

Dot-Con Job: How InfoSpace took its investors for a ride

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The Seattle Times ran an excellent series last week on the rise and fall of InfoSpace and its charismatic leader, Naveen Jain, who at one point even used the phrase “cult leader” to refer to himself. To set the tone, and perhaps to serve as a reference while you read the series, here’s a list of reported Infospace earnings per share (EPS), both pro-forma and following Generally Accepted Accounting Principles (GAAP), as reported in their SEC filings and press releases, illustrated with quotes from contemporary press releases (attributed to Naveen Jain unless otherwise noted).

EPS				
Period	Pro-forma	GAAP	Quote from press release	Remarks
1999 Q1		-3¢	<u>We executed flawlessly on our plan.</u> Our performance this quarter is a clear demonstration of our undisputed position as a leader in providing Internet infrastructure services.	
1999 Q2	+1¢ -2¢	-8¢	<u>This demonstrates that growth and profitability are not mutually exclusive.</u> Achieving profitability two quarters ahead of Wall Street’s expectations demonstrates the strength of our business model.	This press release begins the policy of not even mentioning GAAP results.
1999 Q3	+6¢ -2¢	+2¢	<u>We had a totally awesome quarter.</u>	

1999 Q4	<u>InfoSpace is now synonymous with wireless Internet services.</u>	They did not appear to file a 10-Q with the SEC, so I couldn't find their contemporary GAAP EPS. A year later they claimed it was -3¢.		
2000 Q1	+1¢	-38¢	<u>InfoSpace is leading the convergence of the two fastest growing industry segments in history— wireless and the Internet— creating a new industry: the wireless Internet.</u>	
2000 Q2	-1¢	-14¢	<u>Today marks another historic milestone in the history of the rapid evolution of InfoSpace.</u>	
2000 Q3	+1¢	-30¢	<u>This was an excellent quarter for InfoSpace, as we continued to build upon our market leadership in the globally-expanding wireless sector.</u>	Quote comes from Arun Sarin, CEO.
2000 Q4	+4¢	-17¢	<u>InfoSpace continues to expand its relationships and deliver value to wireless carriers proven by the significant revenue growth in our wireless business and the more than 1.5 million wireless subscribers.</u>	
2001 Q1	-2¢	-37¢	<u>InfoSpace continues to demonstrate its strength and ability to generate new business and pursue favorable market opportunities.</u>	

2001 Q2	+1¢	-22¢	<u>Our return to pro-forma profitability this quarter reconfirms the strength of our business model.</u>	I like how they're proud that they are profitable "once you ignore all that accounting stuff".
2001 Q3	-3¢	-63¢	<u>InfoSpace's performance this quarter underscores our continuing success in focusing on our high growth areas of wireless and merchant.</u>	
2001 Q4	-2¢	-32¢	<u>We are feeling better about our near and long-term prospects and believe we have turned a corner in our business.</u>	In response to the Enron scandal, GAAP numbers are once again being reported.
2002 Q1	-2¢	-77¢	<u>Results this quarter demonstrate our ability to continue executing on our strategy.</u>	
2002 Q2	-2¢	-4¢	<u>We are pleased to post another quarter of encouraging results.</u>	
2002 Q3	-0.2¢	-8.6¢	<u>I'm pleased to report that our focus on profitability is paying off.</u>	
2002 Q4	+0.5¢	-20.7¢	<u>Our team made significant progress this past year aligning costs with revenues.</u>	Quote comes from Jim Voelker, CEO.

The stock underwent a 10-1 reverse split in September 2002; values have been adjusted to pre-split values for comparison purposes. Some boxes list two numbers. The top number is the value reported at the time of the press release. The bottom number is the value reported

the following year. For example, in 1999 Q2, the press release claimed that they earned 1¢/share pro forma, but one year later, in the 2000 Q2 filing, they reported a 2¢ loss per share for 1999 Q2. [Years fixed, 10pm.] Why change the amount? Because it makes the 2000 Q2 results look better when compared to the “same period last year”. I have no idea which set of numbers (if any!) is correct.

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