INTERSECTIONS INC. **MEMO**

To: Files

From: Madalyn Behneman

CC: Tracy Ward, Joetta Kilby

Date: March 9, 2009

Re: **NEI Investigation**

Background

On November 30, 2007, Intersections Inc. ("the Company") acquired the outstanding shares of Net Enforcers Inc. ("Net Enforcers or NEI") for approximately $14.3 million in cash. Prior to the transaction, Net Enforcers was a private Company owned by Joe Loomis. As a result of this transaction, the Company recorded the following purchase price entries as of November 30, 2007 (in thousands):

Current Assets	$576[1]
Intangible Assets	6,109[2]
Goodwill	8,437
Current Liabilities	(829)[3]
Net Assets Acquired	$14,293

In connection with the Company's process for determining the purchase price entries associated with the acquisition of Net Enforcers, the Company analyzed the balance sheet of Net Enforcers as of November 30, 2007. Based off this analysis, the Company made several adjustments to the Net Enforcers balance sheet when determining the purchase price entries outlined in the table above. These entries principally included the write-off of certain accounts receivable that were deemed uncollectible, the write-off of unsupported fixed asset balances, and the identification of an additional tax liability related to a built-in-gain ("BIG") tax. In addition, subsequent to the

1 Amount represents approximately $436 in accounts receivable, $125 in cash and $15 in prepaid assets (amounts in thousands).

2 Intangible assets included Trade Names, Customer Relationships, Non-Compete Agreements and Developed Technology which were valued using an independent valuation firm (Reznick Group dated November 30, 2007).

3 Amount represents approximately $506 in income taxes payable, $234 in deferred revenue and $88 in other accounts payable (amounts in thousands).

initial purchase price allocation, in the first and second quarters of 2008, the Company recorded an adjustment to reallocate $3.3 million from intangible assets to goodwill in the opening purchase price allocation (within the one year allocation period). This adjustment was made due to the loss of one significant customer relationship and other changes in assumptions subsequent to the purchase date. After the adjustment, the balances for intangible assets and goodwill were $3.6 million and $11.7 million, respectively.

Subsequent to the acquisition of Net Enforcers, the accounting journal entries of the acquired entity continued to be prepared by Net Enforcers employees (Jenni Loomis, Joe Loomis's sister, served as bookkeeper through August 2008). During this time (e.g. December 2007 through August 2008) Company accounting department personnel performed procedures on the books and records of Net Enforcers in order to ensure accuracy and adequacy of the amounts. These procedures included, among other things, 1) analytical procedures on the income statement and balance sheet, 2) review of all invoices and support for expense and capital items, 3) close review of revenue and accounts receivable collections and 4) review and reconciliation of all bank accounts. Further, in the first quarter of 2008 the bank accounts were transferred to the company's control. All bank reconciliations were prepared by the corporate accounting team after the close and all transactions recorded in Quick Books by Jenni were reviewed by the corporate team (second level of review).

Note that NEI is a very small subsidiary that constituted only 0.08% and 0.18% of total consolidated revenue and net income, respectively, as of December 31, 2007. The intangible assets and goodwill were the only material balances recorded in the opening balance sheet.

Summary of Investigation and Dispute Issues

Summary of Investigation

Subsequent to the acquisition of NEI, Joe Loomis became a full time employee of the Company which continued until his termination in October 2008. Mr. Loomis was terminated due to suspicions by the Company that Mr. Loomis was using Company assets for personal use (allowing his brother's company to use the NEI server, etc.) The Company put Mr. Loomis on leave in order to investigate the allegations (original allegation was reported by another employee). Just after being put on leave, the Company's IT Department became aware of attempts by Mr. Loomis to delete emails and other data from the NEI office network. These attempts occurred shortly after Mr. Loomis' leave from the Company and were facilitated by another NEI employee allowing Mr. Loomis to utilize his network access username and password. The Company's IT Department was able to restore all the deleted data, however, the actions of Mr. Loomis raised further suspicions. As a result, John Scanlon, Chief Operating Officer, performed a manual review of all of Mr. Loomis' emails and network files, including all those recovered. The email review process was initiated by the Company's IT Department and principally involved the isolation of Mr. Loomis' emails, although no forensic tools or repositories were used (Refer to CD ROM containing the population of Joe Loomis' emails).

The population of Mr. Loomis' emails included those existing on the NEI network prior to and subsequent to the Company's acquisition of NEI. The Company believes this process was effective in capturing all available emails and network files. Both Mr. Loomis and the other employee who allowed access were terminated from the Company. Mr. Loomis was terminated for cause under his employment contract and the authorities (local and FBI) were contacted concerning his destruction of documents.

In addition, the Company performed interviews of NEI employees[4] regarding any possible actions by Joe Loomis to destroy documents. The email and document review, along with the interviews, resulted in the Company's recognition that Joe Loomis may have tried to inflate the value of NEI [by capitalizing expenses as fixed assets, understating payroll tax liabilities, misrepresenting payments for other ventures as a distribution to his former partner (these expenditures we for escrow payments on the building for NEI's Phoenix location, which is owned by Mr. Loomis)], during the acquisition due diligence period.

Once it was determined that Mr. Loomis may have tried to misrepresent information and amounts during the due diligence process, it was determined that a more detailed investigation should be initiated to determine if there were any misstatements in the opening balance sheets and subsequent 2008 transactions. In addition, the Company notified the Audit Committee concerning the need for an investigation. It was determined by corporate management, and agreed to by the Audit Committee, that the investigation would first be started by the corporate accounting team. It was also decided that the Company would hire a consulting company (the Company decided to use FTI Consulting) to assist in reviewing the Company's work and help conclude on the investigation. The Company also received assistance from its outside counsel (Venable LLP) in performing several of the interviews and consulted with them on the adequacy of the procedures performed in the investigation.

The Company, with the assistance of FTI Consulting, performed a more detailed review of the historical and 2008 accounting records of NEI. This involved a detailed review of the Quick Books accounting records (all entries recorded in Quick Books during 2007 and 2008) as well as a further review of Joe Loomis' emails. These procedures did not identify any adjustments or errors that materially affected any of the historical or current period financial statements of the Company (Refer to Quantification Summary at Attachment I).

The Company also hired Ryan, Sharkey & Crutchfield LLP in late 2008 to perform a review of all NEI contracts with third parties ("NEI Revenue Assurance Review") to determine if NEI had been billing in accordance with the contractual agreements and recording revenue in accordance with generally accepted accounting standards (GAAP) during 2008. This review encompassed approximately 120 individual contracts and its scope included whether; 1) services had been provided to the customer, 2) invoices were accurate, 3) invoices were delivered and supportable,

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[4] NEI employees interviewed included Jason Wood, Stuart Bennett, Danielle DiDio, Shelia Synder.

4) revenue was recognized in accordance with GAAP and 5) revenue was recognized in the proper period. This review specifically did not find any areas of potential fraud but did note several process improvement recommendations (Refer to copy of January 2009 NEI Revenue Assurance Review). In addition, other than several clearly de minimus items ($4k), this review noted revenue associated with NEI during 2008 was recognized in accordance with GAAP and underlying contracts.

Summary of Dispute Issues

As noted above, during the fourth quarter of 2008, the Company became aware of certain actions by Joseph Loomis that appear to have, among other things, inflated the value of Net Enforcers during the due diligence process. These actions appear to have included; 1) adjustments to historical Net Enforcers financial statements (pre-acquisition periods), 2) certain undisclosed tax liabilities, 3) transfers of cash out of Net Enforcers prior to the acquisition and, 4) various other items. Refer to Appendix A for listing and more detailed explanation of purchase price dispute issues identified.

Accounting Investigation: December 31, 2007 Financial Statements

In connection with our investigation, the Company considered the potential accounting implications of its historical December 31, 2007 financial statements, related to the dispute issues previously described, and identified the following areas for additional review:

Purchase Price Accounting

As previously noted, the Company performed detailed procedures when determining the original purchase price accounting related to Net Enforcers. These procedures resulted in the write-off of certain assets (receivables and fixed assets) as well as the identification of an additional tax liability (BIG tax) at the date of the acquisition. Other than a relatively small amount of current assets ($576,000 comprised of cash, accounts receivable and prepaid assets) and current liabilities ($829,000 comprised of tax liabilities, deferred revenue and accounts payable), the net assets acquired in the purchase of Net Enforcers were principally assigned to intangible assets and goodwill (see table on page 1 outlining purchase accounting entries). All unidentifiable or unsupported fixed assets and accounts receivable were written off during the purchase price allocation. As such, the Company continues to believe that the purchase price accounting entries recorded on November 30, 2007 were properly stated and in accordance with SFAS 141, *"Business Combinations"*.

Intangible Assets and Goodwill

A majority of the $14.3 million net purchase price associated with the Net Enforcers acquisition was assigned to intangible assets ($6.1 million) and goodwill ($8.4 million). At the date of the acquisition, the Company used a third party valuation expert (Reznick Group) to value the intangible assets (Trade Names, Customer Relationships, Non-Compete Agreements and Developed Technology). Note that, in the first and second quarters of 2008, changes were made to the initial purchase price allocation (within the one year allocation period[5]) due to the loss of a significant contract[6] (in the first quarter of 2008) and a change in certain other assumptions (in the second quarter of 2008). The loss of the significant contract (Novartis) was known during the due diligence period and, as such, the loss was factored into the overall $14.3 million purchase price paid. It is important to note that there was no significant loss of contracts or customers subsequent to loss of the Novartis contact.

Importantly, the changes to the purchase price allocations were the direct result of the short time frame available to perform the initial valuation (the acquisition was completed toward the end of the fourth quarter) as well as additional information available to the Company and the third party valuation expert in valuing the intangible assets (particularly the value of customer relationships and acquired technology). These modifications to the purchase price allocations were well within the one year allocation period allowed to identify and measure the fair value of acquired assets under SFAS 141.

The Company believes that the amounts assigned to intangible assets in connection with the transaction were reasonable and in accordance with SFAS 142, *"Goodwill and Other Intangible Assets"*. In addition, the Company reviewed SFAS 142 with respect to goodwill considerations and noted the following language in paragraph B69:

"The Board concluded that goodwill meets the criteria for recognition of an asset and therefore should not be written off at the date of an acquisition. If goodwill had been worthless on the date of acquisition, it would not have met the assets definition and would not have been recognized. However, if goodwill had value initially, virtually no event other than a catastrophe could subsequently occur in which it instantaneously becomes worthless."

Based on the above language, we do not believe any of the information we now know with respect to the value of Net Enforcers should have resulted in the immediate write-off of goodwill. In addition, no events or circumstances occurred prior to the fourth quarter of 2008 (which is also when the Company's annual impairment test is performed) that indicated to the Company that the fair value of the Net Enforcers entity was below its carrying amount nor were there any prior triggering events. As stated above, no significant contracts were lost after the initial adjustment in the first quarter of 2008. We did record a full impairment of the NEI

5 SFAS 141, *"Business Combination"*, which was in the authoritative literature at the time of the NEI acquisition, notes in Appendix F that the purchase price allocation period may be up to year.

6 The Company was notified during the due diligence process in October 2007 that one of NEI's significant customers (Novartis) was terminating its contract. The Company was fully aware of the loss of the Novartis contract when determining the overall value and purchase price for NEI. Refer to October 2007 email exchange between Joe Loomis and John Scanlon.

goodwill and a $2.5 million impairment for intangible assets (customer relationships, technology, tradenames and non-compete intangibles) in the fourth quarter of 2008 during our normal annual impairment period. The impairment was mainly due to the decline in general market conditions and the severe downturn in the overall economy which limited the Company's ability to grow the NEI business at the rates previously anticipated.. Additionally, the Company's expected synergies between its existing customer base and the NEI products failed to materialize as anticipated. These deteriorating market conditions, and the Company's recognition that it would not be able to sell the NEI services to its customers at the rates previously projected, became much more pronounced during the fourth quarter of 2008. The severity of the downturn was not apparent to the Company in any of the prior quarters. In addition, the issues surrounding Joe Loomis and the purchase price dispute did not become apparent to the Company until the fourth quarter of 2008. Even then, these issues surrounding Joe Loomis were not the reasons for the impairment. As such, the Company continues to believe that goodwill and indefinite-lived intangible balances as of December 31, 2007, and the interim periods for the first three quarters of 2008, were properly stated and in accordance with SFAS 142.

Income Tax Obligations

During the closing of the acquisition, it was determined that Net Enforcers owed an additional $174,000 in BIG tax that resulted from the change in the corporate structure of Net Enforcers during 2007. The additional tax liability was identified prior to the preparation of the purchase accounting entries associated with Net Enforcers and this additional liability was properly included as part of the purchase price allocation.

In addition, the Company was notified during the fourth quarter of 2008 that it may owe back taxes to the IRS associated with payroll related items of Net Enforcers incurred prior to the acquisition. Although the Company continues to investigate this issue, we believe, based on correspondence with the IRS, that the total impact will be less than $100,000. As this item relates to a potential liability, the Company reviewed SFAS 5, *"Accounting for Contingencies"*, noting than a liability for this amount should be recorded when it is both probable[7] of occurrence and can be reasonably estimated. The Company does not believe this represents and error in the December 31, 2007 financial statements as the conditions of SFAS 5 had not been met at that time. In the fourth quarter of 2008, when the Company was able to estimate the amount that it may be held responsible for (although this liability should be a liability of the old NEI), an accrual was recorded for $65 thousand.

The Company is also considering the impact of other various adjustments (described in Appendix A) with respect to the November 30, 2007 Net Enforcers income tax return, which was filed by the Company. At this time, the Company is not certain of the impact but will record any additional tax liabilities in accordance with SFAS 5 in the period when we believe any additional

7 Defined in SFAS 5 as "more likely than not".

tax liability is both probable and estimable. However, we believe any additional tax liability would likely impact only Joseph Loomis' individual tax return as Net Enforcers was an S Corp at the transaction date.

Accounting Investigation: December 31, 2008 Financial Statements

In connection with our investigation, the Company considered the potential accounting impact on the December 31, 2008 financial statements resulting from the prior owners' (Joseph Loomis) involvement in the accounting and bookkeeping for Net Enforcers through August 2008. It should be noted that at December 31, 2008, and during each 2008 quarterly period, corporate accounting department personnel performed the following contemporaneous procedures in reviewing the Net Enforcers financial statements and results. These procedures included:

- Analytical procedures on both the income statement and balance sheet which compared actual results against prior periods and budgeted expectations.
- Review of all invoices or other support for expense and capital items.
- Analysis of outstanding accounts receivable in relation to recorded revenue.
- Review of bank statements for unusual items.
- Reconciliation of all bank statements to recorded cash.
- All cash was maintained in cash accounts controlled by the corporate team

In addition, as a result of the identification of the dispute issues during the fourth quarter of 2008, the Company performed additional procedures surrounding the 2008 Net Enforcers financial statements. These additional procedures included:

- Further emphasis on the collection of outstanding receivables to ensure they were valid billings and collectible.
- Discussions with significant Net Enforcers clients to ensure there were no disputes regarding amounts billed during 2008.
- Review of the accounting system (Quick Books) used through August 2008 for any usual items or entries.
- Third party review of all NEI revenue contracts to ensure revenue was recorded during 2008 in accordance with GAAP and contractual terms (NEI Revenue Assurance Review).

During the Company's review of outstanding accounts receivable during the fourth quarter of 2008, the Company identified three "sample invoices" that had been erroneously recorded during the year. The Company determined that these "sample invoices," totaling $38,400 in the second quarter of 2008, were prepared in order to show a client how the billings work under the contract but which failed to be properly voided. The Company reversed these billings in the fourth quarter of 2008. Therefore, the error noted was purely a quarter to quarter error and by the end of the year, total revenue was appropriate. This amount would not be material to either the second or fourth quarter.

In addition, the results of the NEI Revenue Assurance Review performed by Ryan, Sharkey & Crutchfield LLP indicated a 2008 net overstatement error of $4 thousand. This amount is also considered de minimis.

Based on the Company's investigation and review, both contemporaneously and additional procedures performed as of the date of this memo, we did not identify any issues that materially impacted the Company's previously issued 2008 quarterly financial statements (March 31, June 30 and September 30) or the Company's financial statements for the quarter and year ended December 31, 2008.

Conclusions

For the reasons outlined in this memorandum, the Company believes its previously issued December 31, 2007 financial statements, and quarterly financial statements as of and for the periods ended March 31, June 30, and September 30, 2008, were properly stated. It should also be noted that the Company has not been required to file any standalone financial statements of Net Enforcers in any of its SEC filings.

Appendix A

The following is a summary of the issues currently being disputed with respect to possible breaches of representations and warranties associated with the Company's acquisition of Net Enforcers. These issues principally relate to backdated adjustments made by Jenni Loomis to the historical books and records of Net Enforcers prior to and subsequent to the Company's acquisition of them. Refer to the Company's November 19, 2008 letter to Joseph Loomis for further discussion.

1. Adjustments to Historical Net Enforcers Financial Statements

   Reclassification of Expenses-The historical 2004 through 2007 financial statements of Net Enforcers were impacted by the reclassification (in some cases later reversing the reclassification entries) of ordinary expenses to capital items such as office equipment, computer software and vehicles. Total amounts of the reclassification appear to be less than $100,000. The Company did not reflect any fixed assets during the preparation of the purchase accounting entries for Net Enforcers as they could not verify the existence of such assets.

   Overstatement of Revenue-Just prior to the transaction date, Net Enforcers recorded a January 2006 deferred revenue of $60,000 related to a client (Canon) and subsequently recognized that revenue in September 2007. The Company believes these entries appear fictitious and resulted in overstatement of revenue during 2007. In addition, the Company believes that during 2007, Net Enforcers may have overbilled a client (Sony) in excess of $300,000. These entries, however, would have no impact on the Company's purchase accounting related to Net Enforcers as the Company performed a thorough review of accounts receivable in connection with the acquisition and recorded only those amount for which cash was collected or a confirmation of the receivable was received.

2. Certain Undisclosed Tax Liabilities

   Built-in-Gain Tax- During closing of the acquisition, it was determined that Net Enforcers owed an additional $174,000 in BIG Tax that resulted from the change in the corporate structure of Net Enforcers during 2007. The additional tax liability was identified prior to the preparation of the purchase accounting entries associated with Net Enforcers and this additional liability was properly included as part of the purchase accounting entries.

   Undisclosed Tax Liabilities-The Company was notified during the fourth quarter of 2008 that it may owe back taxes to the IRS associated with payroll related items of Net Enforcers incurred prior to the acquisition. Although the Company continues to investigate this issue, we believe, based on correspondence with the IRS, that the total impact will be less than

$100,000. As noted earlier in the memo, the Company believes these amounts are immaterial to the current and prior period financial statements and the Company has recorded an accrual of $65 thousand, the estimate of the loss, in the fourth quarter of 2008.

3. Transfer of Assets Out of Net Enforcers Just Prior to Acquisition

   Loomis Enterprises-Just prior to the closing of the transaction, Loomis Enterprises Inc (an entity also owned by Joseph Loomis) transferred approximately $127,000 in undocumented assets to Net Enforcers. In connection with that transfer, Net Enforcer wired cash amounts to Loomis Enterprises for approximately the same amount. These transactions were not disclosed to the Company at the time of the transaction and the Company believes they may lack substance. In addition, there appear to have been additional distributions of cash from Net Enforcer to Joseph Loomis just prior to the transaction. Although the Company has included these distributions in its dispute with Joseph Loomis over the Net Enforcers purchase price, there is no impact to the Company's purchase accounting entries as no unsupported assets were recorded (see previous purchase price table).

   Adam Cohen-Prior to the Company's acquisition of Net Enforcers, unsupported payments were made to Adam Cohen (an employee of the Net Enforcers). The Company is in the process of determining the nature of these payments and whether they were in fact distributions to Joseph Loomis or others. Again, these payments had no impact on the purchase price allocation as only supported assets were recorded.

4. Various Other Items

   Various Other Items-In its dispute with Joseph Loomis over the purchase price of Net Enforcers, the Company has also identified other various issues including; 1) contracts that may have been cancelled by clients just prior to acquisition, 2) solicitation of key Net Enforcers employees to Loomis Enterprises activities, 3) computer software not up to specifications outlined in the purchase agreement, 4) failure to adequately protect certain intellectual property and 5) disputes with former employees over possible payments owed. These issues did not have any impact on the 2007 purchase price entries or 2008 results related to Net Enforcers.