

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

- Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended March 31, 1999  
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 0-25131

INFOSPACE.COM, INC.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

91-1718107  
(IRS Employer  
Identification No.)

15375 N.E. 90th Street  
Redmond, Washington  
(Address of principal executive offices)

98052  
(Zip Code)

Registrant's telephone number, including area code: (425) 882-1602

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at April 30, 1999
-----	-----
Common Stock, Par Value \$.001	23,614,734

INFOSPACE.COM, INC.  
FORM 10-Q QUARTERLY REPORT

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Item 1. - Financial Statements

INFOSPACE.COM, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS	March 31, 1999	December 31, 1998
	-----	-----
Current assets:		
Cash and cash equivalents.....	\$ 31,477,413	\$ 14,590,634
Short-term investments, held-to-maturity (fair market value \$36,210,606 and \$72,173,013).....	36,115,258	72,159,522
Accounts receivable, net of allowance for doubtful accounts of \$611,000 and \$597,000.....	3,532,969	3,409,672
Prepaid trademark license.....	750,000	1,500,000
Prepaid expenses and other assets.....	3,462,610	2,130,476
	-----	-----
Total current assets.....	75,338,250	93,790,304
Long-term investments, held-to-maturity (fair market value \$14,153,371 and \$1,252,051).....	14,184,437	1,252,438
Receivable from joint venture.....	78,528	68,406
Property and equipment, net.....	1,500,672	1,161,936
Other long-term assets.....	353,376	337,500
Other investments.....	800,522	370,790
Intangible assets:		
Goodwill.....	4,860,671	4,860,671
Purchased technology.....	800,000	800,000
Trademark.....	290,000	290,000
Other.....	276,860	100,000
Advertising contracts.....	85,417	85,417
Accumulated amortization.....	(1,158,486)	(859,208)
	-----	-----
Intangible assets, net.....	5,154,462	5,276,880
	-----	-----
Total.....	\$ 97,410,247	\$102,258,254
	=====	=====
 LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable.....	\$ 452,405	\$ 1,586,118
Accrued expenses.....	1,594,539	5,032,450
Deferred revenues.....	1,460,066	1,391,849
	-----	-----
Total current liabilities.....	3,507,010	8,010,417
Commitments and contingencies (Note 5)		
Stockholders' equity		
Preferred stock, par value \$.0001-Authorized, 15,000,000 shares: issued and outstanding, no shares.....	-	-
Common stock, par value \$.0001-Authorized, 50,000,000 shares; issued and outstanding, 21,440,331 and 21,141,802 shares.....	2,121	2,114
Additional paid-in capital.....	107,657,216	107,549,046
Accumulated deficit.....	(10,570,212)	(9,865,672)
Deferred expense-warrants.....	(2,922,937)	(3,126,862)
Unearned compensation-stock options.....	(262,951)	(310,789)
	-----	-----
Total stockholders' equity.....	93,903,237	94,247,837
	-----	-----
Total.....	\$ 97,410,247	\$102,258,254
	=====	=====

See accompanying notes to condensed consolidated financial statements.

INFOSPACE.COM, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

Three Months Ended March 31, 1999 and 1998

	1999	1998
Revenues.....	\$ 5,142,358	\$ 1,015,440
Cost of revenues.....	872,539	212,044
Gross profit.....	4,269,819	803,396
Operating expenses:		
Product development.....	197,696	49,556
Sales and marketing.....	3,848,501	445,870
General and administrative.....	1,935,529	324,428
Total operating expenses.....	5,981,726	819,854
Loss from operations.....	(1,711,907)	(16,458)
Other income, net.....	1,077,634	4,752
Equity in loss from joint venture.....	(70,267)	-
Net loss.....	(\$704,540)	(\$11,706)
Basic and diluted net loss per share.....	(\$0.03)	(\$0.00)
Shares used in computing basic and diluted net loss per share...	21,200,150	11,047,059

See accompanying notes to condensed consolidated financial statements.

INFOSPACE.COM, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
Three Months Ended March 31, 1999 and 1998

	1999	1998
<b>Operating Activities</b>		
Net loss.....	(\$704,540)	(\$11,706)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Trademark amortization.....	750,000	-
Depreciation and other amortization.....	450,330	35,064
Compensation expense-stock options.....	47,838	44,902
Warrants expense.....	203,925	-
Noncash services exchanged.....	-	(22,500)
Bad debt expense.....	150,437	37,471
Equity in loss from joint venture.....	70,268	-
Loss on disposal of fixed assets.....	1,905	-
Cash provided (used) by changes in operating assets and liabilities:		
Accounts receivable.....	(277,200)	(120,514)
Receivable from joint venture.....	(10,122)	-
Investment receivable.....	(420,480)	-
Prepaid expense and other current assets.....	(921,528)	(35,726)
Other long-term assets.....	(15,876)	-
Accounts payable.....	(1,133,713)	192,702
Accrued expenses.....	(3,437,911)	(88,252)
Deferred revenue.....	71,683	86,642
	(5,174,984)	118,083
<b>Investing Activities</b>		
Purchase of domain name.....	(100,000)	-
Investment in private equity securities.....	(500,000)	-
Capitalized internally developed software.....	(76,860)	-
Purchase of property and equipment.....	(491,693)	(45,350)
Proceeds from sales and maturities of short-term investments.....	68,196,408	-
Purchase of investments.....	(45,074,269)	-
	21,953,586	(45,350)
<b>Financing Activities:</b>		
Payments for offering costs.....	(55,573)	-
Proceeds from sale of warrants.....	52,784	-
Proceeds from exercise of stock options.....	110,966	110,000
	108,177	110,000
Net Increase in Cash and Cash Equivalents.....	16,886,779	182,733
Cash and Cash Equivalents:		
Beginning of period.....	14,590,634	324,415
End of period.....	\$ 31,477,413	507,148
<b>Supplemental Disclosure of Noncash Activities</b>		
Settlement of note payable for noncash services.....	-	22,500

See accompanying notes to condensed consolidated financial statements.

INFOSPACE.COM, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. The Company and Basis of Presentation

InfoSpace.com, Inc. (the Company), a Delaware corporation, was founded March 1996. The Company is a leading provider of private label solutions for content, community and commerce to Web sites and Internet appliances. The Company conducts its business within one industry segment.

The accompanying unaudited financial statements include all adjustments, consisting only of normal recurring adjustments that, in the opinion of management, are necessary to present fairly the financial information set forth therein. Certain information and note disclosures normally included in financial statements, prepared in accordance with generally accepted accounting principles, have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. Results of operations for the three-month period ended March 31, 1999 are not necessarily indicative of future financial results.

Investors should read these interim statements in conjunction with the audited financial statements and notes thereto included in our annual report (Commission File Number 0-25131) filed on Form 10-K for the fiscal year ended December 31, 1998. Certain prior period balances have been reclassified to conform to current period presentation.

2. Investment in Privately Held Company

The Company invests in equity instruments of privately-held, information technology companies for business and strategic purposes. These investments are included in other long-term assets and are accounted for under the cost method. For these non-quoted investments, the Company's policy is to regularly review the assumptions underlying the operating performance and cash flow forecasts in assessing the carrying values. The Company identifies and records impairment losses on long-lived assets when events and circumstances indicate that such assets might be impaired. To date, no such impairment has been recorded.

On January 1, 1999 the Company purchased 250,000 shares of Series D Convertible Preferred Stock of a privately held online merchant company at \$2.00 per share in a private placement transaction.

### 3. Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash equivalents, short-term investments, and trade receivables. The Company places its cash equivalents with major financial institutions. The Company operates in one business segment and sells advertising to various companies across several industries. Accounts receivable are typically unsecured and are derived from revenues earned from customers primarily located in the United States operating in a wide variety of industries and geographic areas. The Company performs ongoing credit evaluations of its customers and maintains reserves for potential credit losses. For the three months ended March 31, 1999, one customer accounted for approximately 29% of revenues. For the year ended December 31, 1998, one customer accounted for approximately 21% of revenues. At March 31, 1999, one customer accounted for approximately 36% of accounts receivable. At December 31, 1998, one customer accounted for approximately 27% of accounts receivable.

### 4. Reclassification of Expense

Management determined that distribution revenue share costs, previously classified as Cost of Revenues, were more appropriately classified as Sales and Marketing. Under these agreements, affiliates are paid a portion of certain advertising revenues generated from traffic on co-branded distribution pages. This reclassification has been made to the 1998 financial statements to conform with the 1999 presentation.

### 5. Subsequent Events

On April 6, 1999, the Company announced that its Board of Directors had approved a 2-for-1 stock split of its common stock for stockholders of record on April 19, 1999. The stock began trading at the post-split price on May 5, 1999.

In April 1999, the Company closed a follow-on offering in which net proceeds of approximately \$186.5 million were raised. The Company sold 2,170,000 shares of its common stock and certain stockholders sold 1,510,000 shares of common stock.

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

You should read the following discussion and analysis in conjunction with our Condensed Consolidated Financial Statements and Notes to Condensed Consolidated Financial Statements thereto included elsewhere in this report. In addition to historical information, the following discussion contains certain forward-looking statements that involve known and unknown risks and uncertainties, such as statements of our plans, objectives, expectations and intentions. You should read the cautionary statements made in this report as being applicable to all related forward-looking statements wherever they appear in this report. 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 below and in the section entitled "Factors Affecting InfoSpace.com's Operating Results, Business Prospects and Market Price of Stock," and in our reports filed with the Securities and Exchange Commission including our annual report on Form 10-K for the year ended December 31, 1998 (the "Form 10-K"). You should not rely on these forward-looking statements, which reflect only our opinion as of the date of this report. We do not assume any obligation to revise forward-looking statements.

Overview

InfoSpace.com is a leading provider of private label solutions for content, community and commerce to Web sites and Internet appliances. We began operations in March 1996. During the period from inception through December 31, 1996, we had insignificant revenues and were primarily engaged in the development of technology for the aggregation, integration and distribution of Internet content and the hiring of employees. In 1997, we expanded our operations, adding business development and sales personnel in order to capitalize on the opportunity to generate Internet advertising revenues. We began generating material revenues in 1997 through the sale of advertising on the Web pages that deliver our content services.

We currently derive substantially all of our revenues from advertising, which includes national, local and classifieds, promotions, including content carriage, e-commerce, premium services, and from our non-advertising based private label solutions. We tailor agreements to fit the needs of our partners, and under any one agreement we may earn revenue from a combination of these sources.

In order to evaluate and forecast revenue derived from these different revenue sources, the principal revenue metric we utilize is productivity per page. This metric measures the Company's ability to generate revenue from traffic. To compute revenue produced per page you divide total revenue for a reporting period by the total number of page views in the same period. For the three-month period ended March 31, 1999, traffic totaled 1.2 billion page views, a 231% increase over the 367 million page views for the comparable quarter in 1998. Revenue per thousand page views was \$4.23, and increase from \$2.77 for the comparable quarter of 1998. The productivity per page varies due to the lag time it takes to sell the page views as traffic grows.



We expect to incur significant operating losses on a quarterly basis in the future. In light of the rapidly evolving nature of our business, and limited operating history, we believe that period-to-period comparisons of our revenues and operating results are not necessarily meaningful, and you should not rely on them as indicators of future performance. Although we have experienced sequential quarterly growth in revenues over the past seven quarters, we do not believe that our historical growth rates are necessarily sustainable or indicative of future growth.

## Results of Operations

### First Quarter 1999 Compared to First Quarter 1998

**Revenues.** Revenues increased \$4.13 million, or 406.4%, to \$5.14 million in the three-month period ended March 31, 1999, from \$1.02 million for the comparable period in 1998. This increase is due primarily to increased expansion of our affiliate network, increased traffic to our affiliate network that results in increased page views, increased use of our content and commerce services, as well as larger and longer term agreements with certain advertisers and affiliates. Barter revenues were 3.6% of total revenues for the three month period ended March 31, 1999.

We have experienced, and expect to continue to experience, seasonality in our business, with reduced user traffic on our affiliate network expected during the summer and year-end vacation and holiday periods, when usage of the Internet has typically declined. Advertising sales in traditional media, such as broadcast and cable television, generally decline in the first and third quarters of each year. Depending on the extent to which the Internet and commercial online services are accepted as an advertising medium, seasonality in the level of advertising expenditures could become more pronounced for Internet-based advertising. Seasonality in Internet service usage and advertising expenditures is likely to cause quarterly fluctuations in our results of operations.

**Cost of Revenues.** Cost of revenues consists of expenses associated with the enhancement, maintenance and support of our content services, including direct personnel expenses, communication costs such as high-speed Internet access with dedicated DS-3 communication lines, server equipment depreciation, and license fees related to third-party content. Cost of revenues were \$873,000, or 17.0% of revenues, for the three-month period ended March 31, 1999 as compared to \$212,000, or 20.9% of revenues, for the three-month period ended March 31, 1998. The absolute dollar increase is primarily attributable to costs incurred in order to support greatly increased delivery of content and commerce solutions. We expect the absolute dollars spent on enhanced content and expanded communication backbone will continue to increase for the foreseeable future. We currently anticipate cost of revenues will be in the range of high teens to low twenties as a percentage of revenues for the remainder of 1999.

**Product Development Expenses.** Product development expenses consist principally of personnel costs, and include expenses for research, design and development of the proprietary technology we use to aggregate, integrate and distribute our content and commerce services. Product development expenses increased \$148,000, or 298.9%, to \$198,000 in the three-month period ended March 31, 1999, from \$50,000 for the comparable period in 1998. As a percentage of revenues, these expenses were 3.8% for the three-month period ended March 31, 1999 versus

4.9% for the comparable period in 1998. The increase in absolute dollars is primarily attributable to increases in engineering personnel needed for continued development of our products and service offerings. We believe that significant investments in technology are necessary to remain competitive. Accordingly, we expect product development expenses to continue to increase in absolute dollars as we hire additional engineering personnel who will develop and enhance our proprietary technology.

On January 1, 1999 we adopted Statement of Position 98-1 (SOP 98-1), Accounting for the Costs of Computer Software Developed or Obtained for Internal Use, which requires certain product development costs to be capitalized and amortized over future periods, which prior to the adoption of SOP 98-1, were expensed. For the three-month period ended March 31, 1999, we capitalized approximately \$77,000 of product development costs.

**Sales and Marketing Expenses.** Sales and marketing expenses consist primarily of salaries and related benefits for sales and marketing personnel, trademark licensing, carriage fees and distribution revenue share paid to certain affiliates to include our content services on their Web sites, traditional advertising and promotional expenses, sales office expenses and travel expenses. Sales and marketing expenses increased \$3.4 million, or 763.1%, to \$3.85 million in the three-month period ended March 31, 1999, from \$446,000 for the comparable period in 1998. As a percentage of revenues, these expenses were 74.8% for the three-month period ended March 31, 1999 versus 43.9% for the comparable period in 1998. The increase was primarily due to trademark licensing and carriage fees paid to certain affiliates under agreements entered into during the third and fourth quarters of 1998, and to expansion of our business development group in Redmond and expansion of our sales offices in San Francisco and New York. In accordance with our plan for 1999, we plan to significantly increase sales and marketing expenses in the coming quarters to support the launch of our new service offerings.

**General and Administrative Expenses.** General and administrative expenses consist primarily of fees for professional services, bad debt expenses, goodwill and intangible asset amortization, occupancy and general office expenses, salaries and related benefits for administrative and executive staff, B&O taxes to the State of Washington on gross receipts and franchise taxes to the State of Delaware on total assets and outstanding stock. General and administrative expenses increased \$1.6 million, or 496.6%, to \$1.9 million in the three-month period ended March 31, 1999, from \$324,000 for the comparable period in 1998. As a percentage of revenues, these expenses were 37.6% for the three-month period ended March 31, 1999 versus 31.9% for the comparable period in 1998. These increases were primarily due to increased staffing levels necessary to manage and support our expanding operations, expansion of our facilities, and amortization of goodwill related to the Outpost acquisition.

**Other Income, Net.** Other income consists primarily of interest income. Other income increased to \$1.1 in the three-month period ended March 31, 1999, from \$5,000 for the comparable period in 1998. This increase was primarily due to interest earned on higher average cash and investment balances resulting from proceeds received from private financings in July and August of 1998 and from the net proceeds from our initial public offering completed on December 15, 1998.

**Equity in Loss from Joint Venture.** Equity in loss from joint venture consists of losses attributable to our 50% interest in TDL InfoSpace (Europe) Limited, our joint venture with

Thomson Directories Limited in the United Kingdom. For the three-month period ended March 31, 1999, we recorded joint venture losses totaling approximately \$70,000 in this joint venture, due primarily to start-up operating costs and direct selling costs.

Provision for Income Taxes. Net operating losses have been incurred to date on a cumulative basis, and no tax benefit has been recorded, as sufficient uncertainty exists regarding the realizability of the deferred tax assets.

Net Loss. Our losses increased \$693,000 to \$705,000 in the three-month period ended March 31, 1999, from \$12,000 for the comparable period in 1998. Our cumulative losses sustained since inception total \$10.6 million.

Quarterly and Seasonal Fluctuations. Our financial results have varied on a quarterly basis and are likely to fluctuate substantially in the future. These fluctuations may be caused by several factors, many of which are beyond our control. These factors include:

- . the addition or loss of affiliates;
- . variable demand for our content and commerce solutions by our affiliates;
- . the cost of acquiring and the availability of content;
- . the overall level of demand for content and commerce services;
- . our ability to attract and retain advertisers and content providers;
- . seasonal trends in Internet usage and advertising placements;
- . the amount and timing of fees we pay to our affiliates to include our content and commerce solutions on their Web sites;
- . the productivity of our direct sales force and the sales forces of the independent yellow pages publishers, media companies and direct marketing companies that sell local Internet yellow pages advertising for us;
- . the amount and timing of increased expenditures for expansion of our operations, including the hiring of new employees, capital expenditures and related costs;
- . our ability to continue to enhance, maintain and support our technology;
- . the result of litigation that is currently ongoing against InfoSpace.com, or any litigation that is filed against us in the future;
- . our ability to attract and retain personnel;
- . the introduction of new or enhanced services by us or our affiliates, or other companies that compete with us or our affiliates;
- . price competition or pricing changes in Internet advertising and Internet services, such as ours;
- . technical difficulties, system downtime, system failures or Internet brown-outs;
- . political or economic events and governmental actions affecting Internet operations or content; and

. general economic conditions and economic conditions specific to the Internet.

If one or more of these factors or other factors occur, our business could suffer.

In addition, because InfoSpace.com only began operations in March 1996, and because the market for Internet services such as ours is new and evolving, it is very difficult to predict future financial results. We plan to significantly increase our sales and marketing, research and development and general and administrative expenses in the remainder of 1999. Our expenses are partially based on our expectations regarding future revenues, and are largely fixed in nature, particularly in the short term. As a result, if our revenues in a period do not meet our expectations, our financial results will likely suffer.

#### Liquidity and Capital Resources

From our inception in March 1996 through May 1998, we funded operations with approximately \$1.5 million in equity financing and, to a lesser extent, from revenues generated for services performed. In May 1998, we completed a \$5.1 million private placement of our common stock, and in July and August 1998, we completed an additional private placement of our common stock for \$8.2 million. Sales of our common stock to employees pursuant to our 1998 Stock Purchase Rights Plan also raised \$1.7 million in July 1998. Our initial public offering in December 1998 yielded net proceeds of \$77.8 million and a follow-on public offering in April 1999 yielded net proceeds of \$186.5 million. As of March 31, 1999, we had cash and short-term investments of \$67.6 million.

Net cash used by operating activities was \$5.2 million in the three months ended March 31, 1999. Cash used in operating activities in the three months ended March 31, 1999 consisted primarily of net operating losses, increases in prepaid expenses and other assets, and reductions in accrued expenses and accounts payable.

Net cash provided by investing activities was \$22.0 million in the three months ended March 31, 1999. Cash provided by investing activities consisted primarily of proceeds from investment maturities, offset by investment purchases, investment in private equity securities, and equipment purchases.

We believe that existing cash balances, cash equivalents and cash generated from operations will be sufficient to meet our anticipated cash needs for working capital and capital expenditures for at least the next 12 months. However, the underlying assumed levels of revenues and expenses may not prove to be accurate. We may seek additional funding through public or private financings or other arrangements prior to such time. Adequate funds may not be available when needed or may not be available on favorable terms. If we raise additional funds by issuing equity securities, dilution to existing stockholders will result. If funding is insufficient at any time in the future, we may be unable to develop or enhance our products or services, take advantage of business opportunities or respond to competitive pressures, any of which could harm our business. See "Factors Affecting InfoSpace.com's Operating Results, Business Prospects and Market Price of Stock--We May Require Additional Funding."

Year 2000 Compliance

Many currently installed computer systems and software products are coded to accept only two-digit entries in the date code field and cannot distinguish 21st century dates from 20th century dates. These date code fields will need to accept four digit entries to distinguish 21st century dates. As a result, many companies may need to upgrade, repair or replace their computer systems and software ("IT Systems") and other property and equipment not directly associated with IT Systems ("Non-IT Systems"), including ones with embedded technology such as microcontrollers, in order to comply with Year 2000 requirements.

We have conducted an internal review of most of our internal IT Systems and Non-IT Systems. Because we developed our software products and services internally, beginning at inception in 1996 when the Year 2000 problem already had some visibility, we were largely able to anticipate four digit requirements. In conjunction with ongoing reviews of our own products and services, we are also reviewing our IT infrastructure, including network equipment and servers. We do not anticipate material problems with network equipment, as our current configuration was installed in 1998. Similarly, most of our servers were purchased in 1997 and 1998, and each server is being amortized over a three-year period. With this relatively current equipment, we do not anticipate material Year 2000 compliance problems, and any servers that we find cannot be updated will be replaced either in the normal replacement cycle or on an accelerated basis. We have also internally standardized our machines on Windows NT 4.0, using reasonably current service packs, which we are advised by our vendor are Year 2000 compliant.

We use multiple software systems for internal business purposes, including accounting, email, development, human resources, customer service and support, and sales tracking systems. All of these applications have been purchased within the last three years. We have made inquiries of vendors of systems we believe to be mission critical to our business regarding their Year 2000 readiness. Although we have received various assurances, we have not received affirmative documentation of Year 2000 compliance from any of these vendors, and we have not performed any operational tests on our internal systems. We generally do not have any contractual rights with third party providers should their equipment or software fail due to Year 2000 issues. If this third party equipment or software does not operate properly with regard to Year 2000, we may incur unexpected expenses to remedy any problems. These expenses could potentially include purchasing replacement hardware and software. We have not determined the state of compliance of certain third-party suppliers of services such as phone companies, long distance carriers, financial institutions and electric companies, the failure of any one of which could severely disrupt our ability to carry on our business.

We anticipate that our review of Year 2000 issues and any remediation efforts will continue throughout calendar 1999. To date, we have spent less than an estimated \$10,000 to remediate our Year 2000 issues. If any Year 2000 issues are uncovered with respect to these systems or our other internal systems, we believe that these problems will be able to be resolved without material difficulty as replacement systems are available on commercially reasonable terms. We presently estimate that the total remaining cost of addressing Year 2000 issues will not exceed \$100,000. These estimates were derived utilizing a number of assumptions, including the assumption that we have already identified our most significant Year 2000 issues. However, these assumptions may not be accurate, and actual results could differ materially from those anticipated. In view of our Year 2000 review and remediation efforts to date, the recent development of our products and services, the recent installation of our networking equipment

and servers, and the limited activities that remain to be completed, we do not consider contingency planning to be necessary at this time.

Our applications operate in complex network environments and directly and indirectly interact with a number of other hardware and software systems. We are unable to predict to what extent our business may be affected if our systems or the systems that operate in conjunction with it experience a material Year 2000 failure. Known or unknown errors or defects that affect the operation of our software and systems could result in delay or loss of revenue, interruption of services, cancellation of customer contracts, diversion of development resources, damage to our reputation, increased service and warranty costs, and litigation costs, any of which could adversely affect our business, financial condition and results of operations. The most likely worst case scenario is that the Internet fails and we are unable to offer our content and commerce services.

#### Factors Affecting Infospace.com's Operating Results, Business Prospects and Market Price of Stock

In addition to other information in this report, investors evaluating us and our business should carefully consider the following risk factors and the additional risk factors set forth in our Form 10-K under the heading "Factors Affecting InfoSpace.com Operating Results," including the following risks: our business model is evolving and unproven, we rely on our relationships with affiliates, we rely on third parties for sales of Internet yellow pages advertising, advertisers may not adopt the Internet as an advertising medium, our advertising arrangements involve risks, we depend on third parties for content, we depend on key personnel, we need to hire additional personnel, we need to manage our growth and implement procedures and controls, our international expansion plans involve risks, our business is highly competitive, our business relies on the performance of our systems, our industry is experiencing consolidation, we are subject to pending legal proceedings, we rely on internally developed software and systems, rapid technological change affects our business, we rely on the Internet infrastructure, we receive information that may subject us to liability, our networks face security risks, we may be unable to adequately protect or enforce our intellectual property rights, we may become subject to government regulation, potential acquisitions involve risks, we may require additional funding, management owns a large percentage of our stock, year 2000 issues could adversely impact our business, our stock price has been and may continue to be volatile, future sales of our common stock may depress our stock price, certain anti-takeover provisions may affect the price of our stock. These risks may impair our operating results and business prospects and the market price of our stock. This report contains forward-looking statements that involve risks and uncertainties. These forward-looking statements include, but are not limited to, statements regarding expected operating losses, increased spending on enhanced content and expanded communication backbone, anticipated cost of revenues, increased product development expenses, increased sales and marketing expenses, anticipated cash needs and the absence of material Year 2000 compliance problems and the time frame and cost of addressing any Year 2000 problems. Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause our and the strategic Internet services industry's actual results, levels of activity, performance, achievements and prospects to be materially different from those expressed or implied by such forward-looking statements. The risks set forth below and elsewhere in this form report could cause actual results to differ materially from those projected.

#### We Have a Limited Operating History and a History of Losses.

We have a very limited operating history, which makes it difficult to evaluate our business and prospects. We have incurred net losses since our inception in March 1996. At March 31, 1999, we had an accumulated deficit of approximately \$10.6 million. We expect to incur significant operating losses on a quarterly basis in the future. We may never be profitable. Our prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in their early stage of development, particularly companies in new and rapidly evolving markets such as Internet services. To address the risks we face and to be able to achieve and sustain profitability, we must, among other things:

- . develop and maintain strategic relationships with potential content providers and affiliates;
- . identify and acquire the rights to additional content;
- . successfully integrate new features with our content and commerce services;
- . expand our sales and marketing efforts, including relationships with third parties to sell local advertising for our Internet yellow pages directory services;
- . maintain and increase our affiliate and advertiser base;
- . successfully expand into international markets;
- . retain and motivate qualified personnel; and
- . successfully respond to competitive developments.

If we do not effectively address the risks we face, our business will suffer and we may never achieve or sustain profitability.

#### Our Financial Results Are Likely to Fluctuate.

Our financial results have varied on a quarterly basis and are likely to fluctuate substantially in the future. These fluctuations may be caused by several factors, many of which are beyond our control. These factors include:

- . the addition or loss of affiliates;
- . variable demand for our content and commerce solutions by our affiliates;
- . the cost of acquiring and the availability of content;
- . the overall level of demand for content and commerce services;
- . our ability to attract and retain advertisers and content providers;
- . seasonal trends in Internet usage and advertising placements;
- . the amount and timing of fees we pay to our affiliates to include our content and commerce solutions on their Web sites;

- . the productivity of our direct sales force and the sales forces of the independent yellow pages publishers, media companies and direct marketing companies that sell local Internet yellow pages advertising for us;
- . the amount and timing of increased expenditures for expansion of our operations, including the hiring of new employees, capital expenditures and related costs;
- . our ability to continue to enhance, maintain and support our technology;
- . the result of litigation that is currently ongoing against InfoSpace.com, or any litigation that is filed against us in the future;
- . our ability to attract and retain personnel;
- . the introduction of new or enhanced services by us or our affiliates, or other companies that compete with us or our affiliates;
- . price competition or pricing changes in Internet advertising and Internet services, such as ours;
- . technical difficulties, system downtime, system failures or Internet brown-outs;
- . political or economic events and governmental actions affecting Internet operations or content; and
- . general economic conditions and economic conditions specific to the Internet.

If one or more of these factors or other factors occur, our business could suffer.

In addition, because InfoSpace.com only began operations in March 1996, and because the market for Internet services such as ours is new and evolving, it is very difficult to predict future financial results. We plan to significantly increase our sales and marketing, research and development and general and administrative expenses in 1999. Our expenses are partially based on our expectations regarding future revenues, and are largely fixed in nature, particularly in the short term. As a result, if our revenues in a period do not meet our expectations, our financial results will likely suffer.

#### Our Business Is Seasonal.

During the summer months and year-end holiday season, Internet usage typically declines, and our affiliates experience reduced user traffic. In addition, advertising sales in traditional media, such as broadcast and cable television, generally declines in the first and third quarters of the year. This seasonality is likely to cause fluctuations in our financial results.

#### We Rely on Advertising and Promotion Revenues.

We derive substantially all of our revenues from the sale of national and local advertisements and promotions on the Web pages that deliver our content, and we expect this to continue in the future. Our ability to increase our revenues will depend upon a number of factors, including the following:



- . the acceptance of the Internet as an advertising medium by national and local advertisers;
- . the acceptance and regular use of our content and commerce solutions by a large number of users who have demographic characteristics that are attractive to advertisers;
- . the success of our strategy to sell local Internet yellow pages advertising through third parties;
- . the expansion and productivity of our advertising sales force; and
- . the development of the Internet as an attractive platform for electronic commerce.

We are relying on revenues from local Internet yellow pages advertising as a significant source of our future revenues. However, we have not yet generated significant revenues from local Internet yellow pages advertising.

#### We Rely on a Small Number of Advertising Customers.

We derive a substantial portion of our revenues from a small number of advertising customers. We expect that this will continue in the foreseeable future. In particular, 800-U.S. Search, Inc. accounted for approximately 20.6% of our revenues for the year ended December 31, 1998 and 28.8% of our revenue for the three months ended March 31, 1999. In addition, 800-U.S. Search represented approximately 35.7% of our accounts receivable as of March 31, 1999.

Our top ten advertising customers represented 62.7% of our revenues in the first quarter of 1999. If we lose any of these customers, including 800-U.S. Search in particular, or if any of these customers are unable or unwilling to pay us amounts that they owe us, our financial results will suffer.

#### Many of Our Customers Are Emerging Internet Companies.

A significant portion of our revenues is derived from sales of advertising to other Internet companies. Many of these companies have limited operating histories, are operating at a loss and have limited access to capital. Many of these businesses could fail and, in any event, represent credit risks. Our bad debt expense represented approximately 3.3% of our revenues in the quarter ended March 31, 1999 compared to 4.6% for the quarter ended December 31, 1998 and 9.7% for the quarter ended September 30, 1998. If our customer base experiences financial difficulties or fails to experience commercial success, our business will suffer.

#### You Should Not Rely on Forward-looking Statements.

You should not rely on forward-looking statements in this report. This report contains forward-looking statements that involve risks and uncertainties. We use words such as "anticipates," "believes," "plans," "expects," "future," "intends" "may," "will," "should," "estimates," "predicts," "potential," "continue" and similar expressions to identify such forward-looking statements. This report also contains forward-looking statements attributed to certain third parties relating to their estimates regarding the growth of certain markets. Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may

cause our and the strategic Internet services industry's actual results, levels of activity, performance, achievements and prospects to be materially different from those expressed or implied by such forward-looking statements. These risks, uncertainties and other factors include, among others, those identified under "Factors Affecting InfoSpace.com's Operating Results, Business Prospects and Market Price of Stock" and elsewhere in this report.

These forward-looking statements, apply only as of the date of this report. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties, and assumptions, the forward-looking events discussed in this report might not occur. Our actual results could differ materially from those anticipated in these forward-looking statements for many reasons, including the risks faced by us described above and elsewhere in this report.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to financial market risks, including changes in interest rates. We typically do not attempt to reduce or eliminate our market exposures on our investment securities because the majority of our investments are short-term. We do not have any derivative instruments.

The fair value of our investment portfolio or related income would not be significantly impacted by either a 100 basis point increase or decrease in interest rates due mainly to the short-term nature of the major portion of our investment portfolio.

All the potential changes notes above are based on sensitivity analysis performed on our balances as of March 31, 1999.

PART II -- OTHER INFORMATION

Items 1 through 5

Not applicable with respect to the current reporting period.

Item 6. -- Exhibits and Reports on Form 8-K:

a. Exhibits

27.1 Financial Data Schedule

b. Reports on Form 8-K.

No reports on Form 8-K were filed with the Securities and Exchange Commission during the quarter ended March 31, 1999.

SIGNATURES

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

INFOSPACE.COM, INC.

By: /s/ Tammy D. Halstead

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Tammy D. Halstead  
Vice President and  
Chief Accounting Officer

Dated: May 13, 1999



3-MOS  
 DEC-31-1999  
 JAN-01-1999  
 MAR-31-1999  
     31,477,413  
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     5,142,358  
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