense in future periods. We amortize intangible assets over the period of estimated benefit, using a straight-line method and estimated useful lives up to 8 years.

The increase in amortization of acquired intangible assets was due primarily to the acquisitions in 2010.

We expect amortization of acquired intangible assets to potentially increase in absolute dollar amounts and as a percentage of revenues, as we from time to time expect to continue to acquire businesses.

Stock-Based Compensation

	$00,000	$00,000	$00,000	$00,000
	Three Months Ended September 30,			
	2010	2011	Increase/ (Decrease)	Percent Change
	(Dollars in thousands)			

Cost of revenue	$ 132	$ 124	$ (8)	(6.1)%
Sales and marketing	409	518	109	26.7 %
Technology and product development	675	680	5	0.7 %
General and administrative	798	763	(35)	(4.4)%
Total	$ 2,014	$ 2,085	$ 71	3.5 %

Expenses associated with stock-based compensation increased by $71,000 to $2,085,000 in the three month period ended September 30, 2011 compared to $2,014,000 in the three month period ended September 30, 2010.

Interest and other (expense) income, net

Interest and other (expense) income increased by $90,000 to $391,000 of expense in the three month period ended September 30, 2011, from $301,000 of expense in the three month period ended September 30, 2010. The increase was due primarily to higher losses realized from our equity investments.

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Income Tax Expense

We recorded a provision for income taxes of $0.3 million for the three month period ended September 30, 2011, based upon a 28.5% effective tax rate for the full year of 2011. The effective tax rate is based upon our estimated fiscal 2011 income before the provision for income taxes. To the extent the estimate of fiscal 2011 income before the provision for income taxes changes, our provision for income taxes will change as well.

Comparison of Nine Months Ended September 30, 2010 and 2011

Revenues

	Nine Months Ended September 30,			
	2010	2011	Increase	Percent Change
	(Dollars in thousands)			
Revenues	$ 57,965	$ 64,546	$ 6,581	11.4%
Premium members at September 30	69,363	73,283	3,920	5.7%

The increase in revenues was due to a combination of a higher premium membership base, higher revenue from our Property Comps and Property Facts products and the favorable impact of prior year acquisitions in the nine month period ended September 30, 2011 as compared to the nine month period ended September 30, 2010.

Cost of Revenues

	Nine Months Ended September 30,			
	2010	2011	Increase	Percent Change
	(Dollars in thousands)			
Cost of revenues	$ 8,863	$ 9,580	$ 717	8.1%
Percentage of revenues	15.3%	14.8%		

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 primarily to an increase in internet connectivity costs and 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

	Nine Months Ended September 30,			
	2010	2011	Increase	Percent Change
	(Dollars in thousands)			
Sales and marketing	$ 12,574	$ 15,627	$ 3,053	24.3%
Percentage of revenues	21.7%	24.2%		

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

The increase in sales and marketing expenses was due to an increase in the number of sales personnel, increased commissions and higher advertising costs.

Technology and Product Development

	Nine Months Ended September 30, 2010	2011	Increase	Percent Change
	(Dollars in thousands)			
Technology and product development	$ 9,053	$ 11,363	$ 2,310	25.5%
Percentage of revenues	15.6%	17.6%		

Technology and product development costs include expenses for the research and development of new products 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.

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General and Administrative

	Nine Months Ended September 30,			Percent
	2010	2011	Increase	Change
	(Dollars in thousands)			
General and administrative	$ 12,111	$ 18,298	$ 6,187	51.1 %
Percentage of revenues	20.9%	28.3%		

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 costs and acquisition related costs associated with the potential Merger. The nine month period ended September 30, 2010 included an insurance recovery settlement related to past litigation costs of $1,186,000.

Amortization of acquired intangible assets

	Nine Months Ended September 30,			Percent
	2010	2011	Increase	Change
	(Dollars in thousands)			
Amortization of acquired intangible assets	$ 1,442	$ 1,920	$ 478	33.1 %
Percentage of revenues	2.5%	3.0%		

Amortization of acquired intangible assets is a result of purchased assets or businesses. These purchased transactions result in the creation of acquired intangible assets with finite lives and lead to a corresponding increase in our amortization expense in future periods. We amortize intangible assets over the period of estimated benefit, using a straight-line method and estimated useful lives up to 8 years.

The increase in amortization of acquired intangible assets was due primarily to the acquisitions in 2010.

Stock-Based Compensation

	Nine Months Ended September 30,			Percent
	2010	2011	Increase/ (Decrease)	Change
	(Dollars in thousands)			
Cost of revenue	$ 414	$ 384	$ (30)	(7.2)%
Sales and marketing	1,338	1,596	258	19.3 %
Technology and product development	2,042	2,165	123	6.0 %
General and administrative	2,435	2,547	112	4.6 %
Total	$ 6,229	$ 6,692	$ 463	7.4 %

Expenses associated with stock-based compensation increased by $463,000 to $6,692,000 in the nine month period ended September 30, 2011 compared to $6,229,000 in the nine month period ended September 30, 2010. The increase was due primarily to stock option and restricted stock unit grants for employees hired and additional grants to existing employees.

Interest and other (expense) income, net

Interest and other (expense) income increased by $397,000 to $1,067,000 of expense in the nine month period ended September 30, 2011, from $670,000 of expense in the nine month period ended September 30, 2010. The increase was due primarily to higher losses realized from our equity investments.

Income Tax Expense

We recorded a provision for income taxes of $1.9 million for the nine month period ended September 30, 2011, based upon a 28.5% effective tax rate for the full year of 2011. The effective tax rate is based upon our estimated fiscal 2011 income before the provision for income taxes. To the extent the estimate of fiscal 2011 income before the provision for income taxes changes, our provision for income taxes will change as well.

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Liquidity and Capital Resources

The following table summarizes our cash flows (in thousands):

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2011
	(Unaudited)	
Cash flow data:		
Cash provided by operating activities	$ 15,371	$ 17,734
Cash used in investing activities	(26,496)	(4,170)
Cash provided by (used in) financing activities	(30,417)	10,730

As of September 30, 2011, our cash, cash equivalents and short-term investments totaled $116.6 million, compared to $87.5 million in cash, cash equivalents and short-term investments as of September 30, 2010.

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 $17.7 million and $15.4 million in the nine month periods ended September 30, 2011 and 2010, respectively.

Investing Activities

Cash used in investing activities in the nine month period ended September 30, 2011 of $4.2 million was attributable to capital expenditures of $2.7 million for the purchase of computer equipment, office equipment and furniture and the purchase of investments of $1.5 million.

Cash used in investing activities in the nine month period ended September 30, 2010 of $26.5 million was attributable to capital expenditures of $0.9 million for the purchase of computer equipment, office equipment and furniture, the purchase of investments of $3.5 million and $22.1 million for the acquisitions of BizQuest, Reaction Web, LandsofAmerica and a contingent purchase price payment related to the July 2008 acquisition of LandAndFarm.

Financing Activities

Cash provided by financing activities in the nine month period ended September 30, 2011 of $10.7 million was primarily attributable to the net proceeds from the exercise of stock-based awards and the tax benefit from the exercise of stock options, partially offset by tax withholdings related to net share settlements of restricted stock units.

Cash used in financing activities in the nine month period ended September 30, 2010 of $30.4 million was primarily attributable to the Company s stock repurchases in the amount of $31.7 million, partially offset by the net proceeds from the exercise of stock-based awards and the tax benefit from the exercise of stock options.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with 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, 2010. We believe there have been no significant changes in our critical accounting policies and estimates.

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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 as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures were effective to provide reasonable assurance that the 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 SEC 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.

The Company and its board of directors and CoStar have been named as defendants in three putative class action lawsuits brought by alleged stockholders challenging our proposed merger with CoStar. Two of the actions, Raymond E. Williams Jr. v. LoopNet, Inc., et al. and Ronald T. West v. Richard Boyle, et al., were filed on or around May 3, 2011 and Ronald T. West v. Richard Boyle, et al. was amended on May 20, 2011. The third action, Karin Cahill v. LoopNet, Inc., et al., was filed on June 3, 2011. All three actions were filed in the Superior Court of California, County of San Francisco. The complaints generally allege, among other things, that each member of the board breached his fiduciary duties to the Company s stockholders by authorizing the sale of the Company to CoStar for consideration that does not maximize value to the shareholders and engineering the transaction to benefit themselves without regard to the Company s shareholders. The complaints also generally allege that the Company (and, in the case of the Ronald T. West action, CoStar) aided and abetted the breaches of fiduciary duty allegedly committed by the members of the board and made incomplete or materially misleading disclosures about the proposed transaction. The shareholder actions seek equitable relief, including an injunction against consummating the merger.

On June 21, 2011, counsel for the parties in the lawsuits entered into a memorandum of understanding in which they agreed on the terms of a settlement of all litigation, which would include the dismissal with prejudice of all claims against all of the defendants. The proposed settlement is conditional upon, among other things, the execution of an appropriate stipulation of settlement, consummation of the merger and final approval of the proposed settlement by the court. In addition, in connection with the settlement and as provided in the memorandum of understanding, the parties contemplate that plaintiff s counsel will seek an award of attorneys fees and expenses as part of the settlement. There can be no assurance that the Merger will be consummated, that the parties ultimately will enter into a stipulation of settlement or that the court will approve the settlement even if the parties enter into such stipulation. In such event, the proposed settlement as contemplated by the memorandum of understanding may be terminated. The settlement will not affect the amount of the merger consideration that the Company s stockholders are entitled to receive in the Merger.

Except as set forth above, there have been no material changes from legal proceedings as previously disclosed in Part I Item 3 of our Annual Report on Form 10-K for the year ended December 31, 2010 filed with the Securities and Exchange Commission on March 3, 2011.

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, 2010, which was filed with the Securities and Exchange Commission on March 3, 2011.

Due to 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.

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Risks Related to our Pending Merger with CoStar

Completion of the Merger is subject to various conditions, including the expiration or termination of the waiting period imposed by the Hart-Scott Rodino Antitrust Improvement Act of 1976, as amended.

Consummation of the Merger is subject to customary conditions, including approval of the Merger by our stockholders, which was obtained on July 11, 2011 at a special meeting of stockholders, the absence of legal restraints and the receipt of requisite antitrust approval. With respect to the required antitrust approval, both CoStar and the Company filed notification and report forms with the Department of Justice and the Federal Trade Commission (the FTC) pursuant to the Hart-Scott-Rodino Antitrust Improvement Act of 1976 (the HSR Act), on May 31, 2011. As a result, the waiting period under the HSR Act with respect to the proposed merger between CoStar and the Company was scheduled to expire on June 30, 2011. As previously announced, on June 30, 2011, CoStar and the Company each received a request for additional information (commonly referred to as a second request) from the FTC with respect to the proposed Merger. CoStar and the Company have been working cooperatively with the FTC in connection with its review and expect to certify substantial compliance with the second request shortly. At the FTC s request, CoStar and the Company have agreed to extend the waiting period imposed by the HSR Act from 30 to 60 days after the date of substantial compliance with the second request unless that period is extended voluntarily by the parties or terminated sooner by the FTC. While the parties remain hopeful that the FTC will complete its review in a time frame that would permit the Merger to close by the end of 2011, the current timing is such that it is quite possible that the Merger may not close by such time.

Each party s obligation to consummate the Merger is also subject to the accuracy of the representations and warranties of the other party (subject to certain qualifications and exceptions) and the performance in all material respects of the other party s covenants under the Merger Agreement, including, with respect to us, customary covenants regarding operation of our business prior to closing. As a result of these conditions, we cannot assure you that the Merger will be completed, or that, if completed, it will be exactly on the terms set forth in the Merger Agreement. For example, the FTC may require divestitures or changes relating to the operations or assets of the Company and CoStar to obtain clearance or approval under the HSR Act. If the Merger is not completed for any reason, we expect that we would continue to be managed by our current management, under the direction of our board of directors.

If the proposed Merger is not completed, our stock price will likely fall to the extent that the current market price of our common stock reflects an assumption that a transaction will be completed. In addition, under circumstances described in the Merger Agreement, we may be required to pay a termination fee of up to $25.8 million if the Merger Agreement is terminated. Further, the failure of the proposed Merger to be completed may result in negative publicity and/or a negative impression of us in the investment community and may affect our relationship with employees, customers and other partners in the business community.

The Merger process could adversely affect our business, stock price, reputation and results of operations.

Our efforts to complete the Merger could cause substantial disruptions in our business, which could have an adverse effect on our financial results. Among other things, uncertainty as to whether a transaction will be completed with CoStar may affect our ability to recruit prospective employees or to retain and motivate existing employees. Employee retention may be particularly challenging while the Merger is pending, because employees may experience uncertainty about their future roles with CoStar.

Uncertainty as to our future could adversely affect our business, reputation and our relationship with customers and potential customers. For example, customers and others that deal with us could defer decisions concerning working with us, or seek to change existing business relationships with us. Further, a substantial amount of the attention of management and employees is being directed toward the completion of the Merger and thus is being diverted from our day-to-day operations because matters related to the Merger (including integration planning) require substantial commitments of time and resources.

While the Merger Agreement is in effect, we are subject to restrictions on our business activities.

While the Merger Agreement is in effect, we are subject to restrictions on our business activities and must generally operate our business in the ordinary course consistent with past practice (subject to certain exceptions). These restrictions could prevent us from pursuing attractive business opportunities that arise prior to the completion of the Merger and are generally outside the ordinary course of business, and otherwise have a material adverse effect on our future results of operations or financial condition.

In certain instances, the Merger Agreement requires us to pay a termination fee of $25.8 million to CoStar, a payment which could affect the decisions of a third party considering making an alternative acquisition proposal.

Under the terms of the Merger Agreement, we may be required to pay to CoStar a termination fee of $25.8 million if the Merger Agreement is terminated under certain circumstances. This payment could affect the structure, pricing and terms proposed by a third party seeking to acquire or merge with us and could deter such third party from making a competing acquisition proposal.

Risks Related to Our Business

The ongoing uncertainty 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 be volatile and subject to uncertainty. Although we are currently seeing signs of stabilization after a prolonged downturn, the depressed debt markets continue to affect the investment sales market and have been contributing to a slow down in our industry, which we anticipate will continue through 2011. 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 September 30, 2011, approximately 24% of our premium members were based in California and approximately 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. 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. 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.

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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, BizQuest, Cityfeet, LandsofAmerica and LandAndFarm marketplaces, Property Comps and Property Facts subscribers, REApplications users and advertising and lead generation customers. The majority of our current 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. Since the fourth quarter of 2007, our average monthly cancellation rate for premium members has exceeded our historical rate of three to five percent, although the cancellation rate in the past couple of years has been within our expected range of 4.5% to 6.5%. We believe the higher cancellation rate is primarily the result of a significant slow-down in transaction activity in the commercial real estate industry that began in the fourth quarter of 2007, due to deteriorating economic conditions and due to the credit crunch impacting the availability and cost of debt capital for real estate transactions.

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 marketplaces to our customers is dependent on increasing the number of property listings provided by and searches conducted by our members. To grow our marketplaces, 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. Furthermore, our ability to develop and successfully market our new information products and services may also be important in attracting new registered members. If we are unable to effectively market our existing and new 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 increased to 824,761 as of September 30, 2011, from 788,330 as of December 31, 2010 and 732,503 as of December 31, 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 property listing, searching, information services and analytical products, and marketing and transaction services to the commercial real estate industry is highly competitive and fragmented, with limited barriers to entry in certain segments. In the land-for-sale and businesses-for-sale sectors, we similarly compete with a broad array of online marketplaces, as well as local and regional multiple listing services. We face competition from a variety of sources with respect to our different product offerings. We may not be able to compete successfully against our competitors that focus on one type of product or service area with respect to that particular product or service. Additionally, our current or new competitors may adopt aspects of our business model, which could reduce our ability to differentiate our services. Furthermore, 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. If our current or potential customers choose to use these services rather than ours, demand for our services could decline. 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.

Our current focus on internal and external investments for long term growth may result in flat revenue growth rates and place downward pressure on our operating margin in the near future.

As part of our initiative to increase our long term value and expand the breadth and depth of services we provide to our customers, we have increased the rate of investments in our business, including internal investments in product development, data aggregation and information services, sales and marketing, and external investments such as acquisitions and investments in other companies, and expect to continue to do so, subject to the pending Merger. For example, as part of our investment in information services, we recently launched the Property Facts product. We also acquired LandsofAmerica. This investment strategy is intended to accelerate our revenue growth and market share gains in the future as activity in the commercial real estate industry shows signs of stabilizing and begins to recover. While we believe this strategy will enable us to capitalize on opportunities we see in our industry and extend our leadership position, we expect our operating margins to experience a downward pressure and our revenue growth rate to be flat in the short term as a result of our planned investments and economic environment. Furthermore, if the industry fails to stabilize or deteriorates further in 2011 and beyond, such investments may not have their intended effect. For instance, our external investments may lose value and as a result, we may incur an impairment charge with respect to such investment. If we are unable to successfully execute our investment strategy or fail to adequately anticipate potential problems, we may experience further decreases in our revenues and operating margins.

If we are unable to introduce new or upgraded services, products or enabling technologies 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 or develop additional enabling technologies. 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 or develop additional enabling technologies, then our customers may choose not to use our products or services.

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, since October 2004, we made several acquisitions, including BizBuySell, Cityfeet.com Inc., REApplications, Inc., LandAndFarm.com, BizQuest, ReactionWeb and LandsofAmerica. 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

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- 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.

The number of our registered members is higher than the number of actual members.

The number of registered members in our network is higher than the number of actual members because some members have multiple registrations or others may have registered under fictitious names. Given the challenges inherent in identifying these accounts, we do not have a reliable system to accurately identify the number of actual members, and thus we rely on the number of registered members as one of our key operating metrics and our measure of the size of our marketplace. If the number of our actual members does not continue to grow and those members do not convert to premium members, then our business may not grow as fast as we expect, which will harm our operating and financial results.

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 and investments in 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;
- 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 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. All litigation with CoStar was settled in December 2009, although the Company incurred significant legal costs to protect its intellectual property. 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.

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.

We could face liability for information on our website or general litigation claims.

We provide information on our website, including commercial real estate listings and broker listings that are 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 is misleading and contains errors or omissions. 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 or do not have the qualifications or licenses they disclose. 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.

Our primary source of new customers is participants in the commercial real estate community. Many commercial real estate professionals are use to listing, searching and marketing real estate in traditional and off-line 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 and investment professionals may prefer to continue to use traditional methods or may be slow to adopt and accept our online products and services. If we are not able to continue to persuade commercial real estate participants of the efficacy of our online products and services, they may choose not to use our online marketplace, which could negatively impact our business.

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, and our other Senior Vice Presidents. Our current long term business strategy was developed in large part by our senior-level officers that depends in part on their skills and knowledge to implement, and also includes a focus on new growth and investment initiatives that may require additional management expertise to successfully execute our strategy. 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 or recruit additional talent. 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

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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.

Certain U.S. and foreign laws could subject us to claims or otherwise harm our business.

We are subject to a variety of laws in the U.S. and abroad that may subject us to claims or other remedies. Our failure to comply with applicable laws may subject us to additional liabilities, which could adversely affect our business, financial condition and results of operations. Laws and regulations which are particularly relevant to our business address information security, content and the distribution of content, taxation, intellectual property rights, characteristics and quality of products and services, and online advertising and marketing, including email marketing and unsolicited commercial email.

Many applicable laws were adopted prior to the advent of the Internet and do not contemplate or address the unique issues of the Internet. The laws that do reference the Internet are being interpreted by the courts, but their applicability and scope remain uncertain. For example, the laws relating to the liability of providers of online services are evolving. Claims have been either threatened or filed against us under both U.S. and foreign laws for defamation, libel, slander, invasion of privacy and other tort claims, unlawful activity, copyright and trademark infringement, or other theories based on the nature and content of the materials searched and the advertisements posted by our websites users, our products and services, or content generated by our users.

Federal and state legislation regulating email communications and Internet advertising, such as privacy-related laws that restrict or prohibit unsolicited email (commonly known as spam) may adversely affect our ability to market our services to consumers in a cost-effective manner. Violation of such laws may result in monetary fines or penalties or damage to our reputation. The CAN-SPAM Act of 2003, or CAN-SPAM, imposes complex and often burdensome requirements in connection with sending commercial email. Depending on how the law is interpreted and applied, CAN-SPAM may impose significant costs and burdens on our email marketing practices.

Federal, state and local tax authorities may alter tax treatment of companies engaged in Internet commerce. New, revised or existing tax regulations, whether domestic or internationally, may subject us or our affiliates to additional state sales, income and other taxes. We cannot predict the effect of current attempts to impose sales, income or other taxes on commerce over the Internet. New or revised taxes, particularly sales taxes, could negatively affect the attractiveness of advertising and selling products and services over the Internet and increase our costs. These events, if they occur, could have an adverse effect on our business and results of operations.

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. 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.

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 non-infringing technology or content. Licenses for the infringing technology or content may not be available on reasonable terms, if at all. In addition, developing alternative non-infringing 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.

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. 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 could result in unfavorable accounting charges or adversely affect our reported financial results.

Generally accepted accounting principles in the United States are subject to interpretation by the Financial Accounting Standards Board, the American Institute of Certified Public Accountants, the SEC and various bodies formed to promulgate and interpret appropriate accounting principles. A change in these principles or interpretations could have a significant effect on our reported financial results, and could affect the reporting of transactions contemplated before the announcement of the change. In addition, the SEC has announced a multi-year plan that could ultimately lead to the use of International Financial Reporting Standards by United States issuers in their SEC filings. Any such change could have a significant effect on our reported financial results.

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, we utilize data centers in Virginia, Texas and Colorado for specific services. 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.

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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. 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 not be able to successfully halt the operations of websites that aggregate our data, as well as data from other companies, such as copycat websites that may misappropriate our data.

Third parties may misappropriate our data through website scraping, robots or other means and aggregate this data on their websites with data from other companies. In addition, copycat websites may misappropriate data on our website and attempt to imitate our brand or the functionality of our website. We may not be able to detect all such websites in a timely manner and, even if we could, technological and legal measures may be insufficient to stop their operations. In some cases, particularly in the case of websites operating outside of the United States, our available remedies may not be adequate to protect us against such websites. Regardless of whether we can successfully enforce our rights against these websites, any measures that we may take could require us to expend significant financial or other resources.

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 Quarter 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 principal stockholders, executive officers and directors own a significant percentage of our stock, and as a result, the trading price for our shares may be depressed and these stockholders can take actions that may be adverse to your interests.

Our executive officers and directors and entities affiliated with them, in the aggregate, beneficially own approximately 35% of our outstanding shares of common stock. This significant concentration of share ownership may adversely affect the trading price for our common stock because investors often perceive disadvantages in owning stock in companies with controlling stockholders. These stockholders, acting together, may have the ability to exert control over all matters requiring approval by our stockholders, including the election and removal of directors and any proposed merger, consolidation or sale of all or substantially all of our assets. In addition, these stockholders who are executive officers or directors, or who have representatives on our Board of Directors, could dictate the management of our business and affairs. This concentration of ownership could have the effect of delaying, deferring or preventing a change in control, or impeding a merger or consolidation, takeover or other business combination that could be favorable to our other stockholders.

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

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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.

None.

Item 6. Exhibits.

Exhibits:

31.1	Rule 13a-14(a)/15d-14(a) Certification (CEO)
31.2	Rule 13a-14(a)/15d-14(a) Certification (CFO)
32.1	Section 1350 Certification (CEO)
32.2	Section 1350 Certification (CFO)
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* XBRL (Extensible Business Reporting Language) information is furnished and not filed herewith, is not a part of a registration statement or Prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

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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: November 3, 2011	By: /s/ Richard J. Boyle, Jr. Richard J. Boyle, Jr. Chief Executive Officer, and Chairman of the Board of Directors Principal Executive Officer
Date: November 3, 2011	By: /s/ Brent Stumme Brent Stumme Chief Financial Officer and Senior Vice President, Finance and Administration Principal Financial or Accounting Officer

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EXHIBIT INDEX

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