

Answers CORP
Form 424B3
August 04, 2009

Filed Pursuant to Rule 424(b)(3)
File No.: 333-159968

PROSPECTUS

ANSWERS CORPORATION

2,868,067 Shares of Common Stock

This prospectus relates to 2,868,067 shares of our common stock, par value \$0.001 per share, for resale from time to time by the selling stockholders identified in this prospectus and any of their pledges, donees, transferees or other successors-in-interest.

We will not receive any proceeds from the sale of shares of our common stock by the selling stockholders. However, we may receive payments upon the cash exercise of any of the warrants, which are exercisable for up to 636,364 shares of our common stock at an exercise price of \$6.05 per share. We will bear all expenses in connection with the registration of the shares, other than underwriting discounts and selling commissions.

Our common stock currently trades on The NASDAQ Capital Market under the symbol "ANSW." On July 17, 2009, the last reported sale price for our common stock on The NASDAQ Capital Market was \$8.54 per share.

The securities offered in this prospectus involve a high degree of risk. See "Risk Factors" beginning on page 9 of this prospectus to read about factors you should consider before buying shares of our common stock.

The selling stockholders are offering these shares of common stock. The selling stockholders or their pledges, donees, transferees or other successor-in-interest may sell all or a portion of these shares from time to time in market transactions through any market on which our common stock is then traded, in negotiated transactions or otherwise, and at prices and on terms that will be determined by the then prevailing market price or at negotiated prices directly or through a broker or brokers, who may act as agent or as principal or by a combination of such methods of sale. The selling stockholders will receive all proceeds from the sale of the common stock. For additional information on the methods of sale, you should refer to the section entitled "Plan of Distribution."

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined whether this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is July 28, 2009

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You may only rely on the information contained in this prospectus or that we have referred you to. We have not authorized anyone to provide you with different information. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any securities other than the common stock offered by this prospectus. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any common stock in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this prospectus nor any sale made in connection with this prospectus shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this prospectus or that the information contained by reference to this prospectus is correct as of any time after its date.

WHERE YOU CAN FIND MORE INFORMATION

This prospectus constitutes a part of a registration statement on Form S-3 filed under the Securities Act. As permitted by the SEC's rules, this prospectus and any prospectus supplement, which form a part of the registration statement, do not contain all the information that is included in the registration statement. You will find additional information about us in the registration statement. Any statements made in this prospectus or any prospectus supplement concerning legal documents are not necessarily complete and you should read the documents that are filed as exhibits to the registration statement or otherwise filed with the SEC for a more complete understanding of the document or matter.

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read, without charge, and copy the documents we file at the SEC's public reference rooms in Washington, D.C. at 100 F Street, NE, Room 1580, Washington, DC 20549, or in New York, New York and Chicago, Illinois. You can request copies of these documents by writing to the SEC and paying a fee for the copying cost. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. Our SEC filings are also available to the public at no cost from the SEC's website at <http://www.sec.gov>.

INCORPORATION OF DOCUMENTS BY REFERENCE

We incorporate by reference the filed documents listed below, except as superseded, supplemented or modified by this prospectus, and any future filings we will make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act"):

- our Annual Report on Form 10-K for the fiscal year ended December 31, 2008;

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- our Quarterly Report on Form 10-Q for the quarter ended March 31, 2009;
- our Current Reports on Form 8-K filed on January 12, 2009, February 19, 2009, May 5, 2009 and June 15, 2009; and
- the description of our common stock contained in Item 1 of our Registration Statement on Form 8-A, filed with the SEC on August 1, 2005.

The reports and other documents that we file after the date of this prospectus pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act will update, supplement and supersede the information in this prospectus. You may request and obtain a copy of any of the filings incorporated herein by reference, at no cost, by writing or telephoning us at the following address or phone number:

Answers Corporation
237 West 35th Street
Suite 1101
New York, New York 10001
Attn.: Corporate Secretary
Tel: (646) 502-4777
www.answers.com

SUMMARY

You should read the following summary together with the more detailed information concerning our company, the common stock being sold in this offering and our financial statements appearing in this prospectus and in the documents incorporated by reference in this prospectus. Because this is only a summary, you should read the rest of this prospectus, including all documents incorporated by reference, before you invest in our common stock. Read this entire prospectus carefully, especially the risks described under “Risk Factors” and the financial statements and related notes, before making an investment decision.

Overview

As a leading online answer engine, we own and operate Web properties known as WikiAnswers.com and Answers.com, which are dedicated to providing useful answers in thousands of categories. WikiAnswers.com is a community-generated social knowledge Q&A platform, leveraging wiki-based technologies. Through the contributions of WikiAnswers' large and growing community, answers are constantly improved and updated over time. WikiAnswers.com was ranked by comScore, a global Internet information provider, as the fastest growing domain of the top 200 in the U.S. in terms of unique monthly visitors in 2008. The award-winning reference site Answers.com includes content on millions of topics from over 250 licensed sources created by leading publishers, including Houghton Mifflin Company, Barron's and Encyclopedia Britannica.

According to comScore, our combined Web properties –WikiAnswers.com and Answers.com – had approximately 29.1 million unique visitors in April 2009, which ranked Answers Corporation number 25 in the top U.S. Web properties. Our goal is to become the premier online provider of and leading destination for answers to questions.

According to our internal estimates, our Web properties had approximately 700 million page views during the first quarter of 2009. During the same period, approximately 81% of our traffic was generated by search engines; 15% from direct traffic, which consists of traffic resulting from a direct type-in of our URL, a bookmarked Favorite, a direct link from other Web properties, a downloaded toolbar, or other software or utilities we make available; and 5% by the definition link appearing on Google's Website result pages.

We believe our valuable content and overall user experience drives traffic to our Web properties, which in turn drives advertising revenue. Our revenue is derived primarily from third party ad networks, primarily Google AdSense, which aggregate Web properties looking to monetize their Web traffic and advertisers seeking to advertise on the Internet.

Corporate Information

We were incorporated as a Texas corporation in December 1998 and reorganized as a Delaware corporation in April 1999. In October 2005, we changed our name from GuruNet Corporation to Answers Corporation. Our principal executive offices are located at 237 West 35th Street, Suite 1101, New York, NY 10001 and our telephone and fax numbers at this location are 646-502-4777 and 646-502-4778, respectively. In addition, we have an office in Israel located at Jerusalem Technology Park, the Tower, Jerusalem 91481 Israel, and our telephone and fax numbers at this location are +972 649-5000 and +972 649-5001, respectively. Our corporate website address is www.answers.com. The information contained on our Web properties or that can be accessed through our Web properties is not part of this prospectus, and investors should not rely on any such information in deciding whether to purchase our common stock.

Redpoint Financing

On June 16, 2008, we entered into a securities purchase agreement (the “Series A Purchase Agreement”) with Redpoint Omega, L.P. and Redpoint Omega Associates, LLC (collectively, “Redpoint Ventures”) for the purchase of \$6,000,000 of Series A Convertible Preferred Stock, initially convertible into 1,333,334 shares of common stock at a conversion price of \$4.50 per share, and Series A Common Stock Purchase Warrants exercisable for 666,667 shares of common stock at an exercise price of \$4.95 per share. The Series A Common Stock Purchase Warrants are exercisable from the date of issuance until June 16, 2014. The sale and purchase of such securities in the private placement was completed on June 16, 2008.

In connection with the private placement, we entered into a registration rights agreement with the investors, pursuant to which we agreed to register with the Securities and Exchange Commission, for resale, the common stock underlying the Series A Convertible Preferred Stock, the Series A Common Stock Purchase Warrants and any accrued dividends which could potentially be paid in kind by us. The registration statement registering the common stock underlying the Series A Convertible Preferred Stock and the Series A Common Stock Purchase Warrants was declared effective by the Securities and Exchange Commission on September 16, 2008.

In addition, on June 16, 2008, we entered into a Warrant Agreement (the “Series B Warrant Agreement”) with the investors for the purchase of Unit Warrants exercisable for up to \$7,000,000 of Series B Convertible Preferred Stock and Series B Common Stock Purchase Warrants exercisable for 636,364 shares of common stock. The Series B Convertible Preferred Stock is initially convertible into 1,272,727 shares of common stock at a conversion price of \$5.50 per share. The Series B Purchase Warrants have an exercise price of \$6.05 per share and will be exercisable for a period of 6 years from their date of issuance. On June 10, 2009, the investors exercised the Unit Warrants in full and we issued an aggregate 70,000 shares of Series B Convertible Preferred Stock and Series B Common Stock Purchase Warrants exercisable for 636,364 shares of common stock.

A summary of certain of the terms of the Series B Convertible Preferred Stock and Series B Common Stock Purchase Warrants that are convertible into or exercisable for the shares of our common stock to which this prospectus relates are set forth below:

Ranking

The Series B Convertible Preferred Stock ranks senior to our junior securities, including without limitation, our common stock.

Conversion

Each share of Series B Convertible Preferred Stock has a stated value of \$100 per share (any accrued but unpaid dividends may increase the stated value) and is initially convertible into common stock at a conversion price of \$5.50 per share, such that the Series B Convertible Preferred Stock is initially convertible into an aggregate of 1,272,727 shares of common stock. If we, at any time while the Series B Convertible Preferred Stock is outstanding, shall sell or grant any option to purchase or otherwise dispose of or issue any common stock or common stock equivalents entitling any person to acquire shares of common stock, at an effective price per share less than the then effective conversion price of the Series B Convertible Preferred Stock, then, the conversion price shall be adjusted on a weighted average basis.

Forced Conversion

Beginning December 10, 2010, provided certain conditions are satisfied, if the closing price of the common stock equals an average of at least \$16.50 (subject to adjustment for stock splits, reclassifications, combinations and similar adjustments) per share for the 45 consecutive trading days, and the average daily volume of the common stock on The NASDAQ Capital Market is at least \$1,000,000 during such measurement period, unless the investors are prohibited from converting the Series B Convertible Preferred Stock pursuant to the limitations set forth in the Certificate of Designations, Number, Voting Powers, Preferences and Rights of Series B Convertible Preferred Stock, we shall have the right exercisable within 3 business days of such conditions being met, to force the investors to convert any portion of their shares of Series B Convertible Preferred Stock into shares of common stock at the then-effective conversion price.

Redemption Rights

At any time on or after June 16, 2014, upon written request by the holders of a majority of the Series B Convertible Preferred Stock, we shall redeem all or any portion of the then outstanding Series B Convertible Preferred Stock for an amount in cash equal to the sum of (i) 100% of the aggregate stated value of the Series B Convertible Preferred Stock then outstanding and (ii) accrued but unpaid dividends (to the extent not already included in stated value) and (iii) all liquidated damages and other amounts due in respect of the Series B Convertible Preferred Stock.

Right to Participate in Future Financings

At any time while Series B Convertible Preferred Stock is outstanding (or the common stock issued or issuable upon conversion thereof) and the investors collectively hold a majority of the outstanding Series B Convertible Preferred Stock (or the common stock issuable or issued upon conversion thereof) purchased by the investors, each investor shall have a right to participate pro rata with respect to the issuance or possible issuance by us of any future equity or equity-linked securities or debt which is convertible into or exercisable or exchangeable for equity or in which there is an equity component on the same terms and conditions as offered by us to the other purchasers of such securities.

Voting and Right to Appoint a Director

The Series B Convertible Preferred Stock votes on an as converted basis with our common stock, subject to certain limitations. Additionally, so long as any shares of Series B Convertible Preferred Stock are outstanding, we shall not, without the affirmative vote of the holders of a majority of the shares of the Series B Convertible Preferred Stock then outstanding, (a) alter or change adversely the powers, preferences or rights given to the Series B Convertible Preferred Stock or alter or amend the Certificate of Designations, Number, Voting Powers, Preferences and Rights of Series B Convertible Preferred Stock (whether by merger, consolidation or otherwise), (b) authorize or create any class of stock, including securities exercisable for or convertible into such stock, ranking as to dividends, redemption or distribution of assets upon a liquidation senior to or otherwise pari passu with the Series B Convertible Preferred Stock, except for any series of Preferred Stock issued to the investors, (c) amend its certificate of incorporation or other charter documents (whether by merger, consolidation or otherwise) so as to affect adversely any rights of the investors, (d) increase or decrease the authorized number of shares of Series B Convertible Preferred Stock, or (e) enter into any agreement with respect to the foregoing.

Additionally, so long as the investors hold a beneficial ownership interest percentage of at least 19%, the holders of a majority of the outstanding Series B Convertible Preferred Stock have the right to appoint an individual to serve as a voting member of our board of directors.

Dividends

The Series B Convertible Preferred Stock will accrue cumulative dividends at a rate of 6% per annum whether or not dividends have been declared by the board of directors and whether or not there are profits, surplus or other funds available for the payment of such dividends. Such dividends are in preference to all other classes of stock junior in rank to the Series B Convertible Preferred Stock, including our common stock. Dividends may be payable in kind at the option of the company upon satisfaction of certain conditions. After the payment of these dividends on the Series B Convertible Preferred Stock, the holders of such shares are entitled to participate on an as converted basis in the payment of any dividends on the common stock.

Liquidation Preference

Upon any liquidation, dissolution or winding-up of the company, whether voluntary or involuntary, the holders of Series B Convertible Preferred Stock shall be entitled to receive out of our assets, whether such assets are capital or surplus, for each share of Series B Convertible Preferred Stock an amount equal to greater of (i) the stated value for the Series B Convertible Preferred Stock per share plus any accrued and unpaid dividends thereon and any other fees or liquidated damages owing thereon before any distribution or payment shall be made to the holders of any junior securities (including, without limitation, the common stock) or (ii) such amount per share as would have been payable had all shares of Series B Convertible Preferred Stock been upon any such liquidation converted to common stock immediately prior to such liquidation, in any case, and if our assets shall be insufficient to pay in full such amounts, then the entire assets to be distributed to the investors shall be distributed among the holders of Series B Convertible Preferred Stock ratably in accordance with the respective amounts that would be payable on such shares if all amounts payable thereon were paid in full.

Terms of the Series B Common Stock Purchase Warrants

The Series B Common Stock Purchase Warrants are exercisable from the date of issuance until June 10, 2015 for 636,364 shares of common stock at an exercise price of \$6.05 per share, subject to weighted-average anti-dilution. The holders of the Series B Common Stock Purchase Warrants have the option to exercise the warrants on a "net share" or cashless basis, in which warrant shares are forfeited in lieu of paying the cash exercise price, in

which case we would receive no additional proceeds upon their exercise (but fewer shares would be issued).

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RISK FACTORS

You should carefully consider the risks described below before making an investment decision. The risks described below are not the only ones we face. Additional risks we are not presently aware of or that we currently believe are immaterial may also impair our business operations. Our business could be harmed by any of these risks. The trading price of our common stock could decline due to any of these risks, and you may lose all or part of your investment. In assessing these risks, you should also refer to the other information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus, including our financial statements and related notes.

Risks Relating to our Business

If search engines alter their algorithms or methods or otherwise restrict the flow of users visiting our Web properties, our business and financial results could suffer.

Search engines serve as the primary Web entry point for most users in search of information, and our topic and answer pages often appear as one of the top links on the pages returned by search engines in response to users' search queries. As a result, we rely heavily on search engines for the overwhelming share of users visiting our Web properties. According to our internal estimates, traffic to our Web properties originating from search engines during the fourth quarter of 2008, excluding Google-directed definition link traffic, was approximately 80% of the overall traffic to our Web properties, the majority of which originated from Google and, to a lesser but still significant extent, Yahoo!. WikiAnswers.com search engine traffic during the same period was even more significant, amounting to approximately 90% of its overall traffic. If our traffic from search engines declines for any reason, we would suffer a significant decline in overall traffic and revenue. For example, in July 2007, a search engine algorithm adjustment by Google led to a drop in Google directed traffic to Answers.com. This adjustment reduced our overall traffic by approximately 28% based on the average traffic directed to Answers.com from Google for the week prior to the adjustment as compared to the week after. As a result, our revenue declined proportionately. In September 2007, Yahoo! dropped our content from its search index, which led to a drop in our Yahoo! directed traffic. This action was reversed within a week. Search engines, at any time and for any reason, could change their algorithms that direct search queries to our Web properties or could restrict the flow of users visiting our Web properties specifically. In fact, as illustrated above, on occasion our Web properties – which both rely so heavily on search engine traffic – have experienced decreases in traffic, and consequently in revenue, due to these search engine actions. We cannot guarantee that we will successfully react to these actions in the future and recover the lost traffic. Accordingly, a change in algorithms that search engines use to identify Web pages towards which traffic will ultimately be directed, or a restriction on users visiting our Web properties from the search engines, could cause a significant decrease in traffic and revenues, which could adversely affect our business and financial results.

If our Google Service Agreement, or GSA, is terminated by Google, we would have to seek an alternative provider of listings and advertisements, which could adversely affect our business and financial results.

Our business is dependent on the GSA, under which we obtain most of the advertisements displayed on our Web properties and earn most of our ad revenues. Google may terminate the GSA with no advance notice if we:

- take certain prohibited actions including, among other things:
 - editing or modifying the order of search results,
 - redirecting end users, producing or distributing any software which prevents the display of ads by Google,

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- modifying, adapting or otherwise attempting to obtain source code from Google technology, content, software and documentation or
- engaging in any action or practice that reflects poorly on Google or otherwise disparaging or devaluing Google's reputation or goodwill;
- breach the grant of a license to us by Google of certain trade names, trademarks, service marks, logos, domain names and other distinctive brand features of Google;

- breach the confidentiality provisions of the GSA;
- breach the exclusivity provisions of the GSA; or
- materially breach the GSA more than two times, irrespective of any cure to such breaches.

The GSA is scheduled to expire on January 31, 2010, unless renewed upon mutual written consent.

Google's termination of the GSA would result in our need to replace this relationship and obtain listings and advertisements from alternative providers, and we may not succeed in receiving equally favorable terms as those provided in the GSA. Termination of the GSA and our failure to replace it on equally favorable terms could result in a material reduction in our ad revenues and could adversely affect our business and financial results.

A downturn in the United States and global economic conditions could adversely affect the profitability of our business.

The U.S. and global economies are currently experiencing a significant contraction, and it is expected that we will see further economic downturn in the immediate and near future. This may result in fewer page views that result in commercial activities by our users, and may cause advertisers to reduce the amount they spend on online advertising, thus having a significant negative impact on the RPMs of both our Web properties in 2009 and beyond. A drop in RPM may result in a material reduction in our ad revenues which would adversely affect our business and financial results.

The failure of WikiAnswers to grow in accordance with our expectations could have an adverse impact on our business and financial results.

WikiAnswers.com is currently our primary growth driver, and it exceeds Answers.com in both traffic and revenue. Our projections assume that the 2009 growth of WikiAnswers.com will continue to be greater than that of Answers.com. If, for whatever reason, WikiAnswers.com fails to perform as well as we anticipate, and the growth we are experiencing decelerates significantly, falters or ceases, our business and financial results could be adversely affected.

If Internet users do not interact with WikiAnswers.com frequently or if we fail to attract new users to the service, our business and financial results will suffer.

The success of WikiAnswers.com is largely dependent upon users constantly visiting the site by asking questions, posting answers and improving upon both. We have seen a very high correlation between growth in questions and answers and growth in the site's page views. We need to attract users to visit the Web property frequently and spend increasing amounts of time on the Web property when they visit. If we are unable to encourage users to interact more frequently with WikiAnswers.com and to increase the amount of user generated content they provide, our ability to attract new users to the Web property and increase the number of loyal users will be diminished and adversely affected. As a result, our business and financial results will suffer, and we will not be able to grow our business as planned.

If we are unable to improve and maintain the quality of content being contributed to WikiAnswers.com and if we fail to fight vandalism the site has been experiencing, the Web property will become less valuable to the users, less popular as a destination for obtaining answers to questions and its growth will be negatively affected, which in turn could adversely impact our financial results.

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It is critical that we ensure that the quality of content being posted on WikiAnswers, both questions and answers, is maintained and improved over time. The better the quality of the content generated on the Web property, the more valuable the Web property will be for users in search of answers, as well as for search engines indexing the content to continue featuring it in their search engine result pages. Improved quality content should lead to stronger growth in the community size and will lessen the risk of a search engine's algorithm and/or policy makers downgrading the rank of WikiAnswers.com. In addition, it is critical that we ward off vandals and eliminate vandalism on the Web property to the greatest extent possible. If we fail to maintain and improve the quality of the Web property's content, the appeal of WikiAnswers.com to users and search engines may diminish and the growth of the Web property may be negatively affected, which in turn could cause our financial results to suffer.

If, in the interest of improving user experience and user satisfaction, we decide to decrease the number of ad elements displayed on our Web properties, our advertising revenues will decline and our financial results will be adversely impacted.

We closely monitor the ratio between ad elements and actual content appearing on our Web pages. In the future we may decide that in order to enhance the user-experience and increase user satisfaction, our pages should display fewer ad elements. Displaying less ad-intensive Web pages is likely to result in faster page-load and offering more content per-page is likely to appeal more to the user. A better user experience may result in more stickiness on our Web properties and a higher rate of user-retention and return visits. However, there is no assurance that reducing advertising on our Web properties will result in better user-retention and return visits and there can be no guarantee that the short term reduction in ad revenues will pay off in the long term in the form of increased traffic. A decrease in the number of ad elements displayed on our Web properties will result in a drop in RPM and advertising revenues which may not be recovered through higher traffic, thus having an adverse impact on our results of operations.

If we are unable to attract and retain dedicated volunteer supervisors for encouraging the community's expansion, our plans for growing WikiAnswers.com may fail and our results of operations may be adversely affected.

We benefit from the heavy involvement of a large group of external volunteer supervisors who are not employed by us and are not compensated for their site activity. The volunteer supervisors, for their own personal motives and enjoyment, are involved in monitoring questions and answers in specific categories in an effort to help questions get answered quickly. Volunteers also help prevent vandalism, improve content consistency, encourage high-quality contributions and identify potential new volunteers. Volunteers are also engaged in various community programs aimed at strengthening the community and contributors' sense of connection to the site and the community at large and help instill a sense of camaraderie among users interested in various categories of WikiAnswers.com. As of March 31, 2009, the community enjoyed the benefit of over 500 such supervisors. If we are not able to attract enough volunteers, WikiAnswers.com may suffer and the Web property may become less attractive to users, which in turn will adversely affect the site's growth, our business and financial results. Alternatively, we may be forced to hire paid employees to engage in many of the initiatives that volunteers currently take upon themselves for their own personal pleasure and gratification, which, in turn, would increase the cost of maintaining and improving WikiAnswers.com and adversely affect our financial results.

We benefit from Google's directing of traffic to Answers.com through its definition link, and the loss of this source of traffic could reduce our ad revenues and adversely affect our business and financial results.

Approximately 5% of our overall traffic during the first quarter of 2009 was directed to Answers.com by the definition link appearing on Google's website result pages. This traffic includes secondary pages viewed on Answers.com as a result of visitors arriving at the site via the definition performing additional searches. The definition link traffic is the result of a unilateral decision by Google to link certain definitions to Answers.com, and not any contractual relationship. Google may change these links at any time, in its sole discretion. If Google stops directing traffic to Answers.com through its definition link, we would experience a reduction in our traffic and the corresponding ad revenues, which would adversely affect our business and financial results.

Components of our business and operations are experiencing rapid growth. If we fail to effectively manage our growth, our business and operating results could be harmed.

We have experienced rapid growth in our operations over the past several years, which has placed, and will continue to place, significant demands on our management, operational and financial infrastructure. If we do not effectively manage our growth, the quality of our products and services could suffer, which could negatively affect our brand and operating results. To effectively manage this growth, we will need to continue to improve our operational, financial

and management controls and our reporting systems and procedures. These systems enhancements and improvements will require significant capital expenditures and management resources. Failure to implement these improvements could hurt our ability to manage our growth and our financial position.

We have a short operating history and a relatively new business model in an emerging and rapidly evolving market. This makes it difficult to evaluate our future prospects and may increase the risks that we will not continue to be successful and that our financial results could suffer.

There are two primary categories of Internet advertising, pay-per-performance, or most commonly cost per click, or CPC, and pay-per-impression, or cost per 1,000 impressions, or CPM. In the case of performance-based advertising, the advertiser only pays when a user clicks on an ad, as opposed to viewing the ad, as in impression-based advertising. We first derived advertising revenue in the first quarter of 2005, and we have only a relatively short operating history with our CPC and CPM advertising model. As a result, we have very little operating history to aid in assessing our future prospects. Also, we derive nearly all of our revenues from online advertising, which is an immature industry that has undergone rapid and dramatic changes in its short history. We will encounter risks and difficulties as a growing company in a new and rapidly evolving market. We may not be able to successfully address these risks and difficulties, which could materially harm our business and operating results.

We may not be able to obtain capital when desired on favorable terms, if at all, or without dilution to our stockholders.

We believe we have sufficient cash and cash equivalents to meet our working capital and operating requirements for the next twelve months, based on our current cash and cash equivalent levels and expected cash flow from operations. Further, in estimating our expected cash flow during the next twelve months, we have considered the current general economic downturn and its impact on our future revenue. However, we may need or desire additional financing to execute on our current or future business strategies, including to:

- improve traffic monetization and expand content on our Web properties;
 - enhance our operating infrastructure;
 - acquire businesses or technologies; or
 - otherwise respond to competitive pressures.

If we decide to raise additional funds through the issuance of equity or convertible debt securities, and are successful at raising such capital, the percentage ownership of our stockholders could be significantly diluted, and these newly issued securities may have rights, preferences or privileges senior to those of existing stockholders. We cannot assure you that additional financing will be available on terms favorable to us, or at all, particularly in light of the weakness of the financial markets and the economic crisis. For example, we experienced such financing difficulties during the course of our recent failed attempt to acquire Lexico Publishing Group, LLC and our ultimate abandonment of a follow-on offering. If adequate funds are not available or are not available on acceptable terms, when we desire them, our ability to fund our operations, take advantage of unanticipated opportunities, develop or enhance our services, or otherwise respond to competitive pressures would be significantly limited.

We generate our revenue almost entirely from advertising so uncertainties in the Internet advertising market and our failure to increase advertising inventory on our Web properties could adversely affect our ad revenues.

Although worldwide online advertising spending is growing steadily, it represents only a small percentage of total advertising expenditures. Our advertisers can generally terminate their contracts with us at any time. Advertisers will not continue to do business with us if their investment in Internet advertising with us does not generate sales leads, and ultimately customers, or if we do not deliver their advertisements in an appropriate and effective manner. If the Internet does not continue to be as widely accepted as a medium for advertising and the rate of advertising on the Internet increase, our ability to generate increased revenues could be adversely affected. We believe that growth in our

ad revenues will also depend on our ability to increase the number of pages on our Web properties to provide more advertising inventory. If we fail to increase our advertising inventory at a sufficient rate, our ad revenues could grow more slowly than we expect, which could have an adverse effect on our financial results.

New technologies could block Internet ads, which could harm our financial results.

Technologies have been developed, and are likely to continue to be developed, that can block the display of Internet ads. Most of our revenues are derived from fees paid to us by advertisers in connection with the display of their ads. Ad-blocking technology may cause a decrease in the number of ads that we can display on our Web properties, which could adversely affect our ad revenues and our financial results.

We face significant competition from question and answer sites, search engines and other free reference and industry-specific Web properties that could adversely impact our competitive position.

We face significant competition from a wide variety of Web properties. Question and answer sites, such as Yahoo! Answers, Askville (owned by Amazon), Live QnA (owned by Microsoft), Yedda (owned by AOL), Answerbag.com (owned by Demand Media, Inc.) and Wikia, Inc. compete with WikiAnswers.com. Destination portals and other free online information and/or reference services, such as About.com (owned by the New York Times), TheFreeDictionary.com, Dictionary.com (owned by IAC/InterActiveCorp) and Wikipedia.org, compete with Answers.com. Other competitors of Answers.com include vertical industry-specific Web properties, such as Bankrate.com and WebMD.com. Since several companies operating traditional search engines, such as Yahoo!, Microsoft, AOL and Ask.com offer their own question and answer services, they too can be viewed as competitors of our answers-driven products, particularly in light of the fact that some search engines have begun putting snippets of useful answers at the top of many of their pages, in response to queries made by users. Nevertheless, search engines remain the greatest source of traffic arriving at our Web properties.

Many of our competitors have longer operating histories, more extensive management experience, an employee base with more extensive experience, better geographic coverage, larger consumer bases, greater brand recognition and significantly greater financial, marketing and other resource than we do. We expect competition to intensify in the future. If our competitors are more successful than we are in developing compelling products or attracting and retaining more users, then our competitive position and financial results could be adversely affected.

Our failure to generate direct traffic to our Web properties could adversely affect our business and financial results.

In addition to search engine traffic and traffic directed by the Google definition link, our traffic also originates from Internet users arriving at our Web properties directly by typing our website address directly into their Web browser, bookmarking our Web properties, using AnswerTips and visiting sites that direct users to our Web properties. Given the wide availability of free search engines and reference content sites, we may not be able to retain current Internet users or attract new Internet users in this direct fashion. If we are unable to retain our direct Internet users or attract new direct Internet users, our ability to generate revenues would be adversely impacted, which could adversely affect our business and financial results.

Traffic to our Web properties and advertising demand fluctuates significantly on a seasonal basis, which impacts our operations from quarter to quarter.

Many of our users are students that utilize our Web properties as reference sources. Our traffic fluctuates with the academic school year, rising from January through May, falling to lower levels during the summer months, rising again in September through November, and falling again in December, coinciding with school breaks and the holiday season. We expect traffic to our Web properties to continue to fluctuate seasonally in the future. This seasonal fluctuation in traffic results in a fluctuation in our quarterly revenues, since fewer users to our Web properties translates into fewer users clicking on or viewing the advertisements on our Web properties. In addition, the demand for our advertising inventory fluctuates during the year based on the seasonal needs of our advertisers, rising to its highest levels during the fourth quarter and falling to its lowest levels in the first quarter. Accordingly, our revenue

fluctuates based on the seasonality of our traffic and advertising demand. The effect of this seasonality makes it difficult to estimate future revenues based on the results of any specific quarter, thus it is difficult to make operating plans relating to hiring and expenses. Additionally, as a result of the difficulty to estimate revenues, we may be unable to meet our revenue or profit and loss forecasts which could have a negative impact on the market price of our common stock.

Our operating results may fluctuate, which makes comparing our operating results on a period-to-period basis difficult and could cause our results to fall short of expectations.

Our operating results may fluctuate as a result of a number of factors, many outside of our control. As a result, comparing our operating results on a period-to-period basis may not be meaningful, and you should not rely on our past results as an indication of our future performance. Our quarterly, year-to-date and annual expenses as a percentage of our revenues may differ significantly from our historical or projected rates. Our operating results in future quarters may fall below expectations. Any of these events could cause our stock price to fall.

We may not be successful in expanding our business through acquisitions, business combinations and other transactions, and, even if we are successful, our operations may be adversely affected as a result of these transactions.

We intend to pursue acquisitions, business combinations and joint ventures, which we refer to as extraordinary transactions. Our ability to implement this business strategy depends in large part on our ability to compete successfully with other entities for acquisition candidates and joint venture partners. Factors affecting our ability to compete successfully include:

- our financial condition and resources relative to the financial condition and resources of competitors;
- our ability to issue common stock as potential consideration;
- the attractiveness of our common stock as potential consideration relative to the common stock of competitors;
- our ability to obtain financing; and
- our available cash, which depends upon our results of operations and our cash demands.

In addition, we may not be able to find suitable acquisition candidates and we may not be able to complete acquisitions on favorable terms, if at all. If we do complete acquisitions, we may not ultimately strengthen our competitive position or achieve our goals, or such acquisitions may be viewed negatively by customers, financial markets or investors. In addition, any acquisitions that we make could lead to difficulties in integrating personnel and operations from the acquired businesses and in retaining and motivating key personnel from these businesses. Acquisitions may disrupt our ongoing operations, divert management from day-to-day responsibilities, increase our expenses or adversely affect our business, operating results and financial condition. For example, we experienced such disruption, diversion and increased expenses during the course of our recent failed attempt to acquire Lexico Publishing Group, LLC. Future acquisitions may reduce our cash available for operations and other uses and could result in an increase in amortization expense related to identifiable assets acquired, potentially dilutive issuances of equity securities or the incurrence of debt, which could harm our business, financial condition and operating results.

If we fail to maintain and enhance awareness of our Web properties, our business and financial results could be adversely affected.

We believe that maintaining and enhancing awareness of our Web properties is critical to achieving widespread acceptance of our services and to the success of our business. We also believe that the importance of brand recognition will increase due to the relatively low barriers to entry in our market. Maintaining and enhancing our Web properties may require us to spend increasing amounts of money on, and devote greater resources to, advertising, marketing and other brand-building efforts, and these investments may not be successful. Further, even if these efforts are successful, they may not be cost-effective. If we are unable to continuously maintain and enhance our Web properties, our traffic may decrease and we may fail to attract advertisers, which could in turn result in lost revenues and adversely affect

our business and financial results.

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Our failure to offer compelling content and provide our users with quality information could result in lost revenue, as a result of a loss of users and advertisers.

We believe our future success depends in part upon our ability to deliver valuable content through our Web properties. We are heavily dependent on licensed content. We cannot guarantee that we will be able to enter into new or renew current or future content agreements on commercially acceptable terms or at all. If we are unable to maintain and enhance our existing relationships with content providers or develop new relationships with alternative providers of content, our Answers.com service may become less attractive to Internet users, resulting in decreased traffic to Answers.com, which could have an adverse effect on our ad revenues and a negative impact on our business.

If we are unable to maintain and expand our computer and communications systems, then interruptions and failures in our services could result, making our services less attractive to consumers and subjecting us to lost revenue from the loss of users and advertisers.

Our ability to provide high quality user experience depends on the efficient and uninterrupted operation of our computer and communications systems. Over time, our Web properties have experienced significant increases in traffic, and we continuously seek to further increase our user base. Accordingly, our Internet servers must accommodate spikes in demand for our Web pages in addition to potential significant growth in traffic. Delays and interruptions could frustrate users and reduce traffic on our Web properties, adversely affecting our operations and growth prospects. Furthermore, our systems may be vulnerable to damage or interruption from earthquakes, terrorist attacks, floods, fires, power loss, telecommunications failures, computer viruses, computer denial of service attacks or other attempts to harm our systems, which could adversely affect our operations.

We manage our Answers.com and WikiAnswers.com Web operations through our own colocation facility. Our colocation facility, located in New Jersey, is provided by NetAccess Corporation. We plan to add a second colocation site in the third quarter of 2009 in order to provide redundancy of Web operations at the data center level. Until such time, our operations are centered in one single data center facility. Our single facility could suffer interruptions or failures in service. Our Web operations would be adversely affected, making our services less attractive to consumers and subjecting us to lost revenue. Additionally, if we are unable to recruit and retain skilled employees to manage the Web hosting operations, we may not be able to properly manage the necessary tasks to keep our systems running smoothly and grow the business.

If we were to lose the services of our key personnel, we may not be able to execute our business plan and our business could be adversely affected.

Our ability to execute our business plan depends upon the continued service of our executive officers and other key technology, marketing, sales and support personnel. Our employment agreements with our executive officers and key employees are terminable by either party upon 30-90 days notice. If we lose the services of one or more of our key employees, or if one or more of our executive officers or key employees joined a competitor or otherwise competed with us, our business could be adversely affected. We cannot assure you that we will be able to retain or replace our key personnel, and the services of key members of our research and development team, in particular, would be difficult to replace. If we do not succeed in retaining or replacing our key personnel, we may be unable to execute our business plan and, as a result, our stock price may decline.

Our business depends on increasing use of the Internet by users searching for information, advertisers marketing products and services and Web properties seeking to earn revenue to support their web content. If the Internet infrastructure does not grow and is not maintained to support these activities, our business will be harmed.

Our success will depend on the continued growth and maintenance of the Internet infrastructure. This includes maintenance of a reliable network backbone with the necessary speed, data capacity and security for providing reliable Internet services. Internet infrastructure may be unable to support the demands placed on it if the num