Answers CORP
Form 424B5
November 09, 2007

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The information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement is not an offer to sell these securities, and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Filed Pursuant to Rule 424(b)(5)
Registration No. 333-144630

SUBJECT TO COMPLETION, DATED NOVEMBER 9, 2007

Shares
Common Stock

Answers Corporation is selling shares of our common stock. We have granted the underwriters a 30-day option to purchase up to an additional shares from us to cover over-allotments, if any.

Our common stock is traded on the Nasdaq Global Market under the symbol ANSW. On November 8, 2007, the last reported sale price for our common stock was $7.01 per share.

INVESTING IN OUR COMMON STOCK INVOLVES RISKS. SEE RISK FACTORS BEGINNING ON PAGE S-14.

	Per Share	Total
Public offering price	$	$
Underwriting discount	$	$
Proceeds, before expenses, to us	$	$

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus or the accompanying base prospectus. Any representation to the contrary is a criminal offense.

Thomas Weisel Partners LLC **Canaccord Adams**

ThinkEquity Partners LLC **Maxim Group LLC**

The date of this prospectus supplement is , 2007

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You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying base prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus supplement and the accompanying base prospectus. We are offering to sell shares of common stock and seeking offers to buy common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus supplement and the accompanying base prospectus is accurate only as of the date of this prospectus supplement and the accompanying base prospectus, regardless of the time of delivery of this prospectus supplement and the accompanying base prospectus or any sale of the common stock.

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ABOUT THIS PROSPECTUS SUPPLEMENT

This prospectus supplement and the accompanying base prospectus are part of a shelf registration statement that we have filed with the Securities and Exchange Commission, or SEC. Each time we sell securities under the accompanying base prospectus we will provide a prospectus supplement that will contain specific information about the terms of that offering, including the price, the amount of securities being offered and the plan of distribution. The shelf registration statement was declared effective by the SEC on August 6, 2007. This prospectus supplement describes the specific details regarding this offering, including the price, the amount of common stock being offered, the risks of investing in our common stock and the underwriting arrangements. The accompanying base prospectus provides general information about us, some of which, such as the section entitled Plan of Distribution, may not apply to this offering.

If information in this prospectus supplement is inconsistent with the accompanying base prospectus or the information incorporated by reference, you should rely on this prospectus supplement. You should read both this prospectus supplement and the accompanying base prospectus together with the additional information about Answers Corporation to which we refer you in the section of the accompanying base prospectus entitled Where You Can Find More Information.

In this prospectus supplement, Answers, we, us and our refer to Answers Corporation and its subsidiary and Lexic refers to Lexico Publishing Group, LLC. Unless otherwise indicated, all information in this prospectus supplement assumes no exercise of the underwriters overallotment option.

We use various trademarks and trade names in our business, including without limitation Answers.com, AnswerTips, WikiAnswers, 1-Click Answers, AnswerRank and Brainboost. Lexico uses various trademarks and trade names in business, including without limitation Dictionary.com, Thesaurus.com, Reference.com and Lexico. This prospectus supplement also contains trademarks and trade names of other businesses that are the property of their respective holders.

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PROSPECTUS SUPPLEMENT 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 supplement and the accompanying base prospectus and in the documents incorporated by reference in this prospectus supplement and the accompanying base prospectus. Because this is only a summary, you should read the rest of this prospectus supplement and the accompanying base prospectus, including all documents incorporated by reference, before you invest in our common stock. Read this entire prospectus supplement and the accompanying base prospectus carefully, especially the risks described under Risk Factors and the financial statements and related notes, before making an investment decision.

Answers Overview

We are a leading online answer engine. Our Web properties currently consist of Answers.com and WikiAnswers.com. We offer information related to over 4 million topics based on content from brand-name publishers, our WikiAnswers community and our proprietary natural language search technology, which we refer to as Answers from the Web. Answers.com combines and presents targeted information from disparate sources and delivers answers to users questions in a single consolidated view. WikiAnswers.com is a user-generated content, or UGC, community-based question and answer site. According to comScore, a global Internet information provider, our Web properties had approximately 14 million unique visitors in September 2007, which ranks Answers Corporation number 62 in the top U.S. Web properties. Our goal is to become the premier online provider of and leading destination for answers on any topic.

According to our internal estimates, our Web properties had approximately 407 million page views during the third quarter of 2007. During the month of September 2007, based on these estimates, approximately 60% of our traffic was generated by search engines; 15% by the definition link appearing on Google s website result pages; and 25% 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, or a downloaded toolbar.

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, which aggregate Web properties looking to monetize their Web traffic and advertisers seeking to advertise on the Internet. We recently began marketing directly to advertisers, and we believe that our direct advertising efforts will be the primary driver of future monetization improvements.

Overview of Lexico Acquisition

On July 13, 2007, we entered into a purchase agreement with the members of Lexico Publishing Group, LLC, a California limited liability company, to acquire all of the outstanding limited liability interests of Lexico for an aggregate purchase price of $100 million in cash, subject to adjustments for closing net working capital and transaction expenses. Our transaction expenses incurred in connection with this acquisition are estimated to be approximately $2.2 million. According to the terms of our agreement, $10 million of the purchase price may be paid to the employees of Lexico, subject to certain terms and conditions. In addition, $10 million of the purchase price will be placed in escrow for 12 months to secure the indemnification obligations of the members under the agreement, as well as any post-closing purchase price adjustments for net working capital or transaction expenses.

Consummation of the acquisition of Lexico is subject to our ability to secure financing for the acquisition, as well as customary conditions to closing, including absence of any legal prohibition on consummation of the acquisition,

obtaining governmental and third party consents, the accuracy of the representations and warranties, and delivery of customary closing documents. We intend to use approximately $100 million of the net proceeds from this offering to acquire Lexico.

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Lexico Overview

Lexico owns and operates Dictionary.com, Thesaurus.com, and Reference.com. Dictionary.com and Thesaurus.com are two of the most popular destinations on the Internet for information related to words, including definitions, synonyms and antonyms. According to research firm Hitwise, the word dictionary ranked as the second most searched generic term on the Internet in 2006. Based on Lexico s internal estimates, Lexico had more than one billion page views during the third quarter of 2007. According to comScore, Lexico s Web properties had approximately 15.7 million unique visitors in September 2007, which ranks Lexico number 50 in the top U.S. Web properties. During the month of September 2007, we believe, based on information provided by Lexico, that approximately 85% of Lexico s traffic was direct traffic, while the remaining 15% was generated by search engines.

Acquisition Benefits

We believe the Lexico acquisition will provide the combined company with the following key benefits:

Increased Direct Traffic. Historically, we have relied heavily on search engines for a substantial portion of the traffic on our Web properties. During the month of September 2007, we estimate that approximately 60% of our traffic was generated by search engines. Consequently, indexing algorithm changes and other actions taken by search engines can and have caused significant declines in our traffic. During the month of September 2007, we believe, based on information provided by Lexico, that approximately 15% of Lexico s traffic was generated by search engines. As a result, Lexico is less susceptible to the loss of traffic as a result of actions taken by search engines. Based on September 2007 data, following the acquisition, we expect that the combined company will have significantly less search engine concentration with approximately 25% of our combined traffic being generated by search engines.

Improved Lexico Traffic Monetization. Over the last few years we have significantly improved the monetization rates of our Web traffic. We currently monetize our Web traffic more effectively than Lexico, resulting in comparatively greater revenue per page. We intend to increase Lexico s monetization rates by using many of the same techniques we have utilized to increase our own monetization rates.

Reduced Reliance on Traffic from the Google Definition Link. We estimate that the traffic directed to Answers.com from the definition link appearing on Google s website search result pages accounted for approximately 15% of the traffic to Answers.com during September 2007. Following the acquisition of Lexico, we believe the percentage of traffic from the Google definition link will account for less than 5% of our combined traffic.

Increased Growth of the WikiAnswers Community. The acquisition of Lexico will provide us with additional traffic that we can direct to our WikiAnswers Web property. We believe that this will expand the size, scope and activity of the WikiAnswers community, increasing the overall user value proposition.

Increased Operating Scale and Broadened Portfolio of Web Properties. The acquisition of Lexico will broaden our portfolio of Web properties, further establishing us as a leading online answer engine. Based on September 2007 comScore data, the addition of Lexico s Web properties would have increased our unduplicated reach to over 26.3 million monthly unique visitors, which would have ranked us number 22 in the top U.S. Web properties. We believe that increasing our scale will further help us attract, retain and more deeply engage users, make us increasingly attractive to advertisers and strengthen our employee recruiting efforts.

Improved Operating Efficiencies. We expect to benefit from moderate savings on costs and expenses relating to headcount, content and other expenses.

Recent Events

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. We have not been able to reverse the

impact of this adjustment, and we do not anticipate that we will recover the lost traffic and revenue. In response to this Google algorithm adjustment, we reduced our headcount and related compensation costs, reducing our base payroll expenses by approximately 12%. We have recorded a charge of approximately $250,000 in the third quarter of 2007, related to this restructuring.

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, and we have recovered all of our Yahoo! directed traffic.

Industry Overview

The Internet has fundamentally changed how people find, access and extract information. The Internet facilitates the classification of diverse content into searchable categories, enabling users to access information more efficiently than with traditional offline sources. We expect that user demand for Internet-based content will continue to grow quickly due to the increasing number of people using the Internet, the increased amount of time people are spending on the Internet and the efficiency of finding information on the Internet.

Internet users are increasingly consulting other users for information and advice, and sharing experiences and opinions as a community. The information generated by online communities is continually being updated, resulting in fresher and more targeted content than that offered by traditional publishers without the associated costs of producing, editing and updating the content.

We believe high-quality, well written, relevant and unique content from respected sources is critical to engage and retain Internet users in search of information. When users find this type of content, we believe, they are more likely to return directly to the provider of this content.

As users spend more time and money online, advertisers are turning to the Internet to market their products and services. Accordingly, advertising is a primary source of revenue for many Internet content websites.

Strategy

We believe our valuable content and overall user experience drives traffic to our Web properties, which in turn drives advertising revenue. Key elements of our strategy to increase revenue include:

Improve Traffic Monetization. We strive to improve our traffic monetization rates. In August 2006 we began building our direct sales force and in the fourth quarter of 2006 began marketing directly to advertisers. We believe that our direct advertising efforts will be the primary driver of future monetization improvements. In addition, we work with third party ad networks that we believe optimize the average amount of revenue we earn per page view.

Build the WikiAnswers Community. The WikiAnswers community is a source of continuous content creation. We believe the size of the community drives the quantity of the content, content attracts additional users which in turn grows the community. We believe this cyclical pattern is the major source of growth for WikiAnswers. We intend to accelerate this growth by leveraging Lexico s user base and further enhancing WikiAnswers by incorporating new features to maximize user experience.

Expand Content. Content is critical to the success of our business. We plan to continue to offer users high quality, well written, relevant and unique content, which is valued by the user and recognized by the search engine algorithms. Our content strategy includes continuously adding new, rich and unique licensed content as well as proprietary content from our user-generated WikiAnswers community. We also intend to continue

offering and enhancing the results and performance of our Answers from the Web natural language search technology.

Strengthen the Answers Brands. We are pursuing a brand development strategy that includes public relations, product features that encourage word-of-mouth sharing, and direct marketing to enhance public awareness of our Web properties. We believe our branding strategy will help us become the premier online provider of answers on any topic and the leading free destination site for users searching for any type of information.

Enhance the User Experience. We plan to continually enhance the user experience for visitors to our Web properties and further differentiate our Web properties from other online answer engines. We will continue to develop proprietary technologies, such as our Answers from the Web technology, that we believe will allow us to provide a more robust offering and allow us to provide additional features and functionality that users find valuable.

Seek Future Acquisitions or Strategic Relationships. We actively seek opportunities to enhance our services, improve our content offerings or grow our user base. We will continue to explore additional acquisition opportunities or strategic relationships that complement our current operations and strategy.

Risks

Investing in our common stock involves a high degree of risk. You should carefully consider all of the information in this prospectus supplement, the accompanying base prospectus, and the documents we have incorporated by reference. In particular see Risk Factors beginning on page S-14.

References to Web Property Usage Measurements

Throughout this prospectus supplement, we refer to estimates of traffic. We track the traffic on our Answers.com and WikiAnswers Web properties using two separate systems. Our Answers.com traffic is measured using our internally developed server-side, log-based system. This system is designed to identify traffic from search engine robots and other known Web robots, commonly referred to as Web spiders or Web crawlers, as well as from suspected automated spidering scripts. Traffic from these sources is excluded from the traffic activity measurements.

Through the first quarter of 2007, we reported traffic based on website queries, or traffic directly to one of our Answers.com topic pages. Beginning with the second quarter of 2007, we report traffic based on the more widely recognized industry standard metric of page views. Page views include traffic directly to Answers.com home page, but exclude lookups conducted through 1-Click Answers, AnswerTips and traffic from partners who pay us for providing them our answer-based services.

Based on our internal analysis, we estimate the number of Answers.com page views to be approximately 13% higher than the number of Answers.com queries. This difference is primarily the result of including home page visits in the page view traffic estimates. Traffic and revenue per thousand page views, or RPM, data for the first quarter of 2005 through the second quarter of 2007, as presented in this prospectus supplement, is the result of a conversion of our historical Answers.com query data to estimated page views. The converted Answers.com traffic data represents the product of the historical query data multiplied by 1.13, to adjust historical website query data to the new methodology. Historical RPM for those periods will therefore be approximately 13% lower than amounts reported prior to our quarterly report on Form 10-Q for the quarterly period ended June 30, 2007.

With respect to WikiAnswers traffic, we use Visual Sciences, Inc., formerly known as WebSideStory, Inc., HBX Analytics tag-based web analytics system. Traffic measurements from this system are generated by our placement of tags on our WikiAnswers Web pages. The HBX Analytics system then independently generates traffic metrics. WikiAnswers community-related statistics, including total number of questions, answers and users, are generated from the WikiAnswers Web property.

We also use Google Analytics measurement services. These measurements are generated by our placement of tags on our Web properties pages, which Google Analytics uses to count and report audience metrics independently. We primarily use Google Analytics in cases where other data is unavailable and for purposes of verification of estimates derived from other measurement systems.

Third party services measuring traffic audiences may provide different estimates than the estimates reported by other external services and the estimates reported by internal tracking. These discrepancies may result from differences in methodologies applied or the sampling approaches used by each measuring service.

Throughout this prospectus supplement, we refer to estimates of Lexico s traffic, which is measured using Lexico s internally developed server-side, log-based measurement systemfor tracking activity and measuring usage on Dictionary.com, Thesaurus.com and Reference.com. Similar to our practice and in

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compliance with industry standards, Lexico also excludes traffic resulting from the activity of search engine robots and other known Web robots, as well as from suspected automated spidering scripts.

In June 2007, we retained an independent third party consulting firm to analyze and reconcile the systems used to generate traffic estimates for each of Answers.com and the Lexico Web properties. Based on the recommendations of the third party independent consulting firm, we made certain minor adjustments to our log-based processing system. We believe that the website traffic data contained in this prospectus supplement reflect a consistent traffic measurement methodology.

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.

Lexico Publishing Group, LLC was formed as a California limited liability company in March 1999. Their principal executive offices are located at 200 Pine Avenue, Suite 20, Long Beach, California 90802 and their telephone and fax numbers at this location are 562-432-7333 and 562-432-7743, respectively. Their corporate website address is www.lexico.com. The information contained on their Web properties or that can be accessed through their 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.

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THE OFFERING

Common stock offered by us	shares
Common stock to be outstanding after this offering	shares
Use of proceeds	We estimate that the net proceeds from this offering, after deducting underwriting discounts and commissions and estimated offering expenses payable by us, will be approximately $ million based on the assumed offering price of $ per share (the last reported sales price of our common stock on November , 2007). We intend to apply approximately $100 million of the net proceeds from this offering for the acquisition of Lexico, approximately $2.2 million for estimated related transaction expenses and the remainder for general corporate purposes, including working capital. See Use of Proceeds.
Nasdaq Global Market Symbol	ANSW

The above information is based upon 7,854,053 shares of our common stock outstanding as of September 30, 2007. This information does not include 3,242,918 shares of common stock subject to outstanding options and warrants and 212,461 shares of common stock reserved for issuance under our stock plans as of September 30, 2007.

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SUMMARY CONSOLIDATED FINANCIAL INFORMATION

Answers Corporation

The following tables summarize our summary statement of operations and balance sheet data and should be read together with Management s Discussion and Analysis of Financial Condition and Results of Operations and our financial statements and related notes that appear elsewhere in this prospectus supplement. The summary consolidated statement of operations data for each of the years ended December 31, 2006 and 2005 are derived from our audited consolidated financial statements that appear elsewhere in this prospectus supplement. We derived the summary consolidated statement of operations data for the nine months ended September 30, 2007 and 2006 and the consolidated balance sheet data as of September 30, 2007 from our unaudited consolidated financial statements that appear elsewhere in this prospectus supplement. The unaudited consolidated financial statements have been prepared on a basis consistent with our audited consolidated financial statements that appear elsewhere in this prospectus supplement and include, in our opinion, all adjustments that are necessary for a fair presentation of our financial position and results of operation for these periods. Operating results for the nine months ended September 30, 2007 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2007.

	Year Ended December 31,		Nine Months Ended September 30,	
	2006	2005	2007	2006
	(in thousands, except share, per share, page view and RPM data)			
Consolidated Statement of Operations Data:				
Revenue	$ 7,029	$ 2,053	$ 8,404	$ 4,523
Costs and expenses:				
Cost of revenue	3,406	1,158	3,643	2,336
Research and development	5,865	2,190	2,239	5,209
Sales and marketing	3,253	1,818	3,275	2,244
General and administrative	3,385	3,404	3,003	2,530
Total operating expenses	15,909	8,570	12,160	12,319
Operating loss	(8,880)	(6,517)	(3,756)	(7,796)
Interest income, net	553	555	299	430
Other expense, net	(176)	(42)	(11)	(220)
Loss before income taxes	(8,503)	(6,004)	(3,468)	(7,586)
Income taxes	(68)	13	(33)	(9)
Net loss	$ (8,571)	$ (5,991)	$ (3,501)	$ (7,595)
Basic and diluted net loss per common share	$ (1.12)	$ (0.88)	$ (0.45)	$ (1.00)
Weighted average shares used in computing basic and diluted net loss per common share	7,673,543	6,840,362	7,844,900	7,632,283
Other Data:				

Adjusted EBITDA(1)	$ (2,289)	$ (4,466)	$ (1,127)	$ (2,083)
Answers.com average daily page views	3,420,000	1,840,000	4,700,000	3,120,000
Answers.com RPM	$ 5.41	$ 2.63	$ 5.59	$ 5.07

	As of September 30, 2007	
	Actual	Pro Forma As Adjusted(2)
	(in thousands)	
Consolidated Balance Sheet Data:		
Cash and cash equivalents	$ 5,293	
Working capital	6,816	
Total assets	18,368	
Long-term liabilities	1,158	
Total stockholders equity	14,936	

(1) We define Adjusted EBITDA as net earnings before interest, taxes, depreciation, amortization, stock-based compensation, foreign currency exchange rate differences and certain non-recurring revenues and expenses.

We believe that the presentation of Adjusted EBITDA provides useful information to investors because these measures enhance their overall understanding of the financial performance and prospects of our ongoing business operations. By reporting Adjusted EBITDA, we provide a basis for comparison of our business operations between current, past and future periods. Adjusted EBITDA is used by our management team to plan and forecast our business because it removes the impact of our capital structure (interest expense), asset base (amortization and depreciation), stock-based compensation expenses,

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taxes, foreign currency exchange rate differences and certain non-recurring revenues and expenses from our results of operations. More specifically, we believe that removing these impacts is important for several reasons:

Adjusted EBITDA disregards amortization of intangible assets and other specified costs resulting from acquisitions. Specifically, we exclude (a) amortization of acquired technology from our acquisition of Brainboost Technology, LLC, or Brainboost, developer of the Brainboost Answer Engine, which has been integrated into our Answers from the Web technology; (b) compensation expense resulting from the portion of the stock component of the Brainboost purchase price that was deemed compensation expense; (c) penalty payments to the sellers of Brainboost resulting from our failure to timely register the common stock they received in connection with the acquisition; and (d) amortization of intangible assets relating to our acquisition of WikiAnswers. We believe that excluding these expenses is helpful to investors, due to the fact that they relate to prior acquisitions and are not necessarily indicative of future operating expenses. While we exclude these expenses from Adjusted EBITDA we do not exclude the revenue derived from the acquisitions. The revenue attributable to WikiAnswers.com, in the nine months ended September 30, 2007 and 2006 was $598 thousand and $0, respectively. The revenue attributable to our acquisition of the Brainboost technology is not quantifiable due to the nature of its integration.

We believe that, because of the variety of equity awards used by companies, the varying methodologies for determining stock-based compensation expense, and the subjective assumptions involved in those determinations, excluding stock-based compensation from Adjusted EBITDA enhances the ability of management and investors to compare financial results over multiple periods.

We believe that, excluding depreciation, interest, foreign currency exchange rate differences and taxes from Adjusted EBITDA provides investors with additional information to measure our performance, by excluding potential differences caused by variations in capital structures (affecting interest expense), asset composition, and tax positions.

Prior to December 2003, we sold lifetime subscriptions to our GuruNet service, generally for $40 per subscription. In December 2003, we decided to alter our pricing model and moved to an annual subscription model, for which we generally charged our subscribers $30 per year. We have not sold subscriptions since our launch of Answers.com in January 2005. In February 2007, we terminated the GuruNet service and recognized $425 thousand of deferred revenue as revenue during the quarter ended March 31, 2007. We believe that the recognition of the $425 thousand of revenue is a one-time, non-cash event and is not reflective of our core business and core operating results, and we have therefore excluded this amount from Adjusted EBITDA.

Adjusted EBITDA is not a measure of liquidity or financial performance under generally accepted accounting principles and should not be considered in isolation from, or as a substitute for, a measure of financial performance prepared in accordance with GAAP. Investors are cautioned that there are inherent limitations associated with the use of Adjusted EBITDA as an analytical tool. Some of these limitations are:

Non-GAAP financial measures are not based on a comprehensive set of accounting rules or principles;

Many of the adjustments to Adjusted EBITDA reflect the exclusion of items that are recurring and will be reflected in our financial results for the foreseeable future;

Other companies, including other companies in our industry, may calculate Adjusted EBITDA differently than us, thus limiting its usefulness as a comparative tool;

Adjusted EBITDA does not reflect the periodic costs of certain tangible and intangible assets used in generating revenues in our business;

Adjusted EBITDA does not reflect changes in our cash and investment securities and the results of our investments;

Adjusted EBITDA excludes taxes, which is a significant cost to most businesses; and

Because Adjusted EBITDA does not include stock-based compensation, it does not reflect the cost of granting employees equity awards, a key factor in management s ability to hire and retain employees.

We compensate for these limitations by providing specific information in the reconciliation to the GAAP amounts excluded from Adjusted EBITDA. A reconciliation of Adjusted EBITDA to net loss is as follows:

	Year Ended December 31,		Nine Months Ended September 30,	
	2006	2005	2007	2006
	(in thousands)			
Net loss	$ (8,571)	$ (5,991)	$ (3,501)	$ (7,595)
Interest income, net	(553)	(555)	(299)	(430)
Foreign currency exchange rate differences	(50)	42	11	(7)
Income taxes	68	(13)	33	9
Depreciation and amortization	1,291	282	1,356	908
Stock-based compensation	5,299	1,769	1,698	4,804
Subscription revenue from lifetime subscriptions			(425)	
Non recurring penalty payment in connection with registration of shares	227			227
Adjusted EBITDA	$ (2,289)	$ (4,466)	$ (1,127)	$ (2,083)

(2) Gives effect to the acquisition of Lexico and the sale by us of shares of our common stock in this offering at an assumed public offering price of $ (which is the last reported sale price for our common stock on November , 2007) after deducting underwriting discounts and commissions and estimated offering expenses payable by us.

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Lexico

The following tables summarize the historical financial data of Lexico and should be read together with Lexico s financial statements and related notes that appear elsewhere in this prospectus supplement. The summary statement of operations data for each of the years ended December 31, 2006 and 2005 are derived from Lexico s audited financial statements that appear elsewhere in this prospectus supplement. We derived the summary statement of operations data for the nine months ended September 30, 2007, and 2006 and the balance sheet data as of September 30, 2007 from Lexico s unaudited financial statements that appear elsewhere in this prospectus supplement. The unaudited financial statements for Lexico have been prepared on a basis consistent with Lexico s audited financial statements included elsewhere in this prospectus supplement and include, in the opinion of Lexico, all adjustments that are necessary for a fair presentation of Lexico s financial position and results of operations for these periods. Operating results for the nine months ended September 30, 2007 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2007.

	Year Ended December 31,		Nine Months Ended September 30,	
	2006	2005	2007	2006
	(in thousands, except page view and RPM data)			
Statement of Operations Data:				
Revenue	$ 7,015	$ 5,683	$ 6,180	$ 4,989
Costs and expenses:				
Cost of revenues	1,648	924	1,522	1,198
Selling, general and administrative expenses	2,575	1,759	2,294	1,727
Total operating expenses	4,223	2,683	3,816 (1)	2,925
Operating income	2,792	3,000	2,364	2,064
Interest income	29	19	48	18
Income before income taxes	2,821	3,019	2,412	2,082
Income tax expense	(13)	(19)	(9)	(10)
Net income	$ 2,808	$ 3,000	$ 2,403	$ 2,072
Other Data:				
EBITDA (2)	$ 2,911	$ 3,077	$ 2,476	$ 2,152
Average daily page views	10,640,000	7,960,000	12,750,000	9,900,000
RPM	$ 1.72	$ 1.84	$ 1.70	$ 1.75

	As of September 30, 2007 (in thousands)
Balance Sheet Data:	
Cash and cash equivalents	$ 2,336

Working capital		3,297
Total assets		4,969
Long-term liabilities		
Total members equity	$	4,168

(1) Includes $516 thousand of legal, accounting and banking fees incurred in connection with the planned sale of Lexico to Answers.

(2) EBITDA for Lexico is defined as net earnings before interest, taxes, depreciation and amortization. EBITDA removes the impact of the entity s capital structure (interest expense), asset base (amortization and depreciation of property and equipment), and taxes from its results of operations.

We believe that the presentation of EBITDA for Lexico provides useful information to investors because these measures enhance their overall understanding of the financial performance and prospects of Lexico s ongoing business operations.

EBITDA is not a measure of liquidity or financial performance under generally accepted accounting principles, and should not be considered in isolation from, or as a substitute for, a measure of financial performance prepared in accordance with GAAP. Investors are cautioned that there are inherent limitations associated with the use of EBITDA as an analytical tool. Some of these limitations are:

Non-GAAP financial measures are not based on a comprehensive set of accounting rules or principles;

Other companies, including other companies in Lexico s industry, may calculate EBITDA differently than Lexico, thus limiting its usefulness as a comparative tool;

EBITDA does not reflect the periodic costs of certain assets used in generating revenues in our business;

EBITDA does not reflect changes in Lexico s cash and investment securities and the results of its investments; and

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EBITDA excludes taxes, which is a significant cost to most businesses.

We compensate for these limitations by providing specific information in the reconciliation to the GAAP amounts excluded from EBITDA. A reconciliation of EBITDA, to net earnings, is as follows:

	Year Ended December 31,		Nine Months Ended September 30,	
	2006	2005	2007	2006
	(in thousands)			
Net income	$ 2,808	$ 3,000	$ 2,403	$ 2,072
Interest income	(29)	(19)	(48)	(18)
Income taxes	13	19	9	10
Depreciation and amortization of property and equipment	119	77	112	88
EBITDA	$ 2,911	$ 3,077	$ 2,476	$ 2,152

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Pro Forma

The following unaudited pro forma financial data has been derived from unaudited pro forma financial statements and related notes set forth on pages F-48 through F-55. This information is based on the historical consolidated balance sheets and related historical consolidated statements of operations of Answers and Lexico giving effect to the proposed acquisition as if such transaction occurred January 1, 2006. Further, the allocations of purchase price is preliminary and may change. The unaudited pro forma financial data is based on estimates and assumptions made solely for the purposes of developing such pro forma information. This information is for illustrative purposes only. The companies may have performed differently had they always been combined. You should not rely on the summary unaudited pro forma financial data as being indicative of the historical results that would have been achieved had the companies always been combined or the future results that the combined company will experience after the acquisition.

Answers Corporation
Unaudited Pro Forma Consolidated Statement of Operations
For the nine months ended September 30, 2007

	Historical		Pro Forma	Pro Forma
	Answers	Lexico	Adjustments	Combined
	(in thousands, except for share and per share data)			
Revenue	$ 8,404	$ 6,180		$ 14,584
Costs and expenses:				
Cost of revenue	3,643	1,522	(76)(1)	5,160
			41(2)	
			30(3)	
Research and development	2,239		76(1)	3,540
			475(2)	
			750(4)	
Sales and marketing	3,275		608(2)	3,883
General and administrative	3,003		1,170(2)	5,546
			1,373(3)	
Selling, general and administrative expenses		2,294	(2,294)(2)	
Total operating expenses	12,160	3,816*	2,153	18,129
Operating income (loss)	(3,756)	2,364	(2,153)	(3,545)
Interest income, net	299	48		347
Other expense, net	(11)			(11)
Income (loss) before income taxes	(3,468)	2,412	(2,153)	(3,209)
Income taxes	(33)	(9)	(1,541)(5)	(1,583)
Net income (loss)	$ (3,501)	$ 2,403	$ (3,694)	$ (4,792)
Basic and diluted net loss per common share	$ (0.45)			$ (0.21)
Weighted average shares used in computing basic and diluted net loss per common share	7,844,900		14,961,091(6)	22,805,991

* Includes $516 thousand of legal, accounting and banking fees incurred in connection with the planned sale of Lexico to Answers.

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Answers Corporation
Unaudited Pro Forma Consolidated Statement of Operations
For the year ended December 31, 2006

	Historical		Pro Forma	Pro Forma
	Answers	Lexico	Adjustments	Combined
	(in thousands, except for share and per share data)			
Revenue	$ 7,029	$ 7,015		$ 14,044
Costs and expenses:				
Cost of revenue	3,406	1,648	(67)(1) 56(2) 2,500(4) 118(3)	7,661
Research and development	5,865		67(1) 646(2) 2,650(4)	9,228
Sales and marketing	3,253		1,018(2) 3,100(4)	7,371
General and administrative	3,385		855(2) 750(4) 1,831(3)	6,821
Selling, general and administrative expenses		2,575	(2,575)(2)	
Total operating expenses	15,909	4,223	10,949	31,081
Operating income (loss)	(8,880)	2,792	(10,949)	(17,037)
Interest income, net	553	29		582
Other expense, net	(176)			(176)
Income (loss) before income taxes	(8,503)	2,821	(10,949)	(16,631)
Income taxes	(68)	(13)	(2,054)(5)	(2,135)
Net income (loss)	$ (8,571)	$ 2,808	$ (13,003)	$ (18,766)
Basic and diluted net loss per common share	$ (1.12)			$ (0.83)
Weighted average shares used in computing basic and diluted net loss per common share	7,673,543		14,961,091(6)	22,634,634

(1) Cost of revenue of Lexico has been reclassified to conform to Answers presentation as follows:

	Nine Months Ended September 30, 2007 (in thousands)	Year Ended December 31, 2006 (in thousands)

Cost of revenue	$ 1,446	$ 1,581
Research and development	76	67
Cost of revenue, as reported by Lexico	$ 1,522	$ 1,648

(2) Selling, general and administrative expenses of Lexico have been reclassified to conform to Answers presentation as follows:

	Nine Months Ended September 30, 2007 (in thousands)	Year Ended December 31, 2006 (in thousands)
Cost of revenue	$ 41	$ 56
Research and development	475	646
Sales and marketing	608	1,018
General and administrative	1,170	855
Total selling, general and administrative expenses, as reported by Lexico	$ 2,294	$ 2,575

(3) These pro forma adjustments represent the additional amortization expense for the amortizable intangible assets acquired in connection with the Lexico acquisition, assuming the acquisition of Lexico occurred on January 1, 2006:

	Gross Carrying Amount (in thousands)	Life (years)	Nine Months Ended September 30, 2007 (in thousands)	Year Ended December 31, 2006 (in thousands)
Cost of revenue:				
Subscribers customer base	$ 119	3	$ 30	$ 40
Technology	78	1		78
			$ 30	$ 118
General and administrative				
Domain name	$ 13,843	10	$ 1,038	$ 1,384
Non-compete	894	2	335	447
			$ 1,373	$ 1,831

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(4) As part of the total acquisition cost, $10.0 million may be paid to the employees of Lexico, or the Lexico Employee Bonuses, subject to certain terms and conditions and a pre-determined payout schedule, which in most cases is one year. Based on the assumption that the acquisition of Lexico occurred on January 1, 2006, the Lexico Employee Bonuses would have been recorded as follows:

	Nine Months Ended September 30, 2007 (in thousands)		Year Ended December 31, 2006 (in thousands)	
Cost of revenue	$		$	2,500
Research and development		750		2,650
Sales and marketing				3,100
General and administrative				750
Total Lexico Employee Bonuses	$	750	$	9,000

(5) This pro forma adjustment represents the tax expense, calculated in accordance with the provisions of Statement of Financial Accounting Standard No. 109 *Accounting for Income Taxes,* for temporary differences that will result from the amortization of the first component of goodwill for income tax reporting purposes at a statutory rate of 40.66%. The $10 million of compensation expense payable to the employees of Lexico represents a second component of goodwill, the tax benefit of which will be recognized when realized on the tax return and will be applied as a reduction to goodwill related to the acquisition at such time.

(6) This pro forma adjustment assumes that we issued 14,961,091 shares of Answers common stock to acquire Lexico on January 1, 2006. This number of shares issued is based on the preliminary purchase price of Lexico divided by $7.01, the closing sale price of our common stock as reported by the Nasdaq Global Market on November 8, 2007.

Shares used to calculate unaudited pro forma basic and diluted loss per share were computed by adding the 14,961,091 shares assumed to be issued, to the weighted average number of shares outstanding for each period.

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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 Related to the Acquisition

If we fail to increase Lexico s traffic monetization rates, it may have a materially adverse impact on the anticipated benefits of this acquisition.

We currently monetize our Web traffic more effectively than Lexico, resulting in comparatively greater revenue per page. During the third quarter of 2007, our RPM was $5.41 compared to Lexico s RPM of $1.87. We expect to improve Lexico s monetization rates by using the same techniques we have used to increase the monetization of our sites, including, changing site design, changing the color, background, placement and number of textual ads displayed, increasing the size and number of display ads per page, and adding or switching ad providers or types of ads introduced. However, our assumptions may be incorrect and we may not be able to improve Lexico s monetization rates for several reasons, including:

- the users of Lexico s Web properties may behave differently than the users of our Web properties;
- our assumptions regarding the probability that Lexico s users will click on the ads displayed on the Lexico Web properties may be incorrect; or
- we may make a modification to the Lexico Web properties that damages the look or experience for their users.

Our failure to increase Lexico s monetization rates may have a material adverse impact on the anticipated benefits of the Lexico acquisition.

We may not be able to maintain or grow Lexico s traffic.

In 2006, Lexico s Web properties generated overall traffic of approximately 3.9 billion page views, which is approximately three times the number of page views generated by our existing Web properties. For the nine months ended September 30, 2007, Lexico s Web properties generated overall traffic of approximately 3.5 billion page views. Although we expect that this traffic will grow under our management of Lexico s Web properties, we cannot assure you that we will be successful in increasing the traffic to the Lexico Web properties, nor can we assure you that we will be able to maintain Lexico s current levels of traffic, which may materially adversely affect our business and financial results.

If Google does not amend our Google Services Agreement to include the Lexico Web properties after the acquisition or consent to the transfer of Lexico s Google Services Agreement to us after the acquisition, we may suffer a material reduction in our anticipated ad revenues, which would adversely affect our business and financial results.

Our business is dependent on our Google Services Agreement, or GSA, under which we obtain most of the advertisements displayed on our Web properties and earn most of our ad revenues. Lexico is dependent to a lesser extent on their GSA. Lexico s GSA requires Google s consent for the transfer of Lexico s GSA. If we are unable to incorporate the Lexico Web properties into our GSA, obtain consent for the transfer of Lexico s GSA to us, or enter into a new GSA with respect to the Lexico Web properties we will have to obtain listings and advertisements from alternative providers. In addition, we may not be able to negotiate terms and ad services as favorable as those that our current GSA provides. This may result in a material reduction in our anticipated ad revenues from the Lexico web properties which may adversely affect our business and financial results.

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We may not be able to realize other intended benefits of the acquisition of Lexico, which could adversely affect our financial condition.

We intend to use approximately $100 million of the net proceeds from this offering to acquire Lexico. The success of the acquisition will depend, in part, on our ability to realize the assumed benefits of the acquisition, set forth in detail beginning on page S-54 of this prospectus supplement. However, our assumptions and rationale for the acquisition may be incorrect and we may not be able to realize such benefits. As a result, we cannot assure you that the acquisition will be successful or will not harm our current business. Failure to achieve these benefits could adversely affect our financial results.

Our sale of equity securities in the market to obtain financing for the acquisition could lead to a decline in the price of our common stock.

The issuance of shares of our common stock in this offering to obtain financing for the acquisition will have a dilutive effect on our existing stockholders. In addition, the perceived risk associated with the acquisition of Lexico could cause some of our stockholders to sell their stock, causing the price of our stock to decline. Assuming a public offering price of $, which is the last reported sale price for our common stock on November , 2007, shares of our common stock would be issued by us in this offering resulting in % dilution. An increase of $1.00 in the assumed public offering price would decrease the number of shares offered to . Similarly, a decrease of $1.00 in the assumed public offering price, would increase the number of shares offered to .

We have a limited number of common shares available for future issuance which could adversely affect our ability to raise capital or consummate acquisitions.

We are authorized to issue 30,000,000 shares of common stock. We currently have outstanding 7,854,890 shares of common stock, or 11,309,432 shares of common stock after giving effect to the exercise of all outstanding options and warrants. After giving effect to the shares of common stock issued in this offering, we will have outstanding shares of common stock, or shares of common stock after giving effect to the exercise of all outstanding options and warrants. To facilitate the raising of additional capital or the completion of acquisitions, it is likely that we will seek shareholder approval to increase the number of shares of common stock we are authorized to issue.

Because we will have limited resources after the Lexico acquisition, and because of the significant competition for acquisitions, we may not able to consummate an acquisition with growth potential, if at all.

The Lexico acquisition will result in significant costs to us, and in certain circumstances we may be required to pay a termination fee to Lexico if we do not complete the acquisition. Payment of the termination fee would materially adversely affect our business and financial results.

The acquisition will result in significant costs to us. Transaction costs will be substantial, and additional unanticipated costs may be incurred. These costs will be incurred whether or not the acquisition is completed. Under certain circumstances, if we do not complete the acquisition, under the terms of the purchase agreement, we may be required to pay Lexico a termination fee of $2 million. Under the terms of the purchase agreement, we may also be obligated to reimburse Lexico s costs up to a maximum of $400,000. Should the purchase agreement be terminated in circumstances under which this termination fee is payable, the payment of the fee would materially adversely affect our business and financial results.

Completion of the Lexico acquisition is subject to conditions to closing in the purchase agreement that could delay completion of the acquisition or impose conditions that could have a material adverse effect on us or that could

cause abandonment of the acquisition.

The closing of the acquisition is subject to certain closing conditions as set forth in the purchase agreement, such as obtaining the financing for the acquisition, receipt of certain closing deliveries and obtaining all necessary approvals and consents. If any of the closing conditions to the acquisition are not satisfied or, where permissible, not waived, the acquisition will not be consummated. Failure to

consummate the acquisition could negatively impact our stock price, future business and operations, and financial condition. Any delay in the consummation of the acquisition or any uncertainty about the consummation of the acquisition could also adversely affect our business, growth, revenue and results of operations.

We may not be able to successfully integrate Lexico s operations, which could adversely affect our financial condition and results of operations.

Our ability to integrate the operations of Lexico will depend, in part, on our ability to overcome or address a number of challenges, including:

- the difficulties of assimilating the operations of Lexico in our ongoing operations;
- the potential loss of key employees of Lexico subsequent to the acquisition;
- the successful incorporation of the acquired Web properties into our products and services;
- the acquired Web properties may not perform as well as we anticipate due to various factors, such as disruptions caused by the integration of operations with us and changes in economic conditions;
- the possible impairment of relationships with current employees, users or advertisers as a result of the integration of new management or operations;
- the diversion of management attention to the integration of operations could have a negative impact on our existing business; and
- we may experience greater than expected costs or difficulties relating to the integration of Lexico or may not realize the expected revenues from the transaction within the expected timeframe, if at all.

We cannot assure you that we will be able to integrate Lexico s operations without encountering difficulties or that any such difficulties will not have a material adverse effect on us.

If the liabilities we assume in the Lexico acquisition are greater than expected, or if there are unknown liabilities, our business could be materially and adversely affected.

We intend to acquire the outstanding equity interests in Lexico through an acquisition. Lexico may be subject to liabilities unknown to us that, if asserted, could have a material adverse effect on us, including:

- claims of vendors or other persons dealing with Lexico;
- liabilities, claims and litigation, whether or not incurred in the ordinary course of business, relating to periods prior to the acquisition of Lexico, including with respect to the intellectual property used by Lexico in its business;
- claims for indemnification by members or employees and others who may be indemnified by Lexico; and
- liabilities for taxes relating to periods prior to the acquisition.

Although the purchase agreement provides us with indemnification protection, the indemnification is limited and may be insufficient if any significant liabilities are found, depending on the amount, timing and nature of any claim. As a

result, we cannot assure you that the acquisition will be successful or will not, in fact, harm our business. Among other things, if the liabilities we have assumed are greater than expected and are not covered by the sellers indemnification, the acquisition could have a material adverse effect on us. In addition, if we learn of information with respect to Lexico, after completion of the acquisition, that prevents us from making the certifications required by the Sarbanes-Oxley Act of 2002, investors confidence in our reporting capabilities could be reduced, and our business could be materially adversely affected.

The pro forma financial statements are presented for illustrative purposes only and may not be indicative of the combined company s financial condition or results of operations following the acquisition.

The pro forma financial statements that appear herein were presented for illustrative purposes only and may not be indicative of the combined company s financial statements. The pro forma financial statements have been derived from our and Lexico s historical financial statements and certain adjustments and assumptions have been made regarding the combined company after giving effect to the acquisition. The information upon which these adjustments and assumptions have been made is based on estimates, and such adjustments and assumptions are difficult to make with complete accuracy. Moreover, the pro forma financial statements do not reflect all costs that are expected to be incurred by the combined company in connection with the acquisition. For example, the impact of any incremental costs incurred in integrating the two companies is not reflected in the pro forma financial statements. As a result, the actual financial condition and results of operations of the combined company following the acquisition may not be consistent with, or evident from, these pro forma financial statements. In addition, the assumptions used in preparing the pro forma financial information may not prove to be accurate, and other factors may affect the combined company s financial condition or results of operations. This information is for illustrative purposes only. The companies may have performed differently had they always been combined. You should not rely on the selected unaudited pro forma financial data as being indicative of the historical results that would have been achieved had the companies always been combined or the future results that the combined company will experience after the acquisition.

Risks Related to our Business

We have incurred significant and continuing net losses since our inception and may continue to incur losses.

We incurred net losses of approximately $8.6 million and $6.0 million for the years ended December 31, 2006 and 2005, respectively. As of September 30, 2007, we had an accumulated deficit of approximately $58.5 million. We cannot assure you that we will be able to achieve net income on a quarterly or annual basis. If our revenues do not increase, or if our operating expenses exceed expectations or cannot be reduced, we will continue to incur substantial losses, which would materially adversely affect our business and financial results.

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 origination Web properties for users in search of information, and our topic 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 a substantial portion of the users visiting our Web properties. According to our internal estimates traffic to our Web properties originating from search engines during September 2007, excluding Google-directed definition link traffic, was approximately 60% of the overall traffic to our Web properties, the majority of which originated from Google and, to a lesser but still significant extent, Yahoo!. Our WikiAnswers search engine traffic during the same period was even more significant, amounting to approximately 85% of its overall traffic. According to Lexico s internal data, Lexico s traffic originating from search engines during September 2007 was approximately 15% of Lexico s overall traffic. After the closing of the acquisition, we believe that, on a combined aggregated basis, we would have traffic originating from search engines of approximately 25% of our 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. We have not been able to reverse the impact of this adjustment, and we do not anticipate that we will recover the lost traffic and revenue. In response to the Google

algorithm adjustment, we reduced our headcount and related compensation costs, reducing our base payroll expenses by approximately 12%. 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, and we have recovered all of our Yahoo! directed traffic. 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 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 the flow of 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.

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 headcount and 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 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 depend on Google to direct 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.

A significant percentage of our direct traffic is directed to Answers.com by the definition link appearing on Google s website result pages. As an additional result of this arrangement, a significant number of secondary users visit Web properties via the definition link and perform additional searches. We refer to these users as secondary traffic. 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. According to our internal estimates, for September, 2007, the primary and secondary traffic from the Google definition link accounted for approximately 15% of the traffic to our Web properties. If Google stops directing traffic to Answers.com through its definition link, we would experience a significant reduction in our traffic and the corresponding ad revenues, which would adversely affect our business and financial results.

If our 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,
  - 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 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.

Our direct ad sales efforts may suffer if advertisers do not find our Web properties to be effective for promoting their products and services, which could have an adverse effect on our business and financial results.

In late 2006, our advertising sales team began marketing directly to advertisers. However, we cannot assure you that these advertisers will find our Web properties to be as effective as other Web properties or traditional media for promoting their products and services. Failure on our part to convince advertisers of the suitability of our Web properties for their needs, or our inability to generate the advertisers desired levels of traffic, could make it difficult to attract new advertisers and may cause us to lose relationships with existing advertisers, which could have an adverse effect on 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.

We are spending increasing amounts of money and devoting greater resources to the development of WikiAnswers. We expect to derive an increasingly significant portion of our revenues from WikiAnswers. We intend to utilize the

strategies we have used with Answers.com to increase monetization of our WikiAnswers Web property. If WikiAnswers fails to perform as well as we anticipate, our business and financial results could be adversely affected.

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

The success of our WikiAnswers Web property is largely dependent upon users constantly interacting with the community by asking questions, posting answers and improving upon both. We need to attract

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users to register as community members, visit the Web property frequently and spend increasing amounts of time on the Web property when they visit. In addition, only a very small number of users actually post information on the site on a regular basis and are engaged in improving the information it contains. If we are unable to encourage users to interact more frequently with our WikiAnswers Web property and to increase the amount of user generated content they provide, our ability to attract new users to the Web property, increase the number of registered users loyal to the community and attract advertisers to WikiAnswers 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, 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.

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, which in turn will lead to stronger growth in the community size. We will need to closely monitor the content being contributed by users and constantly be on the alert for and filter out content that does not add value, or even worse, damages the user experience. If we fail to maintain and improve the quality of the Web property s content, the appeal of WikiAnswers to users may diminish and the growth of the Web property may be negatively affected, which in turn could cause our financial results to suffer.

If we are unable to attract and retain dedicated supervisors for WikiAnswers for the administration of the Web property and the encouragement of the community s expansion, our plans for growing WikiAnswers may fail and our results of operations may be adversely affected.

Much of the effort of administering WikiAnswers, monitoring its activity and ensuring its steady growth and development is borne by a large group of external supervisors, the vast majority of whom are not employed by us and not compensated for their efforts. The supervisors are in charge of monitoring questions and answers in specific categories in an effort to ensure questions are being answered timely, prevent vandalism, improve consistency and encourage high-quality contributions. As of October 31, 2007, the community enjoyed the benefit of over 100 such supervisors. The success of WikiAnswers is dependant, to a certain extent, on the continued attention of these supervisors to WikiAnswers. If we are not able to attract and maintain enough supervisors, the WikiAnswers Web property will suffer and the Web property will become less attractive to users, which in turn will adversely affect the site s growth and our business and financial results.

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.

We generated approximately 86%, 97% and 93%, respectively, of our revenues in 2005, 2006 and for the nine months ended September 30, 2007 from our advertisers. 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 a 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.

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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 search engines, destination portals 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, including traditional search engines, such as Google, Yahoo! and Ask.com, destination portals and other free online answer engines, such as About.com, TheFreeDictionary.com and Wikipedia.org. We also compete with industry-specific Web properties, such as Bankrate.com and WebMD.com, as well as with other popular question and answer sites, such as Yahoo! Answers and Answerbag.com. 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 users or advertisers, 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 February through May, falling to its lowest levels during the summer months, rising again in September and falling again in December through January. 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 viewing or clicking on 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 operating results based on the results of any specific quarter. As a result, we may be unable to forecast our revenue accurately, and a failure to meet our revenue or expense forecasts could have an immediate and negative impact on the market price of our common stock.

Our operating results may fluctuate, which makes our results difficult to predict 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.

Our partnerships and revenue-sharing arrangements with third-parties may not be renewed or continued, which could impact our credibility in the marketplace, which could adversely affect our traffic and revenues.

We have entered into revenue-sharing and other arrangements with third parties that direct traffic to our Web properties and license our online answer engine services, and we plan to enter into similar arrangements in the future. Although these arrangements have not had a substantial impact on our revenues to date, they have provided us with third party validation of our product offerings. We believe these arrangements and similar arrangements may result in significant revenues in the future. These arrangements may be terminated or discontinued by the third parties upon varying notice periods. If these arrangements and similar arrangements impact our revenues substantially in the future, then termination of any of these arrangements would result in the loss of ad revenue and adversely affect our financial condition. Further, termination of any of these arrangements could impact our credibility in the marketplace, which could adversely affect our traffic and revenues.

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. 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.

Our failure to license compelling content and provide our users with quality reference 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 service may become less attractive to Internet users, resulting in decreased traffic to our Web properties, which could have an adverse effect on our ad revenues and a negative impact on our business. Accordingly, our inability to retain our existing users and attract new Internet users would lead to a loss of revenues and adversely affect our business and financial results.

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.

We outsource our Web hosting services to Data Return LLC. As our business grows and we require more servers, we believe that the economic justification of outsourcing our Web hosting services diminishes. We are planning to migrate our Web properties to co-location facilities and manage the operations with our own staff. This change may be technologically challenging to implement, take time to test and deploy, cause us to incur substantial costs or data loss, and cause users, advertisers, and affiliates to experience delays or interruptions in our service. These changes, delays or interruptions in our service could cause users and advertisers to become dissatisfied with our service and move to competing providers of online services, reducing the traffic on our Web properties and adversely affecting our business and financial results.

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 number of Internet users continues to increase, or if existing or future Internet users access the Internet more often or increase their bandwidth requirements. In addition, viruses, worms and similar programs may harm the performance of the Internet. The Internet has experienced a variety of outages and other delays as a result of damage to portions of its infrastructure, and could face outages and delays in the future. These outages and delays could reduce the level of Internet usage as well as our ability to provide our solutions.

Rules established by the Financial Accounting Standards Board, or FASB, require us to expense equity compensation given to our employees and may impact our ability to effectively utilize equity compensation to attract and retain employees.

The FASB has adopted changes that require companies to record a charge to earnings for employee stock option grants and other equity incentives effective January 1, 2006, which we have adopted. These accounting changes may cause us to reduce the availability and amount of equity incentives provided to employees, which may make it more difficult for us to attract, retain and motivate key personnel. Additionally, it may be difficult for us to estimate the impact of such compensation charges on future operating results because they will be based upon the fair market value of our common stock and other assumptions at future dates.

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

We anticipate that our current cash (including the net proceeds we receive from this offering) and cash equivalents will be sufficient to meet our current needs for general corporate purposes for at least the next 12 months. 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 raise additional funds through the issuance of equity or convertible debt securities, 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. 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 may be subject to liability for online services, which may not be limited by the safe harbors in The Digital Millennium Copyright Act, or DMCA, The Communications Decency Act, or CDA, or the U.S. Children s Online Privacy Protection Act, or COPPA. If we do not meet the safe harbor requirements, or if it is otherwise determined that our Web properties contain actionable content, we could be subject to claims, which could be costly and time-consuming to defend.

We host certain services that enable individuals to generate content and engage in various online activities. The law relating to the liability of providers of these online services for activities of their users is currently unsettled both within the United States and internationally. Claims have been threatened and may in the future be brought against us for defamation, invasion of privacy, negligence, copyright or trademark infringement, unlawful activity, tort,

including personal injury, fraud, or other theories based on the nature and content of information to which we provide links, or that may be posted online or generated by the users of our Web properties. Our defense of any of these actions could be costly and involve significant time and attention of our management and other resources.

The DMCA is intended, among other things, to reduce the liability of online service providers for listing or linking to third party Web properties that include materials that infringe copyrights or rights of

others. Additionally, portions of the CDA are intended to provide statutory protections to online service providers who distribute third party content. A safe harbor for copyright infringement is also available under the DMCA to certain online service providers that provide specific services, if the providers take certain affirmative steps as set forth in the DMCA. Important questions regarding the safe harbor under the DMCA and the CDA have yet to be litigated, and we can not guarantee that we will meet the safe harbor requirements of the DMCA or of the CDA. If we are not covered by a safe harbor, for any reason, we could be exposed to claims, which could be costly and time-consuming to defend.

In addition, COPPA was enacted in October 1998. COPPA imposes civil and criminal penalties on persons distributing material harmful to minors over the Internet to persons under the age of 17 or collecting personal information from children under the age of 13. We do not knowingly collect and disclose personal information from minors. The manner in which COPPA may be interpreted and enforced cannot yet be determined. Moreover, the applicability to the Internet of existing laws governing issues such as property ownership, copyright, defamation, obscenity and personal privacy is uncertain. We may be subject to claims that our content violates such laws, which could damage our business and cause our stock price to decline.

We also periodically enter into arrangements to offer third party products, services or content under the Answers brand or through our Web properties. We may be subject to claims concerning these products, services or content by virtue of our involvement in marketing, branding, broadcasting or providing access to them, even if we do not ourselves host, operate, provide, or provide access to them.

It is also possible that, if any information provided directly by us contains errors or is otherwise negligently provided to users, third parties could make claims against us. While it is our belief that the Terms of Use governing the use of our Web properties covers us against these types of claims, there are no assurances as to the final determination of these types of claims by any court of law. Furthermore, investigating and defending any of these types of claims is expensive, even to the extent that the claims are without merit or do not ultimately result in liability.

Third parties may claim that we are infringing on their patents, trademarks or copyrights, which could result in substantial costs, diversion of significant managerial resources and significant harm to our reputation.

The industry in which we operate is characterized by the existence of a large number of patents and frequent litigation based on allegations of patent infringement. We expect that Internet technologies, software products and services may be increasingly subject to third party patent infringement claims as the number of competitors in our industry segment grows and the functionality of products in different industry segments overlaps. From time to time, third parties may assert patent infringement claims against us in various jurisdictions that are important to our business. Additionally, third parties may assert trademark infringement claims with respect to brand names we use from time to time and content we display on our Web properties. For example, a third party may make claims against us over the display of search results triggered by search terms that include trademark terms. Furthermore, we may be faced with copyright infringement claims. We have received, and are likely to continue to receive, cease and desist letters demanding that we remove infringing content from our Web properties based on a theory of copyright and trademark infringement.

A successful patent, trademark or copyright infringement claim against us by any third party, could subject us to:

- substantial liability for damages and litigation costs, including attorneys fees;
- lawsuits that prevent us from further use of intellectual property and require us to permanently cease and desist from selling or marketing products that use the intellectual property;
- licensing intellectual property from a third party, which could include significant licensing and royalty fees not presently paid by us, adding materially to the our costs of operations;

developing new intellectual property, as a non-infringing alternative, that could delay projects, add materially to our costs of operations and be unacceptable to our users, which in turn could adversely affect our traffic and revenues; and

indemnifying third parties who have entered into agreements with us with respect to losses they incurred as a result of the infringement, which could include consequential and incidental damages that are material in amount.

Regardless of the merit of third party infringement claims, these claims could result in substantial costs, diversion of significant resources and management attention, termination of customer contracts, loss of customers and significant harm to our reputation.

Finally, many of our agreements with advertisers, distribution partners, and other third party partners require us to indemnify these partners for certain third party intellectual property infringement claims, which could increase our costs as a result of defending the claims and may require that we pay damages if there were an adverse ruling in any of the claims. An adverse determination could also prevent us from offering our products and services to others and may require that we procure substitute products or services, which could adversely affect our business and financial results.

Misappropriation of our intellectual property could harm our reputation, adversely affecting our competitive position and financial results.

Our ability to compete depends in part upon the strength of our proprietary rights in our technologies, brands and content. We rely on a combination of U.S. and foreign patents, copyrights, trademark, trade secret laws and license agreements to establish and protect our intellectual property and proprietary rights. The efforts we have taken to protect our intellectual property and proprietary rights may not be sufficient or effective at stopping unauthorized use of our intellectual property and proprietary rights. In addition, effective trademark, patent, copyright and trade secret protection may not be available or cost-effective in every country in which our services are made available through the Internet. There may be instances where we are not able to fully protect or utilize our intellectual property in a manner that maximizes competitive advantage. If we are unable to protect our intellectual property and proprietary rights from unauthorized use, the value of our Web properties may be reduced, which could negatively impact our business. In addition, protecting our intellectual property and other proprietary rights is expensive and diverts critical managerial resources. If any of the foregoing were to occur, or if we are otherwise unable to protect our intellectual property and proprietary rights, our business and financial results could be adversely affected.

New government regulation and legal uncertainties could require us to incur significant expenses.

The laws and regulations applicable to the Internet, and to our products and services, are evolving and unclear and could damage our business. In addition, we will be subject to any new laws and regulations directly applicable to our products and services. It is possible that laws and regulations may be adopted covering issues such as user privacy, pricing, taxation, content regulation, quality of products and services, and intellectual property ownership and infringement. This legislation could expose us to substantial liability as well as dampen the growth in use of the Internet generally, decrease the acceptance of the Internet as a communications and commercial medium, or require us to incur significant compliance expenses. Compliance with these laws and regulations may also cause us to change or limit our business practices in a manner adverse to our business.

Increased regulation or the imposition of access fees could substantially increase the costs of communicating on the Internet, potentially decreasing the demand for our products. A number of proposals have been made at the federal, state and local level that would impose additional taxes on the sale of goods and services through the Internet. Such proposals, if adopted, could substantially impair the growth of electronic commerce and could adversely affect us.

Due to the global nature of the Internet, it is possible that the governments of other states and foreign countries might attempt to regulate its transmissions or prosecute us for violations of their laws. We might unintentionally violate these laws. Such laws may be modified, or new laws may be enacted, in the future. Our business may be negatively

affected by a variety of new or existing laws and regulations, which may expose us to substantial compliance costs and liabilities and may impede the growth in use of the Internet generally.

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Risks Related to our Common Stock

Our common stock may be affected by limited trading volume and may fluctuate significantly.

Our common stock is traded on the Nasdaq Global Market. Although an active trading market has developed for our common stock, there can be no assurance that an active trading market for our common stock will be sustained. Failure to maintain an active trading market for our common stock may adversely affect our shareholders ability to sell our common stock in short time periods, or at all. Our common stock has experienced, and may experience in the future, significant price and volume fluctuations, which could adversely affect the market price of our common stock.

There may be substantial sales of our common stock, which could cause our stock price to fall.

All of our issued and outstanding shares are immediately available for sale in the public market without registration under Rule 144. Sales of a substantial number of shares of our common stock could cause the price of our securities to fall and could impair our ability to raise capital by selling additional securities.

We do not intend to pay dividends on our common stock.

We have never declared or paid any cash dividend on our capital stock. We currently intend to retain any future earnings and do not expect to pay any dividends in the foreseeable future.

We could issue blank check preferred stock without stockholder approval with the effect of diluting then current stockholder interests.

Our certificate of incorporation authorizes the issuance of up to 1,000,000 shares of blank check preferred stock with designations, rights and preferences as may be determined from time to time by our board of directors. Accordingly, our board of directors is empowered, without stockholder approval, to issue a series of preferred stock with dividend, liquidation, conversion, voting or other rights, which could dilute the interest of, or impair the voting power of, our stockholders. The issuance of a series of preferred stock could be used as a method of discouraging, delaying or preventing a change in control. Although we do not presently intend to issue any shares of preferred stock, we may do so in the future.

Provisions in our charter documents and under Delaware law could discourage a takeover that stockholders may consider favorable.

Provisions of our Amended and Restated Certificate of Incorporation and Bylaws could make it more difficult for a third party to acquire us, even if doing so would be beneficial to our stockholders. For example, our board of directors is divided into three classes, with one class being elected each year by our stockholders, which generally makes it more difficult for stockholders to replace a majority of directors and obtain control of our board. In addition, stockholder meetings may be called only by our board of directors, the chairman of the board and the president, advance notice is required prior to stockholder proposals and stockholders may not act by written consent. Furthermore, we have authorized preferred stock that is undesignated, making it possible for our board of directors to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to change control of our company.

Delaware law also could make it more difficult for a third party to acquire us. Specifically, Section 203 of the Delaware General Corporation Law, to which our company is subject, may have an anti-takeover effect with respect to transactions not approved in advance by our board of directors, including discouraging attempts that might result in a premium over the market price for the shares of common stock held by our stockholders.

We are at risk of securities class action litigation.

Securities class action litigation has often been brought against a company following a decline in the market price of its securities. This risk is especially relevant for us because Internet companies often

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experience significant stock price volatility. If we faced such litigation, it could result in substantial costs and diversion of management s attention and resources, which could adversely affect our business.

Failure to develop or maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 could have a material adverse effect on our stock price.

Section 404 of the Sarbanes-Oxley Act of 2002 and the related rules and regulations of the SEC require annual management assessments of the effectiveness of our internal control over financial reporting and a report by our independent registered public accounting firm attesting to and reporting on these controls. If we fail to adequately maintain compliance with, or maintain, the adequacy of our internal control over financial reporting, as such standards are modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 and the related rules and regulations of the SEC. If we cannot favorably assess the effectiveness of our internal control over financial reporting, investor confidence in the reliability of our financial reports may be adversely affected, which could have a material adverse effect on our stock price.

In addition, we will be transitioning Lexico s separate accounting system to our accounting system. This transition could result in corruption or loss of data or other problems that could adversely affect our ability to produce accurate and timely financial statements. If we are unable to produce accurate and timely financial statements, our stock price may be adversely affected and we may be unable to maintain compliance with the listing requirements of the Nasdaq Global Market.

Any future disclosure regarding our internal controls or investors perceptions that our internal controls are inadequate or that we are unable to produce accurate financial statements may also adversely affect our stock price

Any future material weaknesses in our internal controls may impede our ability to produce timely and accurate financial statements, which could cause us to fail to file our periodic reports timely, result in inaccurate financial reporting or restatements of our financial statements, subject our stock to delisting and materially harm our business reputation and stock price.

As a public company, we are required to file annual and quarterly periodic reports containing our financial statements with the Securities and Exchange Commission within prescribed time periods. As part of The Nasdaq Global Market listing requirements, we are also required to provide our periodic reports, or make them available, to our shareholders within prescribed time periods. If we are required to restate our financial statements in the future, any specific adjustment may be adverse and may cause our operating results and financial condition, as restated, on an overall basis to be materially and adversely impacted. As a result, we or members of our management could be the subject of adverse publicity, investigations and sanctions by such regulatory authorities as the Securities and Exchange Commission and subject to shareholder lawsuits. Any of the above consequences could cause our stock price to decline materially and could impose significant unanticipated costs on us.

As of each year end beginning with the year ending December 31, 2007, our management will be required to evaluate our internal control over financial reporting and to provide in our Form 10-K its assessment of our internal controls to our shareholders. To the extent we have material weaknesses in our internal controls, we may determine that we have ineffective internal controls as of December 31, 2007 or any subsequent year end.

If we are not able to issue our financial statements in a timely manner, or if we are not able to obtain the required audit or review of our financial statements by our registered independent public accounting firm in a timely manner, we will not be able to comply with the periodic reporting requirements of the Securities and Exchange Commission and the listing requirements of The Nasdaq Global Market. If these events occur, our common stock listing on The Nasdaq

Global Market could be suspended or terminated and our stock price could materially suffer. In addition, we or members of our management could be subject to investigation and sanction by the Securities and Exchange Commission and other regulatory authorities and to shareholder lawsuits, which could impose significant additional costs on us, divert management attention and materially harm our operating results, financial condition, business reputation and stock price.

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Risks Related to our Location in Israel

Conditions in Israel may limit our ability to produce and sell our product, which would lead to a decrease in revenues.

Because most of our operations are conducted in Israel, our operations are directly affected by economic, political and military conditions affecting Israel. Specifically, we could be adversely affected by:

- any major hostilities involving Israel;
- a full or partial mobilization of the reserve forces of the Israeli army;
- the interruption or curtailment of trade between Israel and its present trading partners;
- risks associated with the fact that a certain number of our key employees and one officer reside in what are commonly referred to as occupied territories;
- risks associated with outages and disruptions of communications networks due to any hostilities involving Israel; and
- a significant downturn in the economic or financial conditions in Israel.

Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors and a state of hostility, varying in degree and intensity, has led to security and economic problems for Israel. Despite negotiations to effect peace between Israel and its Arab neighbors, the future of these peace efforts is uncertain. Since October 2000, there has been a significant increase in violence, civil unrest and hostility, including armed clashes between the State of Israel and the Palestinians, and acts of terror have been committed inside Israel and against Israeli targets in the West Bank and Gaza Strip. In addition, the recent armed conflict with Hezbollah on the northern border of Israel negatively affected business conditions in Israel. There is no indication as to how long the current hostilities will last or whether there will be any further escalation. Any further escalation in these hostilities or any future conflict, political instability or violence in the region may have a negative effect on our business, harm our results of operations and adversely affect our share price.

Furthermore, there are a number of countries that restrict business with Israel or with Israeli companies, which may limit our ability to promote our products and services those countries.

We may not be able to enforce covenants not-to-compete under current Israeli law that might result in added competition for our products.

We have non-competition agreements with all of our employees, almost all of which are governed by Israeli law. These agreements prohibit our employees from competing with or working for our competitors, generally during and for up to 12 months after termination of their employment. However, Israeli courts are reluctant to enforce non-compete undertakings of former employees and tend, if at all, to enforce those provisions for relatively brief periods of time in restricted geographical areas and only when the employee has obtained unique value to the employer specific to that employer s business and not just regarding the professional development of the employee. If we are not able to enforce non-compete covenants, we may be faced with added competition.

The Israeli government tax benefits program in which we currently participate and from which we receive benefits requires us to meet several conditions. These programs or benefits may be terminated or reduced in the future,

which may result in an increase in our tax liability.

Our Israeli subsidiary receives tax benefits authorized under Israeli law for capital investments that are designated as "Approved Enterprises." To be eligible for these tax benefits, we must meet certain conditions. If we fail to meet such conditions, these tax benefits could be cancelled, and we could be required to pay increased taxes or refund the amount of tax benefits we received, together with interest and penalties. Israeli governmental authorities have indicated that the government may in the future reduce or eliminate the benefits of such programs. The termination or reduction of these programs and

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tax benefits could increase our Israeli tax rates, and thereby reduce our net profits or increase our net losses.

U.S. and Israeli tax authorities may interpret tax issues in manners other than those which we have adopted, which may expose us to tax liabilities.

We operate in the U.S. and in Israel and our earnings are subject to taxation in both jurisdictions, at different rates. Relevant tax authorities may disagree with our interpretation and application in practice of tax laws and may dispute various assumptions we make during our tax planning process. Further, the tax authorities in the U.S. and/or Israel may take exception with the transfer price of transactions between Answers Corporation and its wholly owned Israeli subsidiary. If there is a successful tax challenge of our tax position, our interpretation and/or application of tax laws in practice, we may be forced to recognize additional tax liabilities, which may include interest and penalties. This may harm our results of operations and adversely affect our financial condition. Our unrecognized tax benefits disclosed in the notes to our financial statements for the period ending September 30, 2007, include amounts relating to this risk factor.

Our business may be impacted by NIS exchange rate fluctuations, which may negatively affect our earnings.

Exchange rate fluctuations between the U.S. dollar and the NIS may negatively affect our earnings. Our revenues and most of our expenses are denominated in U.S. dollars. However, a significant portion of the expenses associated with our Israeli operations, including personnel and facilities related expenses, are incurred in NIS. Consequently, a devaluation of the U.S. dollar in comparison to the NIS will have the effect of increasing the dollar cost of our operations in Israel. In 2006, the U.S. dollar depreciated against the NIS by 8.2% and from January 1, 2007 to September 30, 2007, the U.S. dollar depreciated against the NIS by 5.0%. We cannot predict any future trends in the rate of devaluation or appreciation of the NIS against the U.S. dollar or of the U.S. dollar against the NIS. Despite the fact that we use various hedging tools, including forward contracts and options, to minimize the effect of currency fluctuations on our income, if the U.S. dollar cost of our operations in Israel increases, our dollar-measured consolidated results of operations will be adversely affected.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement, including the documents that we incorporate by reference, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Exchange Act. Such forward-looking statements include those that express plans, anticipation, intent, contingency, goals, targets or future development and/or otherwise are not statements of historical fact. These forward-looking statements are based on our current expectations and projections about future events and they are subject to risks and uncertainties known and unknown that could cause actual results and developments to differ materially from those expressed or implied in such statements. These forward-looking statements include, among other things, statements about:

- our ability to complete the acquisition of Lexico;
- our ability to realize the intended benefits of the acquisition of Lexico;
- our ability to successfully integrate the operations of Lexico;
- our ability to increase the number of persons who use our services and products;
- our ability to increase the number of partners who will generate increased traffic to our Web properties;
- our financial performance;
- our ability to improve the monetization of our services and products;
- the effects of facing liability for any content displayed on our Web properties;
- potential claims that we are infringing the intellectual property rights of any third party; and
- the effects of lost traffic due to algorithm or other adjustments by search engines.

In some cases, you can identify forward-looking statements by terminology, such as expects, anticipates, intends, estimates, plans, expects, believes, seeks, or the negative of such terms or other similar expressions. Any forward-looking statements are qualified in their entirety by reference to the factors discussed throughout this prospectus supplement. We have included important factors in the cautionary statements included in this prospectus supplement, particularly in the Risk Factors section, that could cause actual results or events to differ materially from the forward-looking statements that we make. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments we may make.

You should read this prospectus supplement, the accompanying prospectus, including the documents we incorporate by reference, and the documents that we have filed as exhibits to the registration statement, of which this prospectus supplement is a part, completely and with the understanding that our actual future results may be materially different from what we expect. We do not assume any obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

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USE OF PROCEEDS

Based on our last reported stock price of $ on November , 2007, the estimated net proceeds from this offering are expected to be approximately $ million, after deducting underwriting discounts and commissions and estimated offering expenses. Our net proceeds will be approximately $ million if the underwriters exercise their option to purchase additional shares in full. A $1.00 increase (decrease) in the assumed public offering of $ per share would increase (decrease) the net proceeds to us from this offering by approximately $ million (or approximately $ million if the underwriters exercise their option to purchase additional shares in full), assuming the number of shares offered by us, as set forth on the cover page of this prospectus supplement, remains the same and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us.

Approximately $100 million of the net proceeds from this offering will be used for the acquisition of Lexico, approximately $2.2 million for estimated related transaction expenses and the remainder will be used for general corporate purposes, including working capital. Pending such uses, we plan to invest the net proceeds in highly liquid, investment grade securities.

PRICE RANGE OF COMMON STOCK AND DIVIDEND POLICY

Our common stock has been quoted on the Nasdaq Global Market under the symbol ANSW since August 2, 2005. Prior to such date, our common stock was traded on the American Stock Exchange, under the symbol GRU, between October 13, 2004 and August 1, 2005. Prior to October 13, 2004, there was no established market for our shares.

The following table sets forth the high and low reported sales prices for our common stock for the fiscal years ended December 31, 2005 and 2006 and the subsequent periods indicated. For the period January 1, 2005 through August 1, 2005, the prices represent the range of high and low closing sale prices for our common stock as reported by the American Stock Exchange; and for the period August 2, 2005 through November 8, 2007, the prices represent the range of high and low closing sale prices for our common stock as quoted on the Nasdaq Global Market.

	High	Low
Year ended December 31, 2005		
First quarter	$ 26.45	$ 7.62
Second quarter	$ 22.45	$ 11.50
Third quarter	$ 15.85	$ 11.10
Fourth quarter	$ 13.12	$ 9.19
Year ended December 31, 2006		
First quarter	$ 14.49	$ 9.98
Second quarter	$ 12.51	$ 8.91
Third quarter	$ 11.28	$ 8.37
Fourth quarter	$ 17.24	$ 10.39
Year ending December 31, 2007		
First quarter	$ 14.84	$ 11.24
Second quarter	$ 17.12	$ 10.14
Third quarter	$ 13.20	$ 6.20
Fourth quarter (through November 8, 2007)	$ 9.15	$ 7.60

The closing sale price of our common stock as reported by the Nasdaq Global Market on November 8, 2007 was $7.01 per share.

Historically, we have not paid any cash dividends to the holders of our common stock. We do not expect to pay cash dividends in the foreseeable future as we expect to retain our future earnings for use in operation and expansion of our business.

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CAPITALIZATION

The following table sets forth our consolidated capitalization as of September 30, 2007, on an actual basis and on a pro forma as adjusted basis to give effect to the acquisition of Lexico and the sale by us of shares of our common stock in this offering at an assumed public offering price of $ (which is the last reported sale price for our common stock on November , 2007) after deducting underwriting discounts and commissions and estimated offering expenses payable by us. You should read this table in conjunction with our consolidated financial statements that appear herein and the related notes Management s Discussion and Analysis of Financial Condition and Results of Operations and the other financial information included in this prospectus supplement.

	As of September 30, 2007	
	Actual	Pro Forma As Adjusted
	(in thousands)	
Stockholders equity:		
Preferred stock: $0.01 par value; 1,000,000 shares authorized and issuable in series; no shares issued and outstanding actual and pro forma as adjusted		
Common stock: $0.001 par value per share; 30,000,000 shares authorized; 7,854,053 shares issued and outstanding actual; shares issued and outstanding pro forma as adjusted	8	
Additional paid-in capital	73,441	
Accumulated other comprehensive loss	(28)	
Accumulated deficit	(58,485)	
Total stockholders equity	$ 14,936	$

A $1.00 increase (decrease) in the offering price of $ per share would increase (decrease) each of additional paid-in capital and total stockholders equity in the pro forma as adjusted column by $ million, assuming the number of shares offered by us, as set forth in the cover of this prospectus supplement, remains the same and after deducting the estimated underwriting discounts and commission and estimated offering expenses payable by us.

The above information is based upon 7,854,053 shares of our common stock outstanding as of September 30, 2007. This information does not include 3,242,918 shares of common stock subject to outstanding options and warrants and 212,461 shares of common stock reserved for issuance under our stock plans as of September 30, 2007.

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SELECTED FINANCIAL DATA

Answers Corporation

The following tables summarize our selected consolidated statement of operations and balance sheet data and should be read together with Management s Discussion and Analysis of Financial Condition and Results of Operations and our financial statements and related notes that appear elsewhere in this prospectus supplement. The selected consolidated statement of operations and balance sheet data for each of the years ended December 31, 2006 and 2005 are derived from our audited consolidated financial statements that appear elsewhere in this prospectus supplement. We derived the selected statement of operations data for the nine months ended September 30, 2007 and 2006 and the balance sheet data as of September 30, 2007, from our unaudited consolidated financial statements that appear elsewhere in this prospectus supplement. The unaudited financial statements have been prepared on a basis consistent with our audited consolidated financial statements that appear elsewhere in this prospectus supplement and include, in our opinion, all adjustments that are necessary for a fair presentation of our financial position and results of operation for these periods. Operating results for the nine months ended September 30, 2007 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2007.

	Year Ended December 31,		Nine Months Ended September 30,	
	2006	2005	2007	2006
	(in thousands, except share and per share data)			
Consolidated Statement of Operations Data:				
Revenue	$ 7,029	$ 2,053	$ 8,404	$ 4,523
Costs and expenses:				
Cost of revenue	3,406	1,158	3,643	2,336
Research and development	5,865	2,190	2,239	5,209
Sales and marketing	3,253	1,818	3,275	2,244
General and administrative	3,385	3,404	3,003	2,530
Total operating expenses	15,909	8,570	12,160	12,319
Operating loss	(8,880)	(6,517)	(3,756)	(7,796)
Interest income, net	553	555	299	430
Other expense, net	(176)	(42)	(11)	(220)
Loss before income taxes	(8,503)	(6,004)	(3,468)	(7,586)
Income taxes	(68)	13	(33)	(9)
Net loss	$ (8,571)	$ (5,991)	$ (3,501)	$ (7,595)
Basic and diluted net loss per common share	$ (1.12)	$ (0.88)	$ (0.45)	$ (1.00)
Weighted average shares used in computing basic and diluted net loss per common share	7,673,543	6,840,362	7,844,900	7,632,283

	As of December 31,		As of September 30,
	2006	2005	2007
	(in thousands)		
Consolidated Balance Sheet Data:			
Cash and cash equivalents	$ 4,976	$ 2,840	$ 5,293
Working capital	8,539	13,436	6,816
Total assets	19,679	21,971	18,368
Long-term liabilities	828	1,064	1,158
Total stockholders equity	$ 16,592	$ 19,540	$ 14,936

Lexico

The following tables summarize the historical financial data of Lexico and should be read together with Lexico s financial statements and related notes that appear elsewhere in this prospectus supplement. The summary statement of operations and balance sheet data for each of the years ended December 31, 2006 and 2005 are derived from Lexico s audited financial statements that appear elsewhere in this prospectus supplement. We derived the summary statement of operations data for the nine months ended September 30, 2007, and 2006 and the balance sheet data as of September 30, 2007 from Lexico s unaudited financial statements that appear elsewhere in this prospectus supplement. The unaudited financial statements for Lexico have been prepared on a basis consistent with Lexico s audited financial statements included elsewhere in this prospectus supplement and include, in the opinion of Lexico, all adjustments that are necessary for a fair presentation of Lexico s financial position and results of operation for these periods. Operating results for the nine months ended September 30, 2007 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2007.

	Year Ended December 31,		Nine Months Ended September 30,	
	2006	2005	2007	2006
	(In thousands)			
Statement of Operations Data:				
Revenue	$ 7,015	$ 5,683	$ 6,180	$ 4,989
Costs and expenses:				
Cost of revenues	1,648	924	1,522	1,198
Selling, general and administrative expenses	2,575	1,759	2,294	1,727
Total operating expenses	4,223	2,683	3,816(1)	2,925
Operating income	2,792	3,000	2,364	2,064
Interest income	29	19	48	18
Income before income taxes	2,821	3,019	2,412	2,082
Income tax expense	(13)	(19)	(9)	(10)
Net income	$ 2,808	$ 3,000	$ 2,403	$ 2,072

(1) Includes $516 thousand of legal, accounting and banking fees incurred in connection with the planned sale of Lexico to Answers.

	As of December 31,		As of September 30,
	2006	2005	2007
	(in thousands)		
Balance Sheet Data:			

Cash and cash equivalents	$ 2,315	$ 1,287	$ 2,336
Working capital	3,053	2,565	3,297
Total assets	4,662	3,796	4,969
Long-term liabilities			
Total members equity	$ 3,934	$ 3,354	$ 4,168

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read together with our financial statements and the notes to those statements that appear elsewhere in this prospectus supplement. This discussion contains forward-looking statements reflecting our current expectations and involves risks and uncertainties. In some cases, you can identify forward-looking statements by terminology such as may, will, should, expect, plan, anticipate, believe, estimate, predict, intend, potential, or continue or the negative of these terms or other comparable terminology. For example, statements regarding our expectations as to future financial performance, expense levels and liquidity sources are forward-looking statements. Actual results and the timing of events could differ materially from those discussed in our forward-looking statements as a result of many factors, including those set forth under Risk Factors and elsewhere in this prospectus supplement and the accompanying prospectus.

Overview

We are a leading online answer engine. Our Web properties currently consist of Answers.com and WikiAnswers.com. We offer information related to over 4 million topics based on content from brand-name publishers, our WikiAnswers community and our proprietary natural language search technology, which we refer to as Answers from the Web. Answers.com combines and presents targeted information from disparate sources and delivers answers to users questions in a single consolidated view. WikiAnswers.com is a user-generated content, or UGC, community-based question and answer site. According to comScore, a global Internet information provider, our Web properties had approximately 14 million unique visitors in September 2007, which ranks Answers Corporation number 62 in the top U.S. Web properties. Our goal is to become the premier online provider of and leading destination for answers on any topic.

Prior to January 2005, we sold subscriptions to our reference-based product, GuruNet. After the launch of Answers.com in January 2005, we ceased offering new subscriptions to GuruNet. In February 2007, we terminated the GuruNet service.

Recent Events

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 also declined proportionately. We have not been able to reverse the impact of this adjustment, and we do not anticipate that we will recover the lost traffic and revenue. In response to the Google algorithm adjustment, we reduced our headcount and related compensation costs, reducing our base payroll expenses by approximately 12%. As a result, we recorded a charge of approximately $250 thousand in the third quarter of 2007, related to this restructuring.

In September 2007, Yahoo! dropped our content from its search index, which reduced our Yahoo! directed traffic. This action was reversed within a week, and we have recovered all of our Yahoo! directed traffic.

Acquisitions

WikiAnswers

On November 2, 2006, we acquired WikiAnswers and certain other assets for an aggregate of $2.0 million in cash. In connection with the allocation of the purchase price, we recorded goodwill of approximately $437 thousand and intangible assets, with estimated useful lives of three to ten years, of approximately $1,563 thousand. Since the date of the acquisition the revenues and operating expenses of WikiAnswers have been included in our results of operations.

Brainboost

On December 1, 2005, we acquired Brainboost, developer of the Brainboost Answer Engine which we have integrated into our Answers from the Web technology, an artificial intelligence technology enabling

natural language search on the Web. As consideration for the acquisition, we paid $4.0 million in cash and issued 439,000 shares of our common stock, valued at approximately $5.6 million at the time of the acquisition. In connection with the allocation of the purchase price, we recorded an intangible asset related to the Brainboost technology, of approximately $5.4 million, with an estimated useful life of six years, and recognized compensation expense of approximately $4.2 million.

Under the terms of the acquisition, 50% and 25% of the shares of common stock were held in escrow for 3 and 6 months after the purchase date, respectively. Release from escrow was contingent upon our continued employment of one of the principals of the general partnership that formerly owned Brainboost. The escrowed shares were deemed to be compensation for services to be performed by the principal of the seller over the six-month period ending May 31, 2006. Because the escrow criteria were met, the shares were released from escrow, as scheduled, on March 1, 2006 and June 1, 2006. As a result, we recorded a compensation expense charge of approximately $4.2 million, which represented the value of these shares, on a straight-line basis, over the requisite six-month employment commitment period.

The stock component of the consideration was subject to a registration rights agreement pursuant to which we agreed that if our registration statement was not effective with the SEC by April 1, 2006, we would pay the sellers a penalty of $100,000 per month, pro-rated daily. Our registration statement was declared effective on June 9, 2006; consequently, we paid the sellers $227 thousand in the second quarter of 2006.

In June 2006, we completed our initial beta integration of the Brainboost technology into Answers.com as Answers from the Web. We plan to further develop the technology through enhancements to its accuracy, range and speed.

Pending Lexico Acquisition

On July 13, 2007, we entered into a purchase agreement to acquire all of the outstanding limited liability interests of Lexico Publishing Group, LLC for an aggregate purchase price of $100 million in cash, subject to adjustments for closing net working capital and transaction expenses. Our transaction expenses incurred in connection with this acquisition are estimated to be $2.2 million. According to the terms of our agreement, $10 million which we refer to as the Lexico Employee Bonuses may be paid to the employees of Lexico, subject to certain terms and conditions and a pre-determined payout schedule. In the event that these terms and conditions are not met, the portion of the Lexico Employee Bonuses not paid to employees will be due to the members. In addition, $10 million of the purchase price will be placed in escrow for 12 months to secure the indemnification obligations of the members under the agreement, as well as any post-closing purchase price adjustments for net working capital or transaction expenses.

In connection with the initial allocation of the purchase price, Lexico Employee Bonuses paid to Lexico employees will be recorded as compensation expense during the contracted service period, which in most cases is one year. The remaining purchase price will be recorded mostly as intangible assets, with estimated useful lives of one to ten years, and goodwill.

Consummation of the acquisition of Lexico is subject to our ability to secure financing for the acquisition, as well as customary conditions to closing, including absence of any legal prohibition on consummation of the acquisition, obtaining governmental and third party consents, the accuracy of the representations and warranties, and delivery of customary closing documents. We intend to use approximately $100 million of the net proceeds from this offering to acquire Lexico.

The purchase agreement may be terminated under the following circumstances, subject to the limitations described in the purchase agreement: (i) by mutual written consent; (ii) by either us or the sellers if the acquisition is not consummated by January 13, 2008 subject to certain extensions; (iii) by either us or the sellers if there is a final,

non-appealable order restraining, enjoining or otherwise prohibiting the consummation of the acquisition; or (iv) by either us or the sellers upon an incurable material breach of the purchase agreement by the other party, which breach would result in the failure of the terminating party s closing conditions to be fulfilled. The purchase agreement provides that, upon termination for an incurable material breach of the purchase agreement by us, which breach would result in the failure of our closing conditions to be fulfilled, we will be required to pay the sellers a

$2.0 million termination fee. Similarly, the purchase agreement provides that, upon termination of the purchase agreement for an incurable material breach by the sellers, which breach would result in the failure of their closing conditions to be fulfilled, they will be required to pay us a $2.0 million termination fee. In addition, if the purchase agreement is terminated for failure of the financing condition, we will be required to reimburse the out-of-pocket transaction expenses of the sellers up to $400,000.

Revenue

Traffic

Our revenue is primarily driven by the traffic generated by our Web properties and our ability to effectively monetize that traffic. Our current sources of traffic include the following:

Search engines: Users submit queries and algorithm search engines respond by generating a list of Web pages that are likely to offer the most relevant content. When our pages rank high in the algorithmic systems of search engines, our results are more likely to be accessed by users. For September 2007, according to our internal estimates, this source of traffic represented approximately 60% of our traffic.

Google s definition link: We have an informal, non-contractual relationship with Google under which Google links search results related to certain definitional queries to Answers.com. For September 2007, according to our internal estimates, this source of traffic represented approximately 15% of our traffic.

Direct users: Users visiting our Web properties directly. For September 2007, according to our internal estimates, direct users represented approximately 25% of our traffic.

Since most of our traffic originates from search engines, we expend considerable resources improving the volume and optimizing the monetization of this traffic. The industry commonly refers to such efforts as search engine optimization, or SEO. Our Web properties have at times experienced decreases in traffic, and consequently decreases in revenue, due to these search engine actions, including the recent actions by Google and Yahoo!.

We continuously seek to improve the user experience of visitors to our Web properties, which we believe leads to increased pages per visit, or stickiness, and return visits, or user-retention. We seek to increase stickiness and user-retention by adding new features, enhancing user interfaces and adding new content to our Web properties.

Our Web properties receive direct traffic to their respective home pages. Answers.com also receives direct traffic through partner Web properties or through software downloads and access tools, 1-Click Answers and AnswerTips. 1-Click Answers and AnswerTips are tools that allow users to click on a word or phrase and gain access to Answers.com s online content through a pop-up information bubble.

Monetization

Advertising Revenue. We earn most of our revenue from advertising. 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 pay-for-performance model we earn revenue based on the number of clicks associated with an ad; in the paid-for-impression model we derive revenue from the display of ads. We also work with third party ad networks that we believe optimize the average amount of revenue we earn per page view. Third party ad networks generally compensate us by paying us a portion of the revenue they earn from advertisers for our provision of promotional space on our Web properties. Additionally, in the fourth quarter of 2006, we began marketing directly to advertisers and generating direct advertising revenue. We expect direct advertising revenue to become a greater part

of our overall revenue during the remainder of 2007.

We gauge the effectiveness of our monetization efforts and trends by measuring our RPM. In our Management s Discussion and Analysis of Financial Condition and Results of Operations prior to our quarterly report on Form 10-Q for the quarterly period ended June 30, 2007, we reported RPM based on website queries, or traffic, directly to one of our Answers.com topic pages. Beginning with the

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Management s Discussion and Analysis of Financial Condition and Results of Operations contained in our quarterly report on Form 10-Q for the quarterly period ended June 30, 2007, we refer to RPM based on page views. Page views include traffic directly to the Answers.com home page, but exclude lookups conducted through 1-Click Answers, AnswerTips and traffic from partners who pay us for providing them our answer-based services. Page views are the more widely recognized industry s